Chapter 4

What Changes in Organizations

Learning Objectives

On completion of this chapter you should be able to:

- Understand the distinction between first-order and second-order change.
- Outline alternative concepts of change.
- Identify a range of common changes that confront organizations such as downsizing, introducing new technologies, and mergers and acquisitions.
- Be familiar with a variety of issues that emerge at the “front line” for those charged with managing these changes.
- Appraise your ability to engage with such changes in the future.

Some commentators suggest that, whereas organizational change prior to the mid-late twentieth century was likely to be incremental and infrequent, by the latter part of the century such change was likely to be significant and traumatic.[1] A study by Meyer, Brooks, and Goes[2] provides support to this position. Their study showed how changes in hospitals in the 1960s were evolutionary and related to a stable environment. During the 1970s and 1980s, the environment changed with mounting concern about health-care costs, which led to revolutionary strategic and structural changes in health-care corporations.

Other commentators take a different line, arguing that radical or discontinuous change is not new to the current period but is something that occurred between 1900 and 1950.[3] More generally, others suggest that too much attention has focused solely on large-scale transformational change without appropriate acknowledgment of the role of other changes in maintaining organizational survival.[4]

In this chapter, we pick up these issues in two ways. First, we distinguish between different types of change such as first-order and second-order change. We identify alternative ways of conceptualizing change that try to move beyond categorizing change as either first-order or second-order. Second, we identify three common organizational changes that are likely to confront change managers: downsizing, introduction of new technologies, and mergers and acquisitions. These common types are generally perceived as larger, second-order forms of change, but this is dependent on the perspective from which the change is interpreted. From these examples we identify various “frontline” experiences of these changes and the challenges they pose for people trying to manage them. These challenges form the context for the chapters that follow.

Types of Changes

In this section we pursue the idea of there being different types of organizational change. We distinguish first-order from second-order change and then consider each of these in more detail. We complete this section by outlining two approaches that seek to move beyond seeing change as either first-order or second-order and draw out the implications of this discussion for the manager of organizational change.

Distinguishing between First-Order and Second-Order Changes

A common distinction in the change management literature is between first-order, incremental, continuous change and second-order, transformational/revolutionary, discontinuous change:

- *First-order, incremental change* “may involve adjustments in systems, processes, or structures, but it does not involve fundamental change in strategy, core values, or corporate identity.”[5] First-order changes maintain and develop the organization: they are changes designed, almost paradoxically, to support organizational continuity and order.[6]
- *Second-order, discontinuous change* “is transformational, radical, and fundamentally alters the organization at its core.”[7] Second-order change entails not developing but transforming the nature of the organization.[8]

Bate uses the metaphor of a floating boat to further understand this distinction. Given winds and tides, a boat has to remain in movement in the water if it is to remain at the same point in the sea. This is like first-order change: we have to change to stay the same. In second-order change, movement is directed toward taking the boat beyond the original spot in the sea at which it started: we have to move in order to arrive at a new position.[9] In terms of the scale of change, first-order change is seen as small-scale, incremental, and adaptive; second-order change is seen as large-scale and disruptive.

Nadler and Tushman[10] develop this distinction between incremental and discontinuous change by incorporating another dimension: whether the change is *reactive* to or *anticipatory* of changes in the external environment. This gives rise to four categories: tuning, reorientation, adaptation, and re-creation (see Table 4.1).

Fine-tuning occurs where incremental changes are made that anticipate changes to the external environment. These changes involve adjustment or modification to enable a better fit between the organization and the environment. Citibank’s installation of automatic teller machines in New York in the late 1970s was an incremental change in which the bank attempted to gain a competitive edge on other New York banks by providing more flexible banking.[11]

TABLE 4.1
Types of Changes

Source: Adapted from Nadler and Tushman, 1995.

	Incremental	Discontinuous
Anticipatory	Tuning Improving, enhancing, developing: first-order change	Reorientation Of identity/values—frame bending
Reactive	Adaptation Internally initiated	Re-creation Fast change of all basic elements—frame breaking, second-order change

Adaptive changes are incremental but reactive to changes made by other organizations. An example of this is the catch-up response of other New York banks to install ATM machines following Citibank's lead.[12]

Reorientation is an anticipatory, discontinuous change that involves "frame bending"; that is, major modification of the organization but by building on past strengths and history. An example of this is the changes made by CEO Bob Allen at AT&T. In the late 1980s, during a period of deregulation and international competitive pressures, AT&T was radically changed, restructuring its business units, making new acquisitions, installing a new management team, promulgating a new set of values, and changing the company's strategy to reorient it toward global markets.[13]

Re-creation is second-order change that is reactive and involves "frame breaking"; that is, major upheaval where the organization breaks with past practices and directions. The reactive changes in Chrysler under Lee Iacocca serve as an example of this type of change, where swift decisions were taken to re-create the company in order to survive, including redefining its scope, changing its past strategy of manufacturing full-sized cars, and changing its foreign operations.[14]

First-Order, Adaptive Changes

Some commentators contend that there is a preoccupation with second-order, transformational change without sufficient attention being paid to the importance of first-order adaptive changes.[15] In this section we identify two interrelated positions that point to how significant changes can be made to organizations by individuals at the local level. One argument focuses on individuals and the exercise of their initiative, the other on individuals and their impact on routines.

