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Course Name: Managing Change in organizations

Faculty Name: KBL Srivastava

Department: Humanities and Social Sciences

Indian Institute of Technology Kharagpur

Topic: Need for Change

CONCEPTS COVERED

Concepts Covered: Need and Scope of change

- ☐ identifying the need for organizational change
- ☐ Internal change pressure
- ☐ External change pressure
- ☐ Scope of change



The need for change

- Change is a risky activity – many organizational changes fail or do not realize their intended outcomes.
- This raises the question: why change is so prevalent?
- Pressure to change comes from:
 - External, environmental pressures
 - Internal, organizational pressures

Perspective of Organizational Change

The theoretical position

Why change occurs can be based on either the economic perspective or the organizational learning perspective

Economic perspective	Organizational learning perspective
<p>focuses on satisfying the shareholders of the organization and maintaining their investments to ensure its survival.</p> <p>Change to improve organizational performance in the form of better balance sheet results.</p>	<p>focuses on building the capabilities of an organization to give its members the ability to deal with change.</p> <p>recognizes the complexity of organizations and human systems which cannot be accurately represented through a single linear objective</p>

The process of change

Theories explaining change process

1. Teleological theories

Recurrent and discontinuous sequence of goal setting, implementation and adaptation

Organizations are purposeful and adaptive
Present change as an unfolding cycle of goal formulation, implementation, evaluation and learning.

Learning helps in the modification of goals or the actions taken to achieve them.

The process of change

Theories explaining change process

2. Dialectical Theories

Focus on conflicting goals between different interest groups and explain stability

Change in terms of confrontation and the balance of power between the opposing entities

The process of change

Theories explaining change process

3. Life cycle Theories

Change is a process that progresses through a necessary sequence of stages that are cumulative.

Organizations go through different stages: Birth, Youth, midlife, Maturity...

After reaching maturity revitalization is needed.

Each stage contributes a piece to the final outcome.

Each stage is a necessary precursor for the next.



The process of change

Theories explaining change process

4. Evolutionary theories

Change proceeds through a continuous cycle of variation, selection, and retention.

Variations just happen and are not therefore purposeful, but selected on the basis of best fit with available resources and environmental demands.

Retention is the perpetuation and maintenance of the organizational forms that arise from these variations via forces of inertia and persistence.

Forces of Organizational Change

Organization as a system, depend on many interdependent factors which influence it's day to day functioning

Strategic decisions and future action plans for facing the competitive challenges successfully.

These factors can be both **internal and external** in nature
Determine an organization's readiness for change as well as it's preparedness



External Forces of Organizational Change

The external forces of change stem up from the external environment

Competitive forces: Organization must make changes to attempt to match or exceed its competitors on at least one of the dimensions of efficiency, quality, innovation, and customer responsiveness

organizations change their strategies to ensure their global presence.

Example: Nissan, Toyota and Mitsubishi, continuously relocate their manufacturing as well as their assembling operations to South East Asian countries to achieve a competitive advantage in the form of reduced cost of labor and economies of scale

Political Forces

Rapidly changing global political scenario and the upheavals in the global politics

Challenges in the form of changes in regulations, policies

The political framework, ideologies



Economic Forces

The economic forces influence organization's change management strategy:
Globalization, deregulation and opening of national economies

They present opportunities or challenges in the form of economic uncertainties or growing competitive pressures

Factors such as changes in **the business cycle, inflation or deflation rate, fluctuation in the interest rates, economic recession, changes in the economic policies or tax structures, import/export duties, fluctuation in the oil prices globally, financial stability of the country** and also **loss/increase in the consumer confidence towards the economic conditions of the country** are some of the crucial factors.

Example: Change in the global market, economies create a ripple like effect and affect the Indian markets in terms of fluctuations in the capital markets, employment opportunities and rise or fall in the consumer demand.



Technological Forces

Technological advancements and innovations in communication and computer technology, advances in manufacturing technology, shortening of product life cycle

Newer ways of working and added in newer range of products/services

Creating a framework for managing change effectively and proactively responding to the challenges of technological changes

Advancements in the technology contribute to the organization's success or failure in the competitive environment

Example of Singapore: With the usage of Information Technology in the strategic decision making and overall planning, today Singapore holds the status of being the world's first completely networked economy



Governmental Forces

Governmental regulations and also the extent of intervention may influence the need for change

- 1. Deregulation:** Deregulation is associated with decentralization of power or economic interventions at the state level or lessening of the governmental intervention in the economy. For example, due to deregulation in sectors like insurance, banking, petroleum being handed over to the private players
- 2. Foreign Exchange:** Foreign exchange rates directly affect the international trade, as the variations in the exchange rates influence the currency payment structure.

Example: India pays more for oil imports with fluctuation in dollar value



Governmental Forces

- 3. Anti-Trust Laws:** Anti-Trust laws are enforced by most of the governments for restricting/curbing unfair trade practices. For example, these restrictions were enforced in India by enacting an act called **Monopolies and Restrictive Trade Practices (MRTP), 1971** now replaced with CCI (Competition commission of (India)
- 4 Suspension Agreements:** Suspension agreements are the agreements which are finalized between the governments to waive off anti-dumping duties.
- 5. Protectionism:** Due to the growing competitive pressures, most of the governments try to enforce certain regulations or intervene for safeguarding their threatened industries.

Example: by enforcing certain trade barriers, the Indian government protects the local industries such as Handicrafts and Textiles. These trade barriers may take the form of either anti-dumping laws, levy of tariffs or import duties, quantity quotas, and various government subsidies.



Changes in the Needs and Preferences of Customers

Compel the organizations to adapt and innovate their product and services offerings constantly for meeting the changing demands of the customers.

Ethical forces

- Important for an organization to take steps to promote ethical behavior
 - Creation of ethics officer position
 - Encourage employees to report unethical behaviors

Sustainable development goals forces for organizational change

Major Elements:

Social

1. Employee Well-Being
2. Quality of Life
3. Business Ethics

Economic

4. Shareholder Value Creation
5. Economic Development

Environmental

6. Environmental Impact Minimization
7. Natural Resource Protection



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Topic: Need for Change (2)

Internal Pressure for Change

Systemic Forces: change in any subsystem, result in a change in the existing organizational processes and the complete alignment as well as the relationship.

Inadequate Existing Administrative Processes: With the changing times, an organization needs to change it's rules and existing administrative processes

individual/Group Speculations: desires and requirements keep changing with the changing times, which result in differences in individual as well as group expectations

Internal Pressure for Change

Structural Changes: Changes alter the existing organizational structure as well as its overall design. May take the form of downsizing, job redesign, decentralization
IBM reformed in its existing system and procedures to achieving cost effectiveness and enforced downsizing strategy.

People Focused Change: the major focus is laid on people and their existing competencies, human resource planning strategies, structural changes and employee reorientation and replacement

Issues with the Profitability: due to a loss in revenue, low productivity or a loss in the market share.



Organizational Self-renewal

- Challenging old assumptions
- Understanding the new rules of competition
- Capturing the potential of new paradigms by rethinking business processes
- Constant innovation
- Improving continually as part of normal functioning
- Transforming while keeping purpose and direction

Organizational Pressure for Change

Growth Pressure

Integration and Collaboration pressure

Identity pressure

New broom pressure

Power and political pressure



Growth Pressure

Change as outcome of company growth

Growth may not be always linear and sequential in nature

Change may be non linear and fundamental at times

Younger and new organizations may not grow and change due to inexperienced managers, lack of resources and bad business decisions



Integration and collaboration pressure

Changes made to better integrate to achieve economies of scale across business units

Better coordination and collaboration across multiple business units

Creation a culture of coordination and collaboration



Identity Pressures

Pressure to establish organizational identity through branding

Establishing cultural identity of the organization

Aim of change to enhance identity and commitment of the staff

Establishing identity through promotion, marketing, products and innovations



New Broom pressure

A new CEO acts as a signal to bring about new change in the old ways of working

New managers infuse new ideas for improvements in performance and customer satisfaction

Create new energy for change in the organization

Not burdened by past organizational practices



Power and political pressure

Internal political pressure related with change

Changes made to alter internal power relationship to speed up decision making and better engagement

Power pressure leading to change related to internal conflict



External Environmental Pressure: Some Examples

Pressure	Examples	Description
Fashion pressures	Boeing Co.	Neo-institutionalism: mimetic isomorphism. Managers imitate practices associated with successful organizations
Mandated pressures	Chevron Texaco	Neo-institutionalism: coercive isomorphism. An organization changes through formally or informally mandated requirements.
Geopolitical pressures	3M	Macroeconomic changes (or crises) place pressure on organizations to change the way they operate.

External Environmental Pressure: Some examples

Pressure	Examples	Description
Market decline pressures	AOL Time Warner	When current markets begin to decline there is pressure to find newer, more viable markets.
Hyper-competition pressures	Apple Samsung	The highly intensified rate of business – including shortened product life cycles and rapid responses by competitors – produces pressure for change at the organizational level.
Reputation and credibility pressures	Walt Disney Company Satyam	In light of recent corporate governance scandals, the pressure to maintain a good reputation and high level of credibility has increased.

Internal Environmental Pressures: Some examples

Pressure	Examples	Description
Growth pressures	Microsoft	Existing systems and processes in an organization may no longer be applicable when the size of the organization increases.
Integration and collaboration pressures	EDS	Integration and creating economies of scale can lead to pressure for change in organizations.
Identity pressures	Forte Hotel	A common organizational identity and the unified commitment of staff in different areas/departments of an organization can be difficult to manage and may encourage change.

Internal Environmental Pressures: Some examples

Pressure	Examples	Description
New broom pressures	ICICI Bank RBI	Change at the senior management level – particularly of CEO - can often be a catalyst for significant changes in an organization.
Power and political pressures	Morgan Stanley	Power relationships and politicking can change internal processes and decision making.



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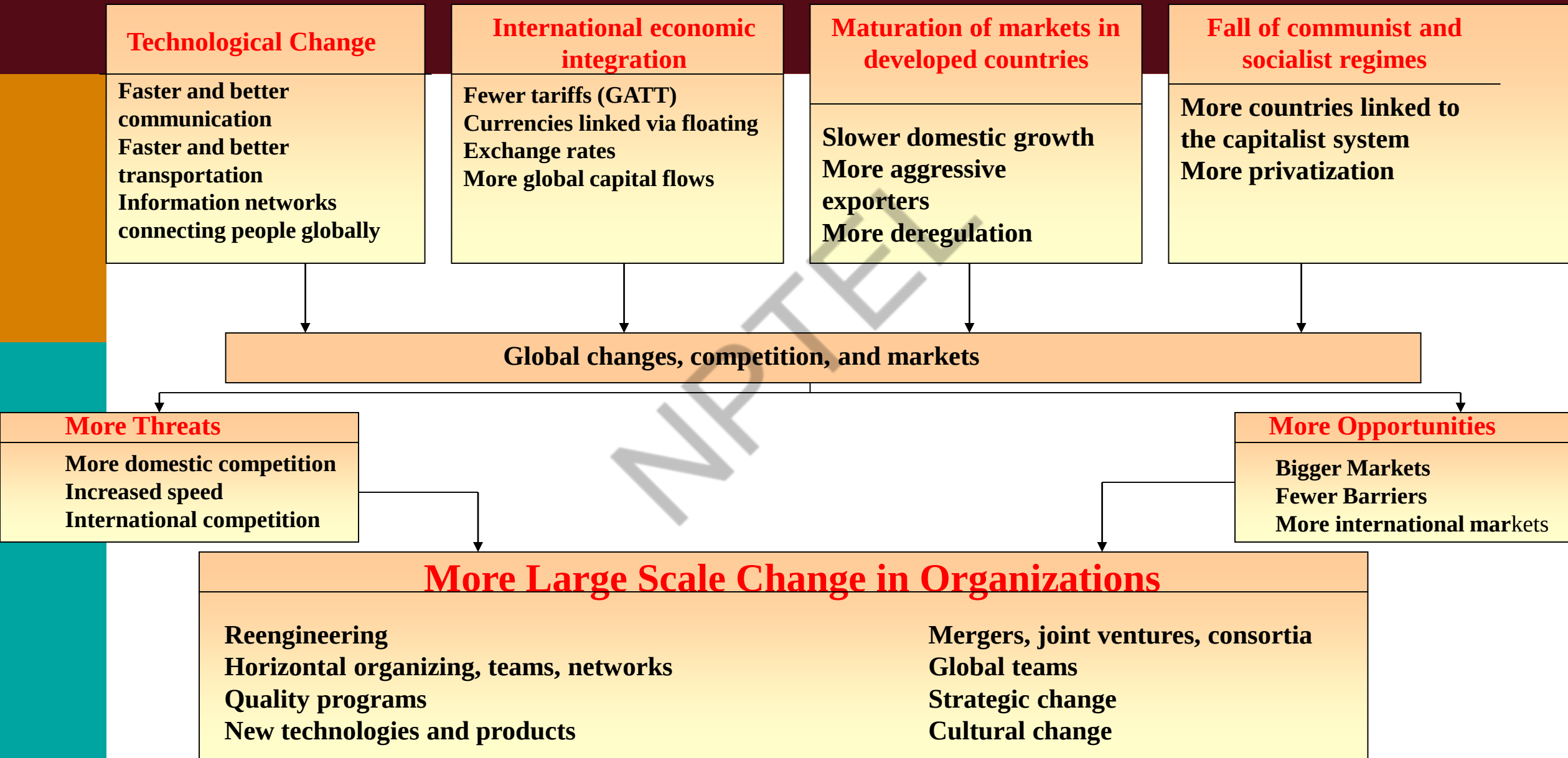
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Topic: Need for Change (3)

Forces Driving the Need for Major Organizational Change



Why Organizations don't change in Face of Environmental Pressure

Organizational Learning Vs. threat Rigidity

Some organizations are less adaptive to change from outside pressure

Slow in responding to the changes

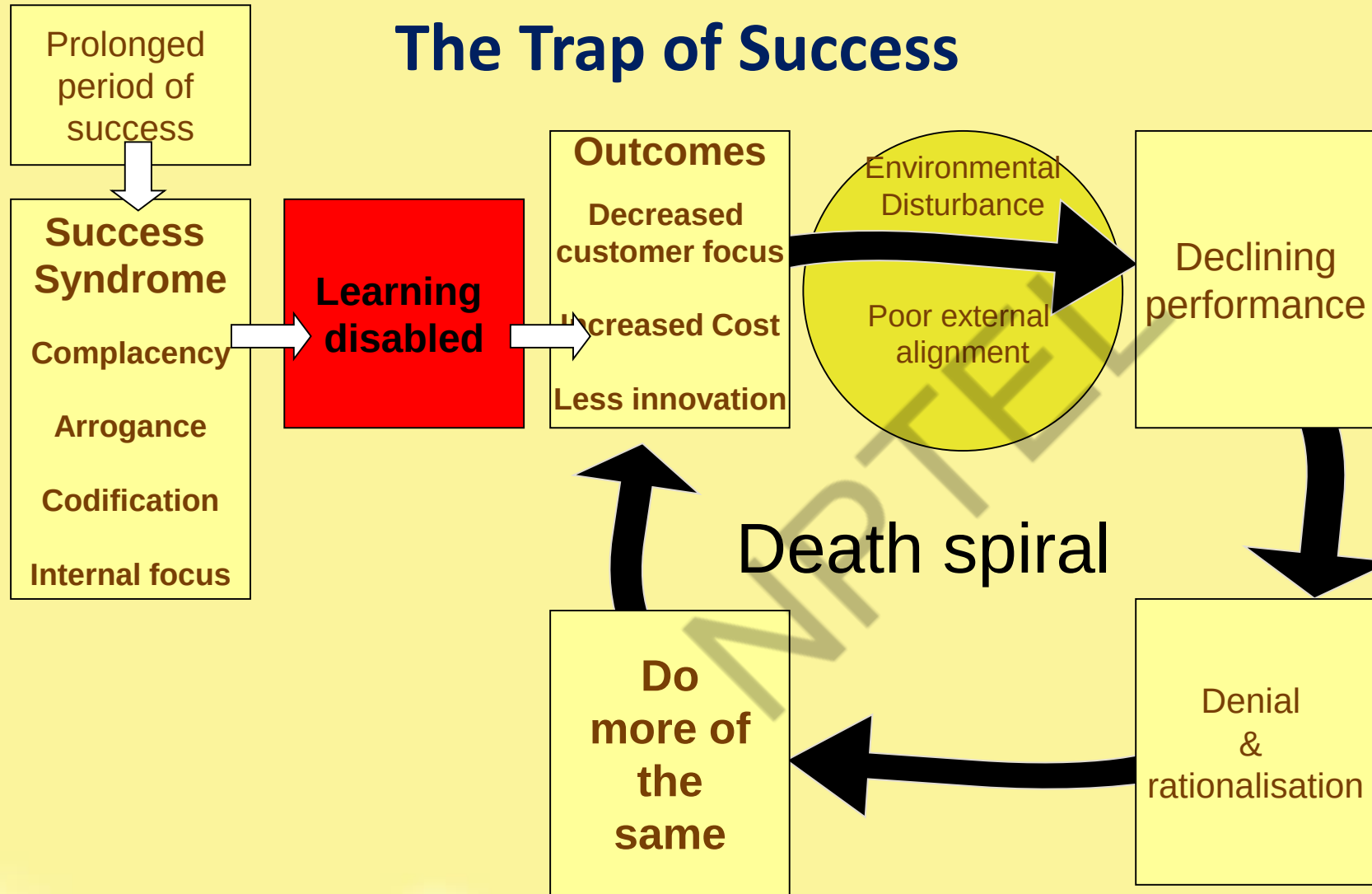
Managers need to go for innovative adaptation to manage the gap between performance and aspirations