Change as the Taking of Individual Initiatives

Frohman[16] maintains that not enough attention has been paid to the overall impact on organizations of small-scale changes and the role of personal initiatives in identifying and implementing small-scale changes. He argues that large-scale changes such as restructuring and reengineering, often underpinned by the introduction of new technologies, are too mechanistic in their assumptions and ignore the importance of individual initiative in achieving lasting change. This is because organizations operate in a time when technology breakthroughs provide only a limited competitive advantage: "The only characteristic that is proprietary about technology is lead time, and that's a function of the individual's ability to create or exploit a technology for the purposes of the organization."[17]

EXERCISE 4.1
Weighing in on Types of Changes

Study Table 4.1. From your knowledge of different organizations, either from experience or from the business press, identify companies and their changes that fit:

- *Tuning* (anticipatory and incremental)
- *Adaptation* (reactive and incremental)
- *Reorientation* (anticipatory and discontinuous)
- *Re-creation* (reactive and discontinuous)

Now answer the following questions:

1. In your opinion, which of these changes were most successful? Why?
2. In your opinion, is one category more associated with successful changes than another? Why?
3. Do some organizations fit into more than one category?
4. How useful is the punctuated equilibrium theory (see below) for understanding why this might be?
5. What implications emerge from this for the practicing change manager?

Frohman contends that what is most important to organizations is people who, at a local level, are able to identify relevant, innovative organizational changes. He maintains that, for too long, managers have ignored the bottom-line impact of smaller, local organizational changes and, in many organizations, do not foster the conditions that allow personal initiative to emerge. People who bring about local organizational changes are those who go beyond their jobs, strive to make a difference, are action-oriented, and focus less on teamwork and more on results. However, he points out that although such people are able to be easily identified by other staff in their organization, they are often not seen by managers as high-potential individuals in terms of progression through the company. He suggests that

- *Autocratic* organizations discourage initiative by removing responsibility.
- *Meritocratic* organizations constrain individual initiative and action by tightly regulating controls and procedures throughout the company.
- *Social club* organizations discourage individual initiative by requiring conformity to the team rather than to the work itself. As an interviewee in one such organization said, “We spend more time prioritizing our meetings than we do meeting our priorities.”[18]

Frohman[19] proposes that personal initiative directed toward local change is likely to occur when attributes from each of these three organizational types—strong leadership, bureaucratic systems, and teamwork—are balanced. Such organizations provide space for personal initiatives that are, at the same time, directed toward corporate objectives.

Change as the Development of Local Routines

Feldman[20] claims that mid-level and transformational changes are based on the assumption that routines are a source of stability in organizations and therefore need to be fundamentally disrupted to produce change. She presents a different view: that organizational routines can be the source of change in organizations when they are enacted by different people who place their own interpretations and actions on how the routines should occur. Two internal dynamics drive routines toward continuous change. One is where past outcomes fall short of what was intended; another is where achievement of outcomes opens up new possibilities.[21]

In support of this position, she cites the work of Burgelman,[22] who maintains that the product mix at Intel evolved as a result of changes in internal routines and decisions made by mid-level managers, rather than by these managers following the decisions of top managers. In her own study of organizational routines in the residential life section of a university, Feldman[23] found that actions associated with routines such as hiring, training, and budgeting evolved over time in response to the interpretations and actions of individuals involved in carrying them out. In this way, routines entail both stability and change. For example, in relation to the hiring routine, there was stability over time in the way in which people were screened and interviewed. However, the process of submitting applications became centralized over time: "In this case, the elements of the routine have not changed, but how they are accomplished has."[24]

EXERCISE 4.2
How Stable Are Your Routines?

Some argue that routines are a source of stability in organizations and therefore inhibit change and the ability of an organization to adapt to its environment. Others argue that routines do change and that these changes are an important, albeit relatively ignored, part of how organizations adapt to their environment over time. What's your experience?

- Identify an organizational routine with which you have had some familiarity over a period of time.
- To what extent has this routine changed over time?
- What was the source of the change?
- What aspects of it remained unchanged? Why?
- To what extent did the function of the routine remain stable but change in the way the function was accomplished?
- As a change manager, what are your conclusions about the above debate?

Second-Order, Transformational Change

Many organizational changes such as downsizing, restructuring, and reengineering are regarded as transformational, designed to fundamentally alter the basic nature of the organization.[25] In their study of 22 popular management books and 78 articles on current organizational changes, Palmer and Dunford[26] found eight commonly occurring recommendations for major organizational change in order to cope with hypercompetitive business environments:

- *Delayering* (reducing the number of vertical levels in the organization).
- *Networks/alliances* (involving internal and external strategic collaboration).
- *Outsourcing* (of activities in which the organization has no distinctive competence).

- *Disaggregation* (breaking up the organization into smaller business units).
- *Empowerment* (introduction of mechanisms to provide employees with the authority, resources, and encouragement to take actions).
- *Flexible work groups* (for specific purposes that are disbanded or reformed upon completion of the task).
- *Short-term staffing* (in which people are contracted to the organization for a short period of time to work on specific issues/tasks).
- *Reduction of internal and external boundaries* (to encourage communication and resource sharing).

In their survey of organizations in western Europe, Whittington et al.[27] identified a similar range of changes in which organizations are currently engaged, dividing these into changes in organizational structures, processes, and boundaries. These changes, and the rationales for entering into them, are summarized in Table 4.2.

Such changes are commonly seen as second-order, transformational changes, ones needed to produce a fundamental reorientation of an organization so that it can cope with highly competitive changes in the business environment (see Tables 4.3 and 4.4).

TABLE 4.2
Rationale for New Organizational Changes

Source: Adapted from Whittington et al., 1999:589.

New Organizational Changes	Rationale
Organizational Structures	
Delayering	Enhance information flows, speed of response, and removal of expensive middle management
Decentralization	Encourage cross-functional teams
Operational strategy	Harness knowledge, increase profit, improve response times
Project-based structures	Flexibility
Organizational Processes	
Information technologies	Intensify interactions in the new economy
Electronic data interchange	Enhance information flows, flexibility, and participation
HR practices	Enhance commitment and motivation to engage with new practices
Horizontal networking	Enhance communication exchanges and cross-boundary career paths
Organizational integration	Encourage corporate identity
Organizational Boundaries	
Downscoping	Increase strategic flexibility and enable greater focus
Outsourcing	Removal of low-value activities
Alliances	Increase access of organization to external skills and competencies

TABLE 4.3
Key Challenges in Destabilized Environments

Source: Adapted from Nadler and Shaw, 1995:6–8.

Key Challenge	Rationale
Increase quality and customer value	To increase customer expectations
Decrease costs of internal coordination	To decrease production costs
Enhance innovation	To meet customers' expectations
Reduce market response time	To respond quickly to shifts in the market
Motivate staff	To gain effective contributions
Create scale without mass	To compete globally but without adding costs associated with increased size
Change more quickly	To decrease periods of equilibrium
Enhance competitive advantage	To develop factors not easily replicated by competitors

This can include situations of privatization of public sector organizations, as happened extensively in New Zealand. For example, during the period 1985 to 1995, a range of state-owned enterprises—Telecom Corporation of New Zealand (TelecomNZ), Railways Corporation (TranzRail), Electricity Corporation of New Zealand (ECNZ), Television New Zealand (TVNZ), and New Zealand Post (NZPost)—had to adopt radically different ways of operating after they were moved into the private sector.[28]

However, before rushing out to get rid of old organizational practices such as hierarchy, formalization, and centralization and replacing them with new, more flexible organizational practices, it is worth pointing out that a number of commentators are cautioning managers to be careful in taking such radical change actions. Rather than replacing the old with the new, the two should be integrated. The creation of boundaryless organizations does not mean dispensing with hierarchy.[29] Similarly, instituting empowerment and teamwork should be seen as assisting in the development of functional and divisional structures rather than replacing them.[30] Organizational environments may well be changing,

TABLE 4.4
Emerging Organizational Characteristics of the 21st-Century Corporation

Source: Adapted from Wind and Main, 1999:4.

Traditional Characteristics	Emerging Characteristics
Goal-directed	Vision-directed
Price-focused	Value-focused
Product quality mindset	Total quality mindset
Product driven	Customer driven
Shareholder focused	Stakeholder focused
Finance oriented	Speed oriented
Efficient	Innovative
Hierarchical	Flat
Functional	Cross-functional
Rigid	Flexible
Domestic	Global
Vertically integrated	Networked

but prescriptions for how organizations should be changed in order to meet these new environments need to move beyond evangelical pronouncements to careful consideration of current organizational strengths and future requirements.

Transformational Types

Not all transformational changes are of the same order of magnitude. As we saw above, Nadler and Tushman distinguished between frame-bending (reorientation) and frame-breaking (re-creation) transformations. Flamholtz and Randle[31] add to such distinctions by distinguishing among three types of transformational change:

- A *Type 1* transformation, which occurs when an organization moves from an entrepreneurial to a professional management structure; for example, the transformation of Apple Computers from an entrepreneurial company under its founder, Stephen Jobs, to a larger professional company under John Sculley.[32]

EXERCISE 4.3

Does the New Replace the Old—What's Your Experience?

Think back to the various changes that you have either witnessed or experienced over the last three years in organizations with which you are familiar. Answer the following survey.

Which of the new organizational changes identified by Palmer and Dunford[33] have you experienced and, in your opinion, to what extent did implementing them involve replacing past practices? Use the following 0-to-7-point scale where 0 = not experienced this practice; 1 = past practices remained intact; 7 = past practices completely replaced

(If you have no significant organizational experience on which to base your responses, consider the situation in the introductory stories and suggest to what extent new practices might replace old.)

New Organizational Change Practice	Scale
Delayering	=
Networks/alliances	=
Outsourcing	=
Disaggregation	=
Empowerment	=
Flexible workgroups	=
Short-term staffing	=
Reduction of internal boundaries	=
Reduction of all external boundaries	=

- How prevalent are these practices in your experience? Are some practices more prevalent than others?
- What conclusions do you draw about the relationship between new organizational change practices and past organizational practices? Does the old coexist with the new? Does the new replace the old? Is the old modified with the introduction of the new?
- Review Tables 4.2, 4.3, and 4.4. To what extent are the emerging characteristics replacing or coexisting with traditional characteristics?
- What implications does this have for change managers?

- A *Type 2* transformation, which involves the revitalization of already-established companies. The organization remains in the same market but focuses on how to rebuild itself in order to operate more effectively.[34] An example of this is Compaq Computers. In the early 1990s, this company faced a changing environment, including changes in customer needs. The company reengineered its operational systems, downsized, lowered its purchase and production costs, and placed more emphasis on teamwork. The focus of this turnaround change was to enhance organizational effectiveness.[35]
- A *Type 3* transformation, which involves a visionary change in which the organization fundamentally changes the business in which it is involved. The change in Starbucks Coffee from a local roaster and importer of coffee beans (it did not initially sell coffee as a drink) to a string of national company-owned coffee retail stores is an example of this type of change.[36] Compound transformations can occur when an organization simultaneously tackles multiple transformations, such as when Disney in the 1980s carried out both a professional and a visionary transformation.[37] Table 4.5 summarizes the factors associated with such transformations.

Beyond Either First-Order or Second-Order Change

Three approaches do not retain firm distinctions between categorizing changes as either adaptive or transformational: midrange organizational change, punctuated equilibrium theory, and robust transformation.

Midrange Organizational Change

Instead of managers engaging in either adaptive or revolutionary change, Reger et al.[38] point to a middle road that they can take, one they describe as tectonic change that, they maintain, is suitable for "today's dynamic environments." Midrange changes are important where companies seek to modify the company without destroying employee loyalty and

TABLE 4.5 **Types of Transformational Change**

Source: Adapted from Flamholtz and Randle, 1998:39.