Pressure may inhibit managers due to cognitive and decision making process and restrict their vision

Being tapped by the success syndrome



The Trap of Success



Why Organizations don't change in Face of Environmental Pressure

Environment as an objective entity vs. environment as a cognitive construction

Treating the environment as an objective entity to which managers must respond

centrality of managers' interpretations of environmental conditions as the key determinant of behavior.

Type 1 Error: Environment is stable, but perceived as turbulent and take unnecessary action

Type 2 Error: Environment is stable but managers perception is different- no action



Why Organizations don't change in Face of Environmental Pressure

Forces for change vs. forces for stability

The extent to which organizational mission is institutionalized in stakeholders and an external environment

The extent of diffusion of power and resources throughout the organization

The rationale managers employ to explain decline: the more controllable or stable the cause, managers introduce innovative changes

Forces for change Vs. Forces for Stability

Forces for change	Forces for stability
Adaptability of organizations to the environment	Institutionalization of current practices due to solid past practice and power structure
Cost commitment (making HR variable then fixed cost)	Transaction costs
Impatient capital markets demanding more investment returns	Sustained advantage gained through stable organizational relationships
Control less hierarchy but greater power through performance measures	Organizational social capital
Competitive advantage through responding to market conditions	Predictability and uncertainty reduction

Why Organizations don't change in Face of Environmental Pressure

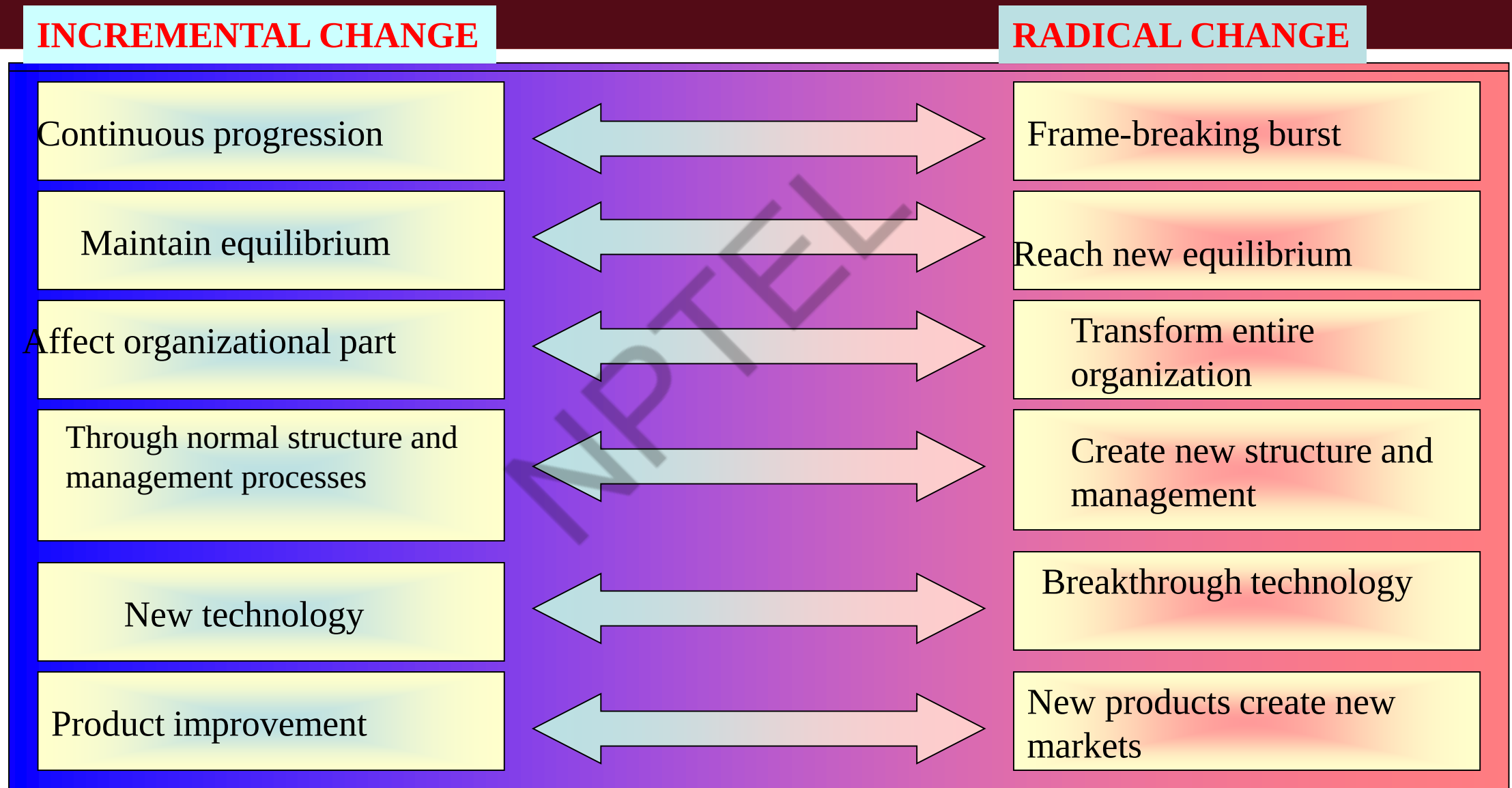
Bridging (adapting) vs Buffering

Strategies to maintain effectiveness by adapting parts of the organization to changes happening in the outside environment (bridging)

focusing on efficiency by avoiding change through shielding parts of it from the effects of the environment (buffering)