Key Factors Influencing Design of Transformations	Transformation Types: Type 1: Entrepreneurial to Professional Management	Type 2: Revitalization	Type 3: Business Vision
Organizational environment	Growth in markets and competition	Major change in environment	May or may not involve environmental change
Business concept	No transformation	No transformation	Major transformation
Building blocks of organizational success	Changing culture, management, and operational systems	Change needed in markets, services, resources, operational and measurement systems, and culture	Changes in markets, services, resources, operational and measurement systems, and culture
Organizational size	Associated with rapid growth	Usually change, including downsizing	May involve size change

other positive company attributes.[39] For them, it is through mental models that individuals establish organizational identity and influence how announced changes are received:

- *High inertia* can result when the change is perceived as unnecessary, there being little gap between current identity and the one that is implied in the change.
- *High stress* can result when the change is perceived as unattainable and the gap is too wide between the current organizational identity and the one that will occur as a result of the change.[40]

A mid-road or "tectonic" change is one "that is large enough to overcome the inertia that plagues large organizations while avoiding the cataclysmic side effects of massive revolutions."[41] These "moderate earthquakes" are designed "to destroy outdated aspects of the organization's old identity while simultaneously building on other, still relevant, elements."[42] Table 4.6 outlines steps they recommend tectonic change managers should follow in order to enact such change.

Change as Punctuated Equilibrium

Rather than focusing on either adaptive or transformational change, an alternative position that has gained widespread currency is that more attention needs to be paid to the *interplay* between incremental and transformational change. In what is known as punctuated equilibrium theory, Romanelli and Tushman[43] portray organizations as evolving "through relatively long periods of stability (equilibrium periods) in their basic patterns of activity that are punctuated by relatively short bursts of fundamental change (revolutionary periods). Revolutionary periods substantially disrupt established activity patterns and install the basis for new equilibrium periods."[44] Their study of 25 minicomputer producers during 1967–1969 found support for this theory.[45] In developing this position, Nadler and Tushman[46] point to the way in which whole industries go through organizational change and often display periods of equilibrium in which change is relatively minor, "punctuated by intervals of major disequilibrium when the entire industry is shaken by some destabilizing

TABLE 4.6
Prescriptions for Achieving Tectonic Change

Source: Adapted from Reger et al., 1994:38–41.

- Engage in an audit of the organization's identity prior to undergoing significant organizational change.
- Ensure that the change is aligned with the organization's different operations.
- Ensure that the change is seen as significant enough to overcome inertia but also seen as valuing relevant aspects of organizational identity.
- Make sure that the change occurs in the form of midrange steps so that the gap between the change and the current organizational identity is not seen as too significant.
- Take a path of least resistance by leveraging change in certain parts of the organization that are more receptive to the change and then using these parts to encourage others elsewhere in the organization.
- Identify the extent to which the organization can handle the specified changes—and whether to initiate it when the organization has problems or when it is performing well.

event." At a strategic level, for example, Zúñiga-Vicente, de la Fuente-Sabaté, and Rodríguez-Puerta[47] point out that the behavior of Spanish banks over a 15-year period displayed "strategic stability at group and firm-level punctuated by a high degree of strategic instability at times of major environmental disturbances."[48]

Change as Robust Transformation

As set out in Table 4.7 the "robust transformation" argument alerts managers to the limitations of assuming that they should adapt their organization and bring it into equilibrium with a new set of environmental conditions. Rather, some environmental conditions may be temporary, or undergoing continuous change, and therefore require robust responses including the enactment of new, perhaps unanticipated capabilities.

What this suggests is the need to identify what is intended in engaging in change: is it to reinforce established practices, achieve an adaptive fit to a new set of environmental conditions, or develop capabilities for responding to temporary or continuously changing

TABLE 4.7 Change as Robust Transformation

Source: Developed and adapted from Lengnick-Hall and Beck, 2005:740–43.

Adaptive-Fit Assumptions	Limitations of Adaptive-Fit Assumptions	Robust Transformation Assumptions	Example of Robust Transformation
Change involves adaptive response to environment by shifting from one equilibrium to another	Not all environmental shifts move from one equilibrium to another—some are unstable and transient	Need to pay attention to transient conditions rather than assume change is always a shift to a new equilibrium	"[W]hen a fire crippled Philips Electronics' mobile-phone chip factory in spring 2000, leaving Nokia without its key supplier, a substantial, but impermanent solution was needed. Nokia sent its employees to help Philips recover, temporarily increased orders from other Philips facilities, used its network to secure other suppliers, and capitalized on its rival's stagnation by introducing new phones." [a]
Achieving efficient and effective adaptation means balancing the exploring of new opportunities with the exploiting of current capabilities	Not all environmental conditions can be forecast so achieving a "neutral fit" may not always be possible	A fluid environment calls for a focus on dynamic tension between exploration and exploitation rather than seeking optimal balance	Meyer's study [b] of hospitals having to deal with a jolt brought on by a strike by doctors found that effective hospitals chose temporary paths, counterintuitive to their normal modus operandi.

TABLE 4.7 Change as Robust Transformation—(*conculded*)

Adaptive fits depend upon strategic response—e.g., reactive, defensive, proactive	Strategies may need reevaluating under continuously changing conditions	Rather than adaptive fit, a blend of discordant strategies and organizational arrangements may be temporarily needed	After September 11, 2001, Southwest Airlines changed its image from fun and frivolity to assurance and formality to ensure safety. As the environment evolved, so did the airline by reintroducing its former image.
Achievement of fit helps achieve immunity from environmental changes	A focus on achieving fit may not prepare an organization to deal with environmental jolts and crises	Rather than using resources to ensure fit, resources are used to prepare for higher levels of future adaptiveness	Following the 1993 attack on the World Trade Center, the investment bank Morgan Stanley, a significant tenant in the building, put in place programs for employees on what to do in the event of a crisis. These promoted future flexibility rather than altered their core business.

[a]Lengnick-Hall and Beck, 2005:742.

[b]Meyer, 1982.

environmental conditions?[49] Each is valid, but together they point to the importance of evaluating the type of environmental shift that is occurring and responding and implementing changes accordingly.

Rethinking Linear, Equilibrium Assumptions about Change

In a recent reassessment of assumptions about change, Alan Meyer and his colleagues,[50] question whether the dominant view—that change moves in a linear manner and that organizations change in order to reestablish equilibrium with their environment—is generally correct. They suggest that large groups of organizations undergo discontinuous, often unanticipated change. Such unanticipated environmental changes to which organizations might need to respond can take three forms:

- *Jolts*—passing shocks that can temporarily disrupt organizations but then eventually subside. (See in Table 4.7 the second example under the Robust Transformation Assumptions column.)
- *Step functions*—where new conditions emerge that are permanent and require organizations to move (take steps) from one position to another in order to achieve a better fit with the environment.
- *Oscillation*—where cycles of discontinuity occur, including expansion and contraction of an organization's market or operating environment.[51]

One insight from this perspective is that punctuated equilibrium, for example, may not be an accurate picture of all transformational changes since jolts and oscillations suggest that some changes should be temporary, albeit large-scale, with the organization needing to revert to its former operational capabilities when these conditions have been reduced or removed.

Implications for Change Managers

In assessing the issues and arguments outlined above, we suggest that they pose seven implications that need to be considered by the manager of change. Where relevant, we indicate how these relate to the various images of change outlined in Chapter 2.

1. Care needs to be taken in assuming that types of organizational changes can be neatly categorized as small, adaptive, and incremental compared to those that are large and transformational. Mental frameworks, individual perspectives, the extent to which a change is directly relevant to a person and his or her activities, and the degree to which he or she accepts the need for change (see Chapter 6 for more on this) will all influence how the change is viewed. A restructure in one section of an organization may be seen as small scale and adaptive by people elsewhere in the organization who are relatively unaffected by it. For those who are affected by it—including those who may lose their position—it may seem to be large scale in the sense that it is disruptive to current work practices and routines, entails large personal impacts, and requires different ways of approaching how to do things. The change manager as *interpreter* image reminds us that whether a change is adaptive, reactive, or transforming is not necessarily an objective "given" but will depend upon the perspective of the person doing the considering—and part of the role of the manager of change is to mold these perspectives or provide "sense making" for organizational participants about "what is going on here."

2. Much of the above discussion has been about single organizational changes without considering in detail the interactive effect of multiple types of changes simultaneously. In addition, some changes require other changes nested under them in order for another change to proceed. For example, putting in place mechanisms to empower staff may require multiple changes related to an organization's decision-making routines, reward systems, skill base, and work flow. Individually, each change may be seen to be achievable and relatively small scale (depending upon your perspective), but together they may be seen as transformational, even revolutionary. The *navigator* image reminds the managers of change that when they are implementing multiple changes, this is likely to bring them into contact with different groups, interests, and power relationships within their organization that will require negotiation and navigation through a range of issues—not all of which they will be able to control. The point here is that change managers need to avoid simply focusing on one change without an understanding of the way other related changes may impact upon their staff. They need to remember that they are likely to be placed in the position of navigating through multiple changes at one and the same time.[52]

3. The *nurturer* image reminds change managers about the need to remember the lesson from chaos theory that small changes, at an individual level, may have larger, unanticipated consequences throughout the organization.[53] Change managers can nurture and shape people's perceptions and reactions to change but not control them. What might seem to be a small, inconsequential change may have radical consequences that change managers may not be able to anticipate (see Table 4.8 for an example).

TABLE 4.8
Small Changes, Radical Consequences

Source: Hamel, 2001:152.

Gary Hamel provides this example to illustrate how small changes can have radical consequences:

A couple of years ago, an employee at Virgin Atlantic noticed a bit of empty curb space at Heathrow Airport. In a matter of days, he secured the rights to the space and laid out a plan for Virgin to build a curbside check-in kiosk. As a result, Virgin became the first airline at Heathrow to offer its business class passengers the luxury of getting a boarding pass without having to stand in a check-in line. Soon, check-in times were measured in seconds instead of minutes. Over the past decade, dozens upon dozens of similarly "radical" ideas have allowed Virgin Atlantic to differentiate its services from its large rivals. The point is this: radical innovation comes in all sizes . . . Enough "small" innovations can reorder competitive position in radical ways.

4. Adopting the *coach* image, the managers of change are likely to assume that, as long as people have been well "coached" in a variety of organizational and team skills, then, when organizational "problems" are triggered, they will take the initiative and make appropriate adaptive changes to alter organizational practices and routines. However, as we saw in Chapter 3, there are a number of inertial forces that act as a drag on individuals and organizations in adopting adaptive, first-order change. As Staudenmayer, Tyre, and Perlow[54] state, "[I]n organizations and in everyday life, problems do not always induce change. Many well-known cases exist where problems were ignored or silenced until organizations experienced full-blown disasters" such as NASA's *Challenger* explosion. As they note, the number of problems facing an organization is not associated with its propensity to engage in change.[55] Providing the conditions for the exercise of personal initiative becomes an important focus for change managers who wish to cultivate change through the exercise of frontline staff.

5. As in the example of the boat, change managers need to remember what might appear at first sight to be a paradox, that often change is needed in order to remain stable. This can be seen as another way of framing the fundamental paradox of stability and change where change may be needed to preserve or reestablish stability and stability must include change mechanisms to be adaptable. A more succinct expression of this paradox is in a saying often heard in talk about change: The more things change, the more they stay the same. Change managers who adopt a *directing* image of change also need to remember that they will need to provide directions about stability: telling people what will not be changing, or what will remain the same.