Incremental versus Radical Change



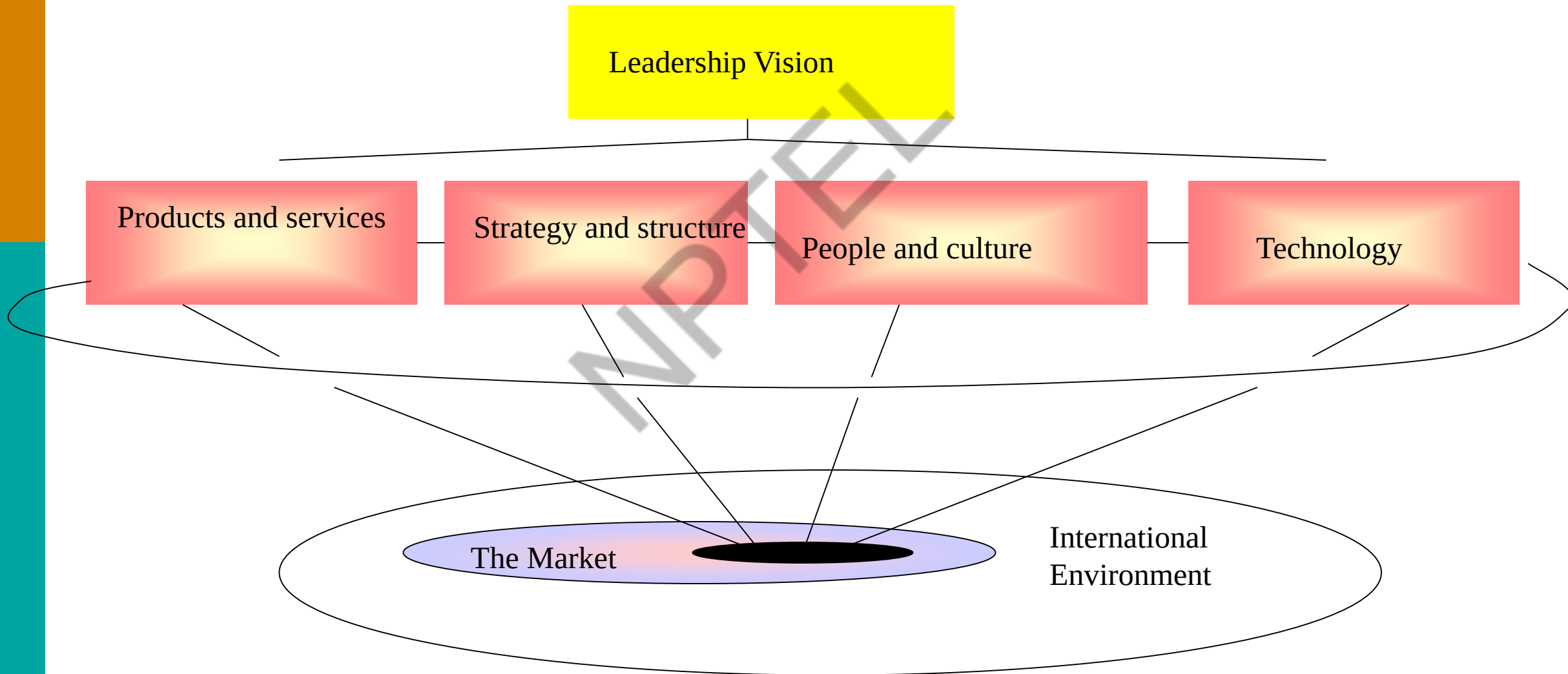
Scale of Change

- First-order change:
 - Incremental
 - Maintains and develops the organization
 - E.g. continuous and smaller changes to the structure of an organisation
- Second-order change:
 - Transformational
 - Fundamentally changes the way an organization functions
 - E.g. downsizing

Between 1st & 2nd Order Change

- **Mid-range changes**
 - Overcomes inertia but is not revolutionary
 - Avoids the alarming implications of large scale change
- **Punctuated equilibrium**
 - Long periods of stability followed by short bursts of change and instability
- **Robust transformation**
 - Considers environmental conditions as being temporary and requiring robust responses including the enactment of new capabilities.

Types of Change





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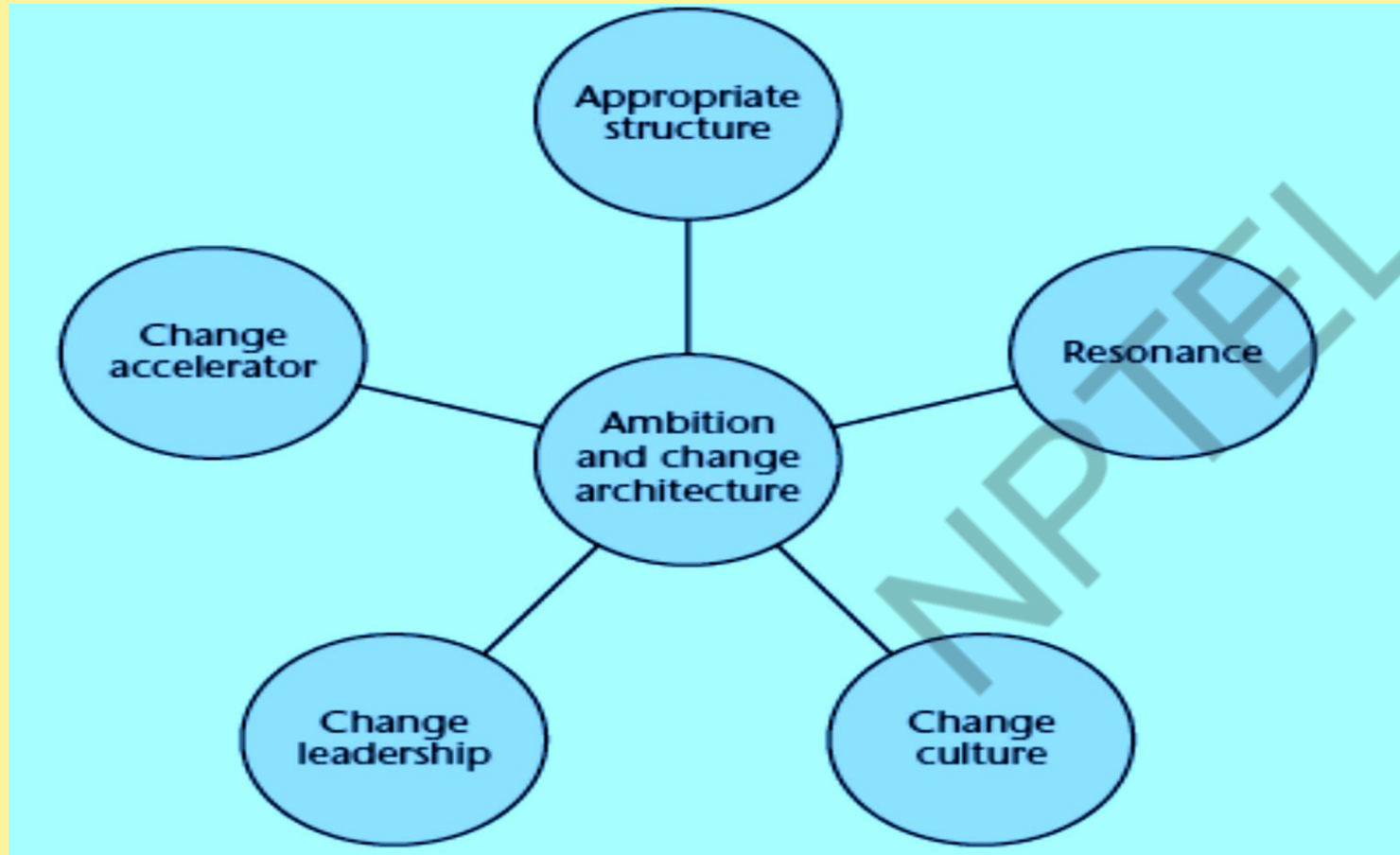
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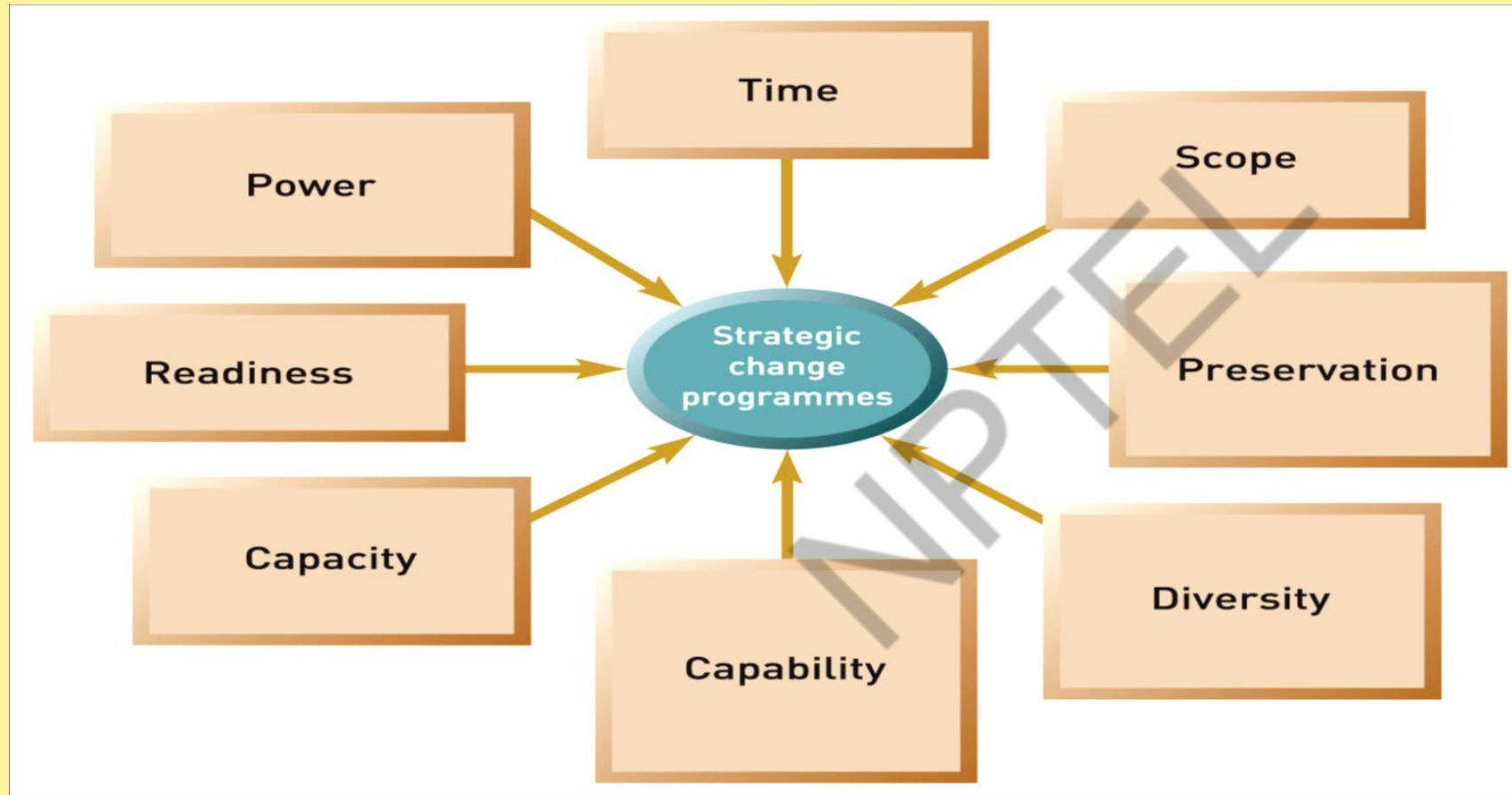
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Topic: Scope for Change (1)