6. Change may mean adding on to, and integrating, rather than removing and replacing current practices. What this reminds the managers of change is that they need to assess how carrying out a change will impact upon current practices—and the extent to which a change will create ripple effects on practices and routines that they need to retain.

7. There is often an implicit assumption that incremental, adaptive changes are less risky than large, second-order transformational changes. An alternative position is that staying the same is risky. For example, Hamel discusses how companies such as Xerox, Compaq, and Sears adopted a "steady as she goes" approach, which failed to match the fast-changing world around them.[56] He points out that radical change and the adoption of new assumptions may require organizational learning, but this is not necessarily a high-risk

activity. The process of learning may entail "a series of low-cost, low-risk experiments and market incursions."[57] For the manager of change, this requires both assessing the *scale of change* (incremental/radical) from the perspective of the affected parties as well as *assessing the risk* involved (of changing rather than staying the same) and the different ways in which risk can be ameliorated.

Types of Changes: Lessons from the Front Line

In this section we outline briefly three common changes likely to face managers: downsizing as a form of organizational restructuring, implementation of new technology, and mergers and acquisitions. These are generally regarded as midrange or second-order changes, notwithstanding the arguments above about the scale of change being dependent upon the perspective of the person involved. For each change, we provide examples of companies that have confronted such changes and draw on their frontline experiences to identify the key issues and challenges that faced them. This helps to set further in context the chapters that follow and the way they assist in meeting these challenges.

Downsizing

Downsizing, or the intentional process of permanently reducing staff numbers in an organization, has been a widespread change practice since the 1970s. In 2001 alone, Fortune 500 companies reportedly cut a total of 1,040,466 jobs[58] and one prediction is that by 2015 a further 3.3 million U.S. jobs will be outsourced to countries such as India.[59] As demonstrated by announcements at a variety of companies in the first quarter of 2007, downsizing shows no sign of letting up. Viacom's MTV Networks announced cuts of 250 positions;[60] the large railway companies of Union Pacific and CSX Transportation both announced job losses;[61] two major pharmaceutical companies announced wide ranging cuts, with Bayer AG planning to eliminate 6,100 positions[62] and AstraZeneca, 3,000 positions;[63] Airbus set out plans to cut around 10,000 people over four years from its operations;[64] DaimlerChrysler plans to cut 13,000 jobs over three years;[65] Hershey Co. plans to cut 1,500 jobs over the next three years;[66] Sara Lee Corporation is seeking to reduce its workforce by 1,700;[67] and Alcatel-Lucent, which earlier had announced cuts of 9,000 positions, added another 3,500 job cuts.[68]

As can be seen in Table 4.9, there are a variety of approaches to downsizing, including retrenchment, downscaling, and downscoping. The reasons firms undertake this type of change are varied. As documented by Palmer, Kabanoff, and Dunford,[69] they include restructuring, closing or selling of a business unit, cost reduction and cost savings, increased productivity through greater efficiency and effectiveness, and coping with external pressures, including recessions and economic downturns, technological change, and increased competitive pressures through greater globalization of business.

Multiple strategies may be associated with downsizing beyond a simple cost-reduction approach. For example, after the tragic events of September 11, 2001, Praxair Inc., a supplier of specialty gases and coating in the United States, experienced a downturn in productivity.[70] They announced the need to reduce their worldwide workforce by 900 employees[71] as well as the need to restructure their business to cater to products where demand was increasing. To this end, they simultaneously downsized and invested in two new production plants.[72]

TABLE 4.9
Types of Downsizing

Source: Adapted from DeWitt, 1998.

Type	Meaning
Retrenchment	This is done by centralizing or specializing a firm's operations to sustain or improve productivity. It is brought about by reengineering practices and the removal of unnecessary jobs and amenities. This form of downsizing may increase the economies of scale and help maintain a competitive advantage.
Downscaling	This is constituted by permanent alterations to employment and tangible resource capacity. This reduces the firm's economies of scale and competitive market share.
Downscoping	This is when the firm divests activities or markets in which it operates. This is done by reducing the vertical and/or horizontal differentiation.

Companies may approach downsizing as one among a number of methods to achieve cost cutting, sometimes employing it as a last resort. For example, Charles Schwab & Company was hit with a major downturn in commission-based revenue at the end of the second quarter in 2001.[73] Schwab had hired people during the boom years and found itself with an overabundance of staff and a need to change its structure.[74] They implemented a system that would use downsizing as a last resort to restructuring the company and cutting costs.[75] By the end of 2003, Schwab had reduced its workforce by 25 percent and significantly decreased staff bonuses in a move to arrest the declining fortunes of the company.[76]

In part, this approach to downsizing—linking it with multiple, related changes—recognizes that by itself downsizing will not necessarily lead to gains in productivity where it is not associated with other changes in business strategy. For example, research in the early 1990s showed that expected increases in profits did not eventuate in two out of three cases through cost cutting by downsizing; this research showed that share prices may initially rise with the announcement of cost cutting through downsizing but then often fall, trading at or below the market over a two-year period.[77]

Downsizing can be a financially costly change process. For example, it has been calculated that the cost of retrenching a single employee who earns approximately $30,000 is around $7,000.[78] As outlined below, the process of downsizing can have significant social and psychological effects on employees—both those who remain and those who leave. For such reasons, "the smartest companies make sure they are addressing the right issues in the right ways before they jettison jobs"[79] and explore other alternatives before downsizing their operations. Where companies do go down the downsizing path, there are a number of challenges that confront them in the process of carrying out this change. A selection of these follow.