Change capability framework



The Importance of Context



Targets of Change

Four different levels:

Human resources

Functional resources

Technological capabilities

Organizational capabilities



Human Resources

Typical kinds of change efforts directed at human resources include:

- Investment in training and development
- Socializing employees into the company culture
- Changing culture in response to diversity
- Reward systems
- Changing top management team



Functional and Technological, and Organizational Capabilities

Functional resources – as the environment changes, organizations often transfer resources to the functions where the most value can be created.

Technological capabilities – these give an organization the capacity to change itself in order to exploit market opportunities

Organizational Capabilities: through its design of organizational culture and structure,
An organization can harness its human and functional resources to exploit technological opportunities



Strategic types of change

Technical Change

Changes in an organization's production process, including its knowledge and skill base, that enable distinctive competence

Designed to make production more efficient or to produce greater volume

Include work methods, equipment, and workflow

Example: GlaxoSmithKline :Developed software to help researchers screen potential drugs for possible adverse medical reactions at early stage



Strategic types of change

Types of Technical Change

- There are a variety of new technologies being used, for example:
 - Customer relationship management (CRM) systems
 - Enterprise resource planning (ERP)
 - Wireless technology
 - Business process reengineering (BPR)
 - Six Sigma
 - CAD, CAM, CIM, Flexible manufacturing system
 - ICT

Strategic types of change

Product and service changes

Pertain to the product or service outputs of an organization

New products include small adaptations of existing products or entirely new product lines

Designed to increase the market share or to develop new markets, customers, or clients

Toyota's Hilux truck was a new product designed to increase market share

Apple's iPod was a new product that created a new market for the company

Tata Consultancy Services mKrishi service delivers weather information and crop advice to farmers in rural India via cell phone.



Strategic types of change

Strategy and structure changes

Pertain to the administrative domain in an organization

Structure and system changes are usually top-down

Include changes in organization structure, strategic management, policies, reward systems etc.

3M: A system change instituted by top management implementing a Six Sigma program

A shift to self-directed teams at ICU Medical Inc.



Structural changes

Hierarchy: Number of levels

Span of control: Broad or Narrow

Chain of command: centralized or decentralized decision making

Degree of formalization

Departmentation

Management systems

Taller vs. flatter or Mechanistic vs. organic



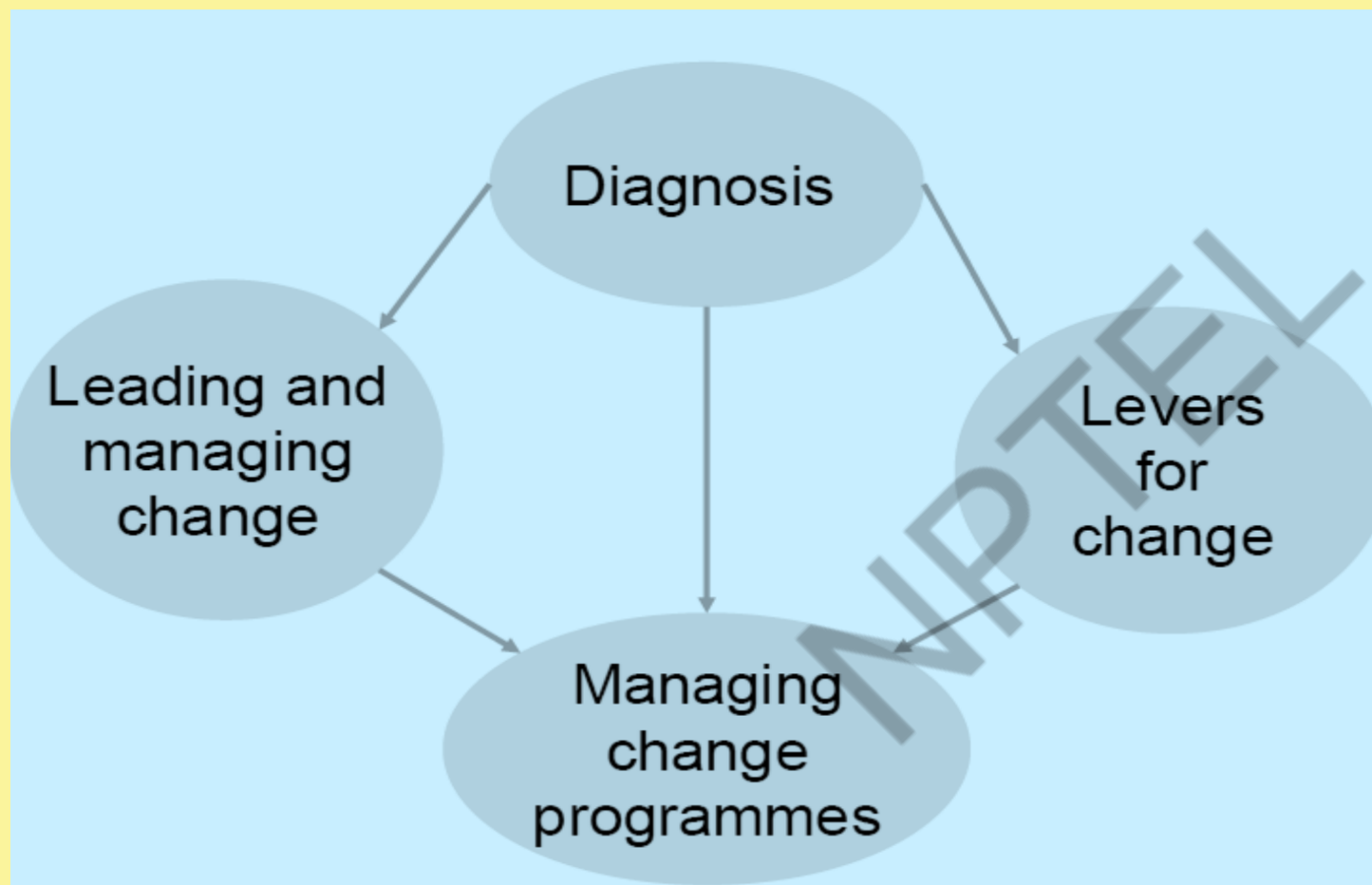
Strategic types of change

Type of strategic changes

MERGERS AND ACQUISITIONS

- Enable organizational growth at an accelerated rate
- Types of mergers and acquisitions:
 - Excessive capacity
 - Neighbouring market expansion
 - New product or market investment
 - Research and development
 - Leveraging to create industries

Key issues in managing strategic change



Strategic leadership roles

Leadership is the process of influencing an organization (or group within an organization) in its efforts towards achieving an aim or goal.

Three key roles in leading strategic change:

- *Envisioning future strategy.*
- *Aligning the organization to deliver that strategy.*
- *Embodying change.*

N.B. Middle managers have a key role in leading change as well as senior managers

Styles of strategic leadership

Situational leadership – successful strategic leaders are able to adjust their style of leadership to the context they face.

Two approaches:

Theory E: the pursuit of economic value; top-down; ‘hard’ levers of change; emphasis on changes of structures and systems, financial incentives, portfolio changes, downsizing.

Theory O: the development of organizational capability; emphasis on culture change, learning, participation in change programs and experimentation.

A combination of the two approaches may be required and can be beneficial



Strategic types of change

Culture Change

Changes in the values, attitudes, expectations, beliefs, abilities, and behavior of employees

pertain to changes in how employees think; these are changes in mind-set rather than technology, structure, or products

Types of Change

DOWNSIZING

- Approaches to downsizing:
 - Retrenchment
 - Downscaling
 - Downscoping
- Does not necessarily lead to increased productivity
- Can be an excessively costly exercise

Key Change Challenges

Downsizing	New Technologies	Mergers & Acquisitions
Employee retention.	Goal synthesis.	Cost savings.
Avoiding “hard landings”.	Choice of technology	Cultural adjustment.
Minimizing political behavior and loss of teamwork.	Identifying political barriers.	Balancing change and continuity.
Survivor syndrome	The IT team.	Due diligence.
Communication	Communication	Employee retention
Due diligence	Time frame.	Contingency planning.
Cultural adjustment.	Contingency planning	Power structure.
Choice of restructuring technique		Communication



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Topic: Scope for Change (2)

Strategies for planned change

	Incremental change strategies	Transformational change strategies
Collaborative mode	Participative evaluation When organization is fit but needs minor adjustment not fit but have time to make changes	Charismatic transformation When organization is out of fit no time for active participation but can go for radical change
Coercive modes	Forced distribution When organization is fit but needs minor adjustment Out of fit but have time to make changes	Dictatorial transformation When organization is out of fit no time for active participation but can go for radical change For survival

Four Change Strategies

1. **Participative evolution.**
 - ☐ Incremental and anticipates change.
 - ☐ Support of culture through collaborative means.
2. **Charismatic transformation.**
 - ☐ Radical change in short time with support of culture.
3. **Forced evolution.**
 - ☐ Incremental adjustments over longer period without support of culture.
4. **Dictatorial transformation.**
 - ☐ Used in times of crisis.
 - ☐ Major restructuring running counter to internal culture.

Integrated Strategic Change (ISC): Key Features

A deliberate coordinated process that leads to gradually or radically systemic realignments between the environment and a firm's strategic orientation resulting in improvement in performance and effectiveness

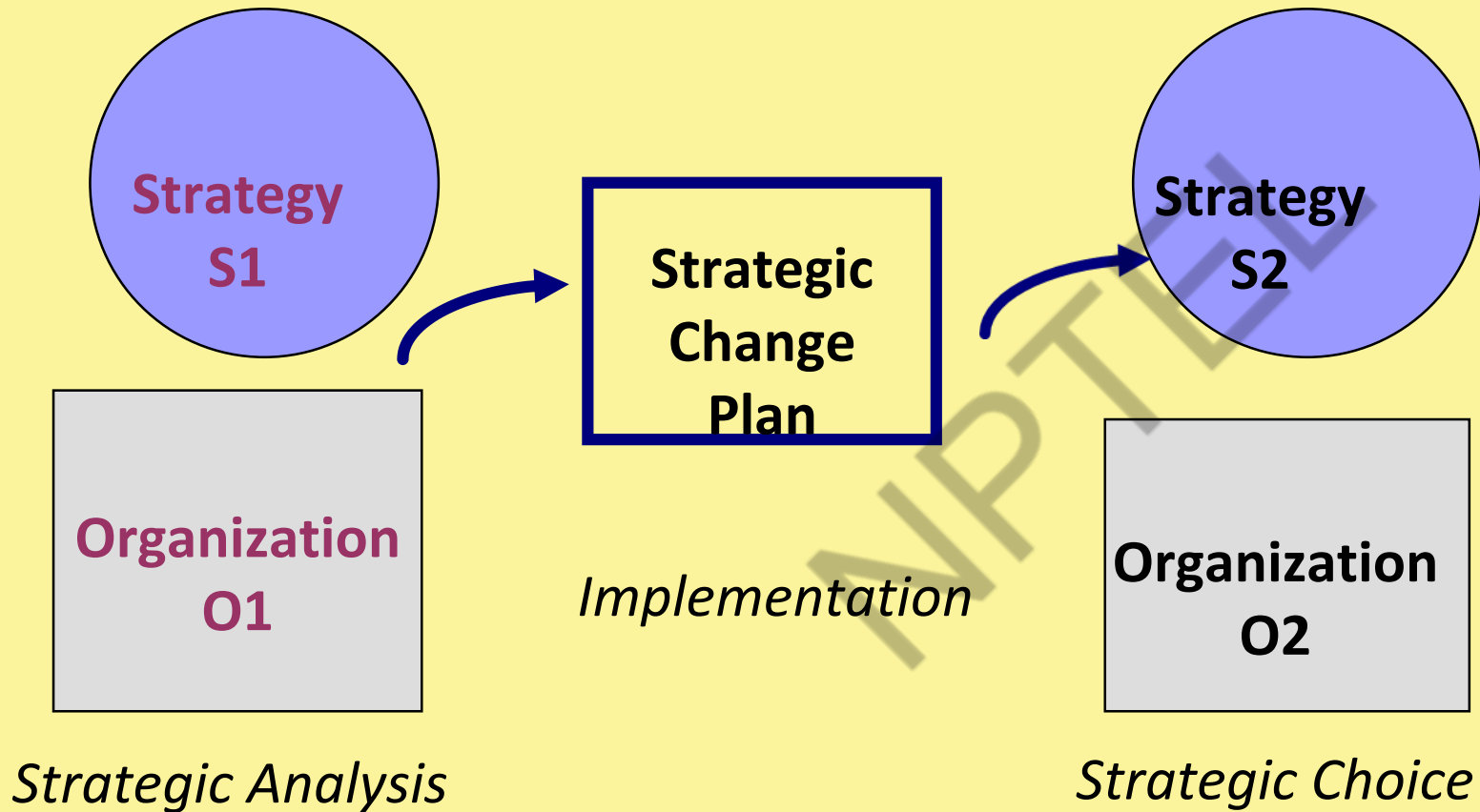
Strategic Orientation

Creating the Strategic Plan

Integrating Individuals and Groups into the Process



The Integrated Strategic Change Process



Integrated Strategic Change: Application Stages

■ Strategic Analysis

- ☐ Assess the readiness for change and top management's ability to carry out change
- ☐ Diagnose the Current Strategic Orientation