Change Challenges of Downsizing

- *Employee retention.* Downsizing may lead to the loss of important and skilled employees. When they see their peers leaving, they begin to doubt their future at the company. Without these valued members of the organization, the productivity of the company may be reduced.[80]

- *Avoiding "hard landings."* These occur when core competencies are lost or underutilized because they were linked to key people who were lost in the downsizing. Managing downsizing effectively entails identifying core competencies that will need to be retained and stabilizing the pace of downsizing to ensure that they are preserved.[81]
- *Minimizing political behavior and loss of teamwork.* A common argument is that during downsizing, political gaming increases with employees lobbying to retain their positions; managers focusing on the productivity of their team, perhaps at the expense of the organization overall; and networks utilized to draw in owed favors.[82]
- *Survivor syndrome.*[83] The employees that remain with the organization following downsizing may suffer survivor syndrome, where they question why the change occurred, feel guilty that they remain while some of their valued work colleagues are unemployed, and may suffer from low morale wondering whether they are likely to lose their job in future downsizings. Particularly when they are not involved in the planning and goal setting for any subsequent organizational restructuring program, they feel disassociated from the organization. Managing survivors successfully is a major change challenge.[84]
- *Communication.*[85] Problems occur when companies are not open about the market situation they face and the future of their remaining employees is uncertain.[86] Communicating future vision and strategy to shareholders, employees, and other constituents becomes an important change concern.[87]
- *Due diligence.*[88] Unplanned and nonselective downsizing can lead to issues for companies such as whether the downsizing that occurred was really necessary and why it was that some people were retained and others let go. Lack of attention to such issues can lead to further deterioration in employer–employee relationships following downsizing.[89]
- *Cultural adjustment.* Restructuring an organization through any means, especially downsizing, requires significant cultural change. For example, subcultures may be broken up through downsizing and restructuring and informal networks that were previously drawn upon to implement organizational work may be disrupted. Paying attention to reintegration of culture with new strategic directions becomes a key postdownsizing challenge for change managers.[90]
- *Choice of restructuring technique.* As discussed, downsizing is not always the most appropriate and effective way to begin a restructuring program and many companies do not appear to seek initial alternatives to this method.[91] Deciding whether to use a substitute method is a key issue that needs to be assessed by change managers.

Technological Change

Introducing technological change into an organization has been the focus of change management activities for many years. Classic studies in the 1950s were made of technology changes in the mining industry in Britain. These gave rise to sociotechnical approaches to implementing change associated with people such as Fred Emery and Eric Trist of the London-based Tavistock Institute of Human Relations. These approaches highlighted the need to pay attention to the social aspects of implementing new technologies such as the way they can disrupt informal social patterns within organizations.[92] These same issues remain relevant today, where a variety of new technologies from e-commerce initiatives to customer relationship management (CRM) systems are introduced into organizations.[93] Table 4.10 outlines a sample of these.

TABLE 4.10
Types of Technological Change

Type	Meaning
Enterprise resource planning (ERP)[a]	This system provides an organizationwide platform that consolidates the company's needs while still allowing particular departments to use the system for their specific needs. Examples include Peoplesoft, Oracle, SAP, and JD Edwards
Customer relationship management (CRM)[b]	This system allows an organization to scrutinize their consumers' needs by tracking information relating to their sales and more effectively forecast their demand for the future
Wireless technology[c]	These devices transmit information from remote points back to a central point for collation or action
Business process reengineering (BPR)[d]	This is a way of managing change that requires a complete overhaul of business practices and can be implemented through technological changes
Six sigma[e]	This is a process of quality control that is monitored through the use of statistical information regarding defect occurrences

[a]Koch, 2004; Huq, Huq, and Cutright, 2006:68.

[b]Harris, 2003.

[c]Paul, 2001.

[d]Anonymous, 2003.

[e]Ettinger, 2001.

There are numerous examples of companies implementing new technologies for varying reasons. Chase Manhattan Bank began a business process reengineering program to help facilitate a change to their operations.[94] Piper Aircraft sought to increase productivity by employing a CRM system to coordinate communications between its 17 suppliers and over 70,000 customers.[95] UPS wished to become more competitive within the package delivery market and made the decision to upgrade its technology system. To this end, they took on a new strategic platform that was a comprehensive package database that could service different parts of its operations.[96] Delta Airlines introduced a new technological platform because many of its business units had created their own systems and they needed a synthesized system. They created a platform named Delta Nervous System (DNS) to provide real-time information for flight operations and customer service. This was to correct previous confusions that led to incorrect information being given to customers.[97]

Implementing new technologies is not straightforward. One estimate is that, on average, 20 percent of a company's expenditures on corporate IT are used on products or services that fail to achieve their intended purpose.[98] Moreover, the impact of new systems may not be manifested for a significant amount of time.[99] For example, in implementing ERPs during the introduction, there are typically advice, training, help desks, and the like—often provided by consultants.

> However, the real impact of the system tends to be felt long after the party is over, when the consultants have left and the dedicated project teams disbanded. As it becomes difficult to perform one-off tasks, as access to help and support seems more difficult to obtain and as natural attrition starts to dilute skill levels from the initial implementation phases, it is common

> for [an] organization to start feeling the impact of employees devising ways to get around the standardized processes of the ERP. It is at this point that the changes to organizations begin to be more clearly felt and management is required to address the longer-term issues of how to develop the organizational capacity enabled by the ERP and reap the benefits of their investment in the system.[100]

Managers often seek to use technologies for short-term solutions without paying attention to longer-term advantages that IT might offer an organization.[101] Crises such as the Y2K bug forced many companies to rethink their information technology systems, but many did not take advantage of this opportunity to change their systems for the longer term.[102] The challenges that may be faced when implementing technological change are numerous. The following list outlines a number of the key issues that need to be considered.