■ Strategic Choice

- ☐ Top management determines the content of the strategic change

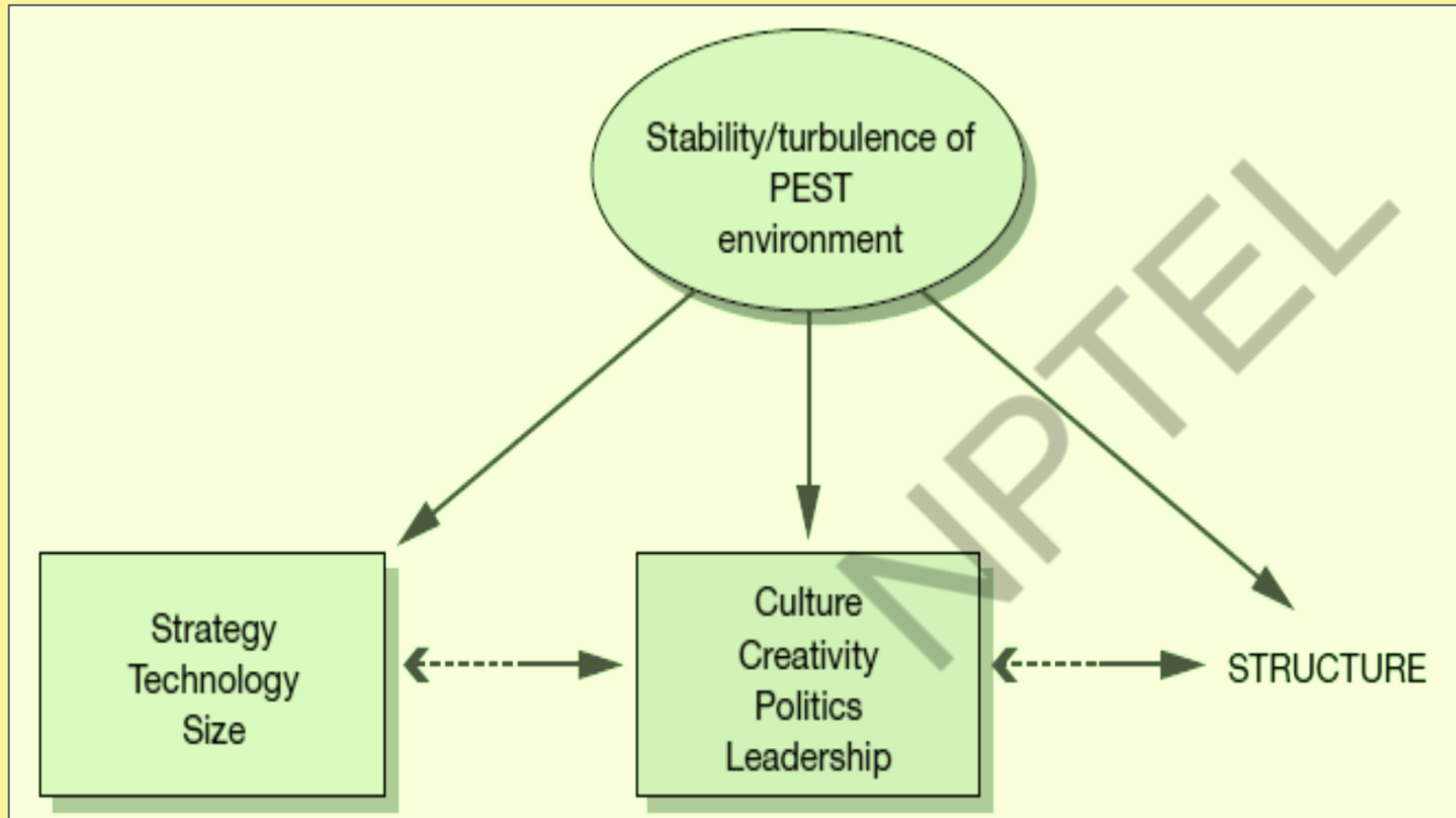
■ Designing the Strategic Change Plan

- ☐ Development of a comprehensive agenda to achieve the change

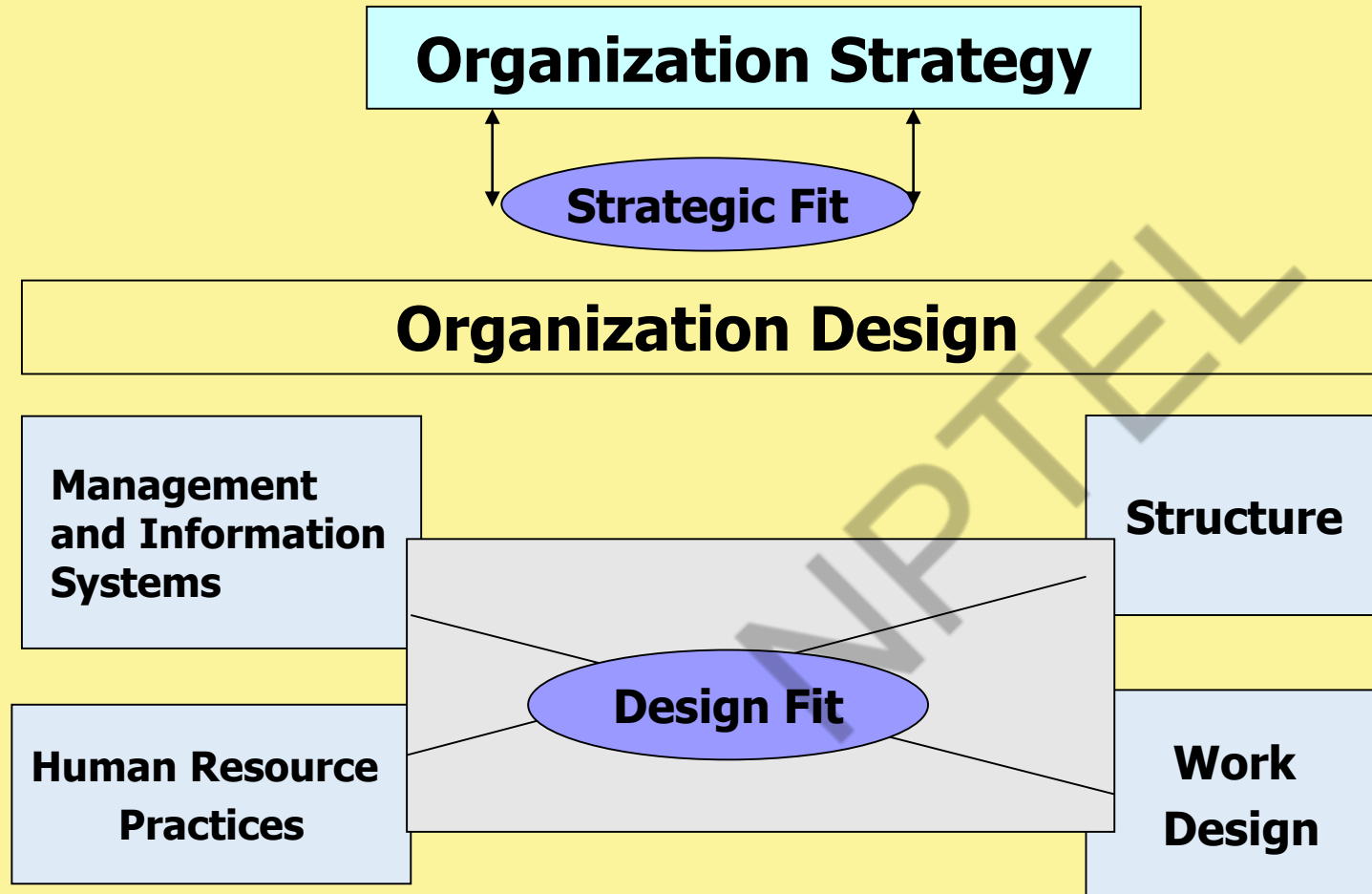
■ Implementing the Strategic Change Plan



Influences on structure



Organization Design Model



Aligning structure with strategy, work design, HR and MIS

	Mechanistic	organic
Strategy	Cost minimization	Innovation
Structure	Formal/hierarchical Functional	Flat, lean, flexible Matrix structure, process , network
Work design	Traditional jobs, traditional work groups	Enriched jobs Self managed teams
HR System	Person job fit, training Standard reward, pay for performance and merit	Person organization fit. Regular training, choice based reward, pay for performance and business success
MIS	Command and control Closed centralized information	Employee involvement Open, inclusive and distributed information

Organization Design: Application Stages

■ Clarifying the Design Focus

- Create the overall framework, begins with examining strategy and objectives and determining organization capabilities needed

■ Designing the Organization

- Results in an overall design for the organization, detailed designs for the components, and preliminary plans for how to implement

■ Implementing the Design

- Puts the new structures, practices and systems into place, draws heavily leading and managing change methods

Strategy-Culture Fit

■ Strategy:

- ☐ Course of action used to achieve objectives.
- ☐ Relates resources of organization to opportunities in environment.

■ Culture:

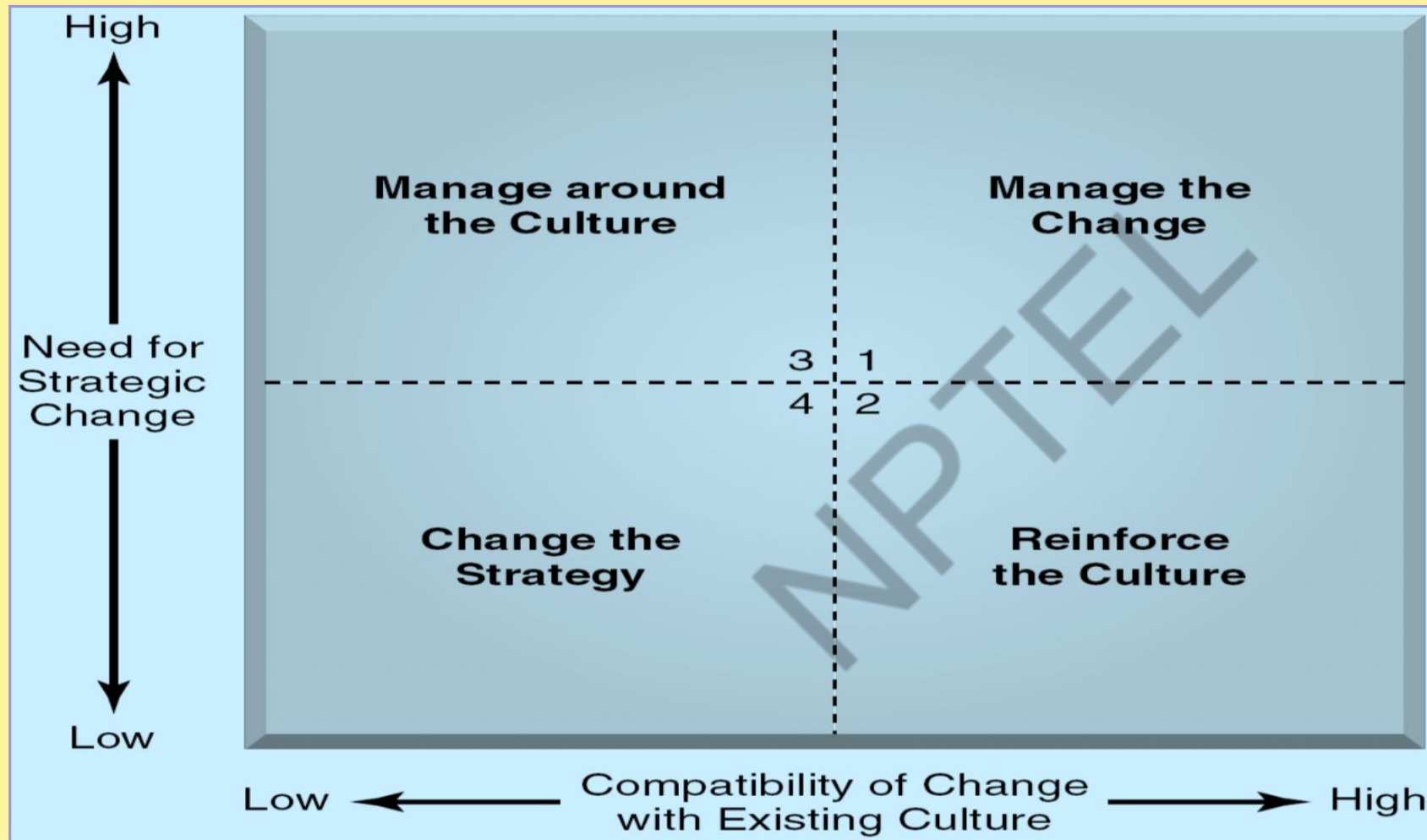
- ☐ Set of values for setting priorities.
- ☐ Critical factor in implementation of strategy.

Strategy-Culture Matrix

Four basic alternatives in determining strategy changes:

1. **Manage change (manageable risk).**
 - ☐ Change important and compatible with culture.
 - ☐ Use cultural reinforcement as strategies.
2. **Reinforce culture (negligible risk).**
 - ☐ Forge vision that emphasizes shared values.
 - ☐ Reinforce existing culture
3. **Manage around culture (manageable risk).**
 - ☐ Change important and incompatible with present culture.
 - ☐ Reinforce value system, reshuffle power, use leverage in the organization.
4. **Change strategy to fit culture (unacceptable risk).**
 - ☐ Change important but incompatible with culture.
 - ☐ Changing culture is explosive, long-term process that may be impossible.

Strategy-Culture Matrix



Diagnosing Organization Culture

- **Behavioral Approach**

- ☐ Pattern of behaviors (artifacts) most related to performance

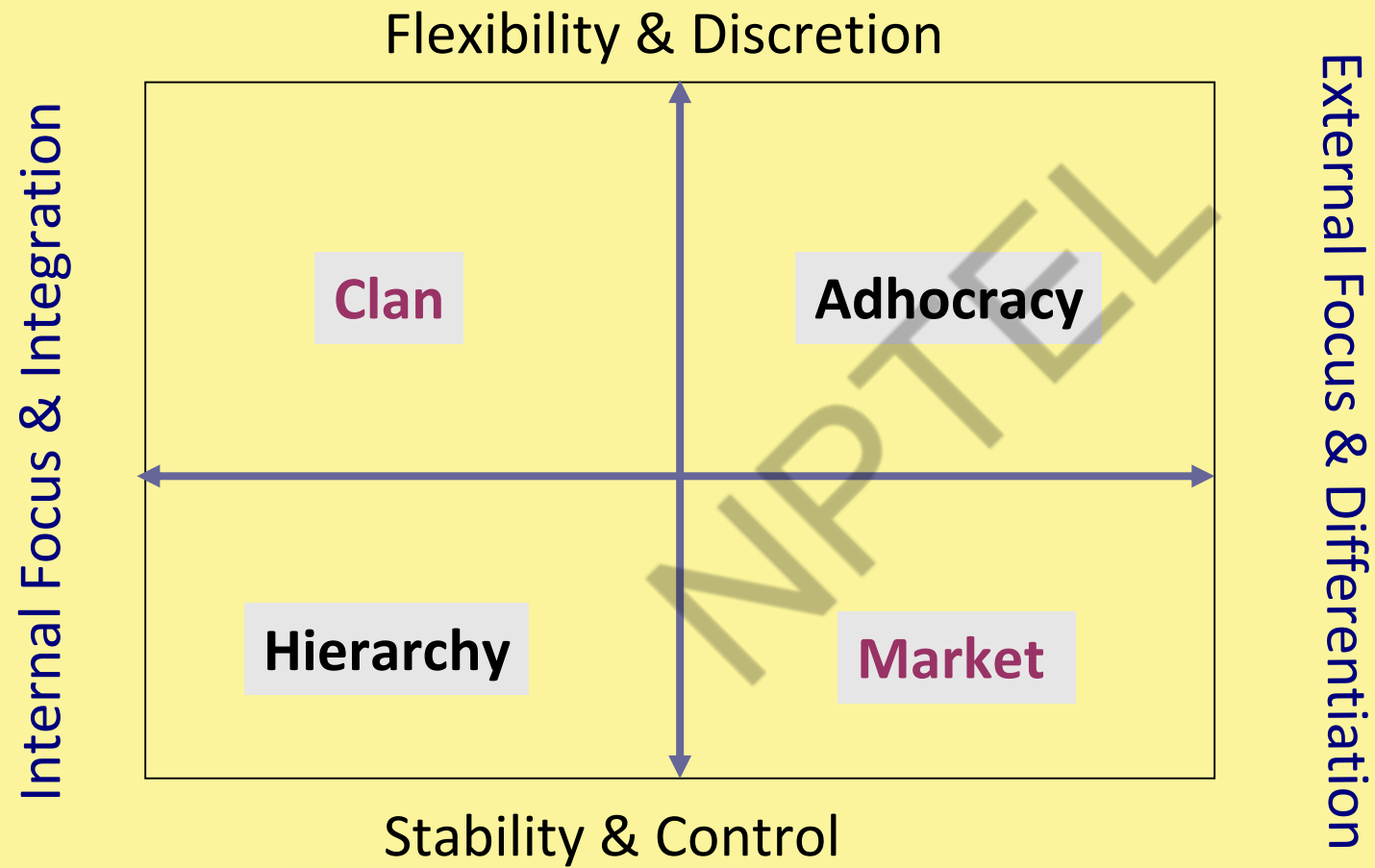
- **Competing Values Approach**

- ☐ Pattern of values emphasis characterizing the organization- how it resolves a set of value dilemmas

- **Deep Assumptions Approach**

- ☐ Pattern of unexamined assumptions that solve internal integration and external adaptation problems well enough to be taught to others

Competing Values Approach



Culture Change Application Stages

- Establish a clear strategic vision
- Get top-management commitment
- Model culture change at the highest level
- Modify the organization to support change
- Select and socialize newcomers; downsize deviants
- Develop ethical and legal sensitivity

Example of culture change: Organizational rituals and change

Types of ritual	Role	Examples in managing change
Rites of passage	Signify a change of status or role	Induction to new roles Training programmes
Rites of enhancement	Recognise effort benefiting organisation Similarly motivate others	Awards ceremonies Promotions
Rites of renewal	Reassure that something is being done Focus attention on issues	Appointment of consultant Project teams and workshops
Rites of integration	Encourage shared commitment Reassert rightness of norms	Celebrations of achievement or new ways of doing things
Rites of conflict reduction	Reduce conflict and aggression	Negotiating committees
Rites of challenge	'Throwing down the gauntlet'	New CEO setting challenging goals



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