Change Challenges of Introducing New Technologies

- *Goal synthesis.* A key problem when implementing a new technology is identifying its place within the organization.[103] IT frequently takes a secondary place to corporate operations; balancing this discrepancy is an issue for change managers.[104]
- *Choice of technology.*[105] As Table 4.10 indicates, there are a number of options offered for new technologies that can be introduced into an organization. An important challenge is to find technological platforms or applications that serve the company as a whole.[106]
- *Identifying political barriers.* These may occur through perceived loss of control and authority under the new system. An important challenge is obtaining the support of key opinion leaders to provide support to the change.[107]
- *The IT team.* The IT department may be treated as a division somewhat divorced from the main part of the organization.[108] Getting both the corporate and IT teams on board and working together is an issue that arises in initiating change.[109]
- *Communication.*[110] Communicating the direction of, and the process for implementing, a technological change is an important element of the project and, if done ineffectively, can work against successful implementation.
- *Time frame.*[111] There is debate as to whether technological change should be implemented on a short-term or a long-term basis.[112] Either way, remaining within the given time frame for integration is often a difficult issue facing the change manager.[113]
- *Contingency planning.*[114] Overhauling a fundamental part of a firm's infrastructure can seriously damage its day-to-day operations. Change involves planning for the future as well as planning for how to keep day-to-day operations running. Contingency planning enables "what if" questions to be asked that can anticipate possible scenarios that might emerge and how they could be handled. Relaxing normal operating rules during the change process might be necessary for it to proceed smoothly without facing blockages.[115] Change managers need to give thought to both of these issues in implementing technological change.

Mergers and Acquisitions

Celebrated strategy writer Alfred Chandler argues that mergers have been a popular form of organizational growth at least since the 1890s.[116] Mergers and acquisitions enable organizational growth at accelerated rates[117] and they continue to be popular, albeit with "seasonal" variations. For example, 1998–2000 has been cited as one of the most hectic periods of mergers in U.S. economic history with almost $4 trillion being spent in merger and acquisition activities,[118] although this waned in 2002 with a decline by approximately 36 percent in the number of mergers and acquisitions.[119]

Despite such variation, it remains an entrenched change management activity with many companies undertaking this form of change. Johnson & Johnson (J&J) is an example of how acquisitions can be used to diversify an organization and increase research and development. By either licensing, partnerships, or acquisitions, Johnson & Johnson has created a drug and medical empire that is worth approximately $33 billion a year.[120] Mergers, acquisitions, and alliances sometimes sweep through whole industries, leading to consolidations such as has been the case with the pharmaceutical industry in recent years, including companies such as Pharmacia Corp., AstraZeneca, Pfizer, Novartis, and GlaxoSmithKline.[121] More generally, other well-known examples of mergers include Citicorp and Travelers Group; Conseco and Green Tree Financial; Daimler Benz and Chrysler Corp; and NationsBank and BankAmerica Corp.[122] Mergers and acquisitions are not without their challenges. This can be seen in very public and well-documented mergers such as that of America Online (AOL) and Time Warner.[123]

Mergers and acquisitions (whether forceful or friendly) can take many different forms, as outlined in Table 4.11. Outcomes also can vary. On the one extreme, an acquired company

TABLE 4.11
Types of Mergers and Acquisitions

Source: Adapted from Bower, 2001:94.

Type	Meaning
Excessive capacity	In this situation, the acquiring firm has the opportunity to reduce excessive capacity and consolidate operations in more mature industries.
Neighboring market expansion	This is before industry maturity, when a strategically sound firm acquires operations in neighboring areas. This does not necessarily assume the centralization of operations but rather the increased benefits to the acquired firm through lower overhead costs and increased value for consumers.
New product or market investment	This is when two firms wish to explore the other's advantages in relation to extending product lines or global scope.
Research and development	This is used to increase market position at a more rapid rate. This is generally a preferred method when the product that is being developed has a shorter life cycle.
Leveraging to create new industries	This is when the resources of two firms are pooled and reconstructed to launch a new industry that the firms' boundaries did not cover previously. This involves leveraging the acquired firm's altered capabilities to be effective in a redefined industry.

TABLE 4.12
MySpace

Source: Sellers, 2006.

When News Corp paid $500 million for MySpace in July 2006, it set off a number of voices of concern at what the effect of this acquisition would be on the way MySpace operated. Tom Anderson and Chris DeWolfe had established their Web site "on the principles of user control, grass roots growth and authenticity."[125] The MySpace ethos was that the users governed the site. Now Anderson and DeWolfe are under real pressure to make MySpace a strong commercial operation.

"Already there's a backlash. Witness sightings of 'Tom is not my Friend' . . . The question facing the MySpace founders now: Is it possible to sell out without selling out?"[126]

The challenging question: "might MySpace become too big and broad and successful to be cool?"[127]

may be left to operate similar to the way it has done in the past, except for minimal governance or operational changes. At the other extreme, an acquired company may be subject to a complete overhaul in its governance structures, human resource systems, financial systems, and other operating systems, bringing these in line with the acquiring company (see Table 4.12). Between these two extremes is a range of other positions, including merging the two companies by integrating the best practices of both to form a new entity. However, even in the latter case, power differentials between the two merging organizations may mean that despite the merger appearing, at least on paper, as being between two equals, one is more influential than the other "in shaping the new organization."[124]

Producing successful mergers and acquisitions is clearly a change management challenge. A study of 21 merger-and-acquisition "winners" found that, in the long run, 17 of these were not in the best interests of their shareholders.[128] Other research in Canada in 2000 showed that, in the private sector, the success rate for corporate mergers is approximately 30 percent.[129] These findings make it clear that there are serious issues that are faced when undertaking mergers or acquisitions, including the pricing of merger-and-acquisition transactions, the consolidation of acquisitions and mergers, and cultural adjustments, to name a few. The following list identifies a number of related issues that confront the manager of change confronted with mergers or acquisitions.

Change Challenges of Mergers and Acquisitions

- *Cost savings.*[130] Estimated cost savings are typically overvalued initially. This leads to a focus on short-term returns to meet calculated goals.[131]
- *Cultural adjustment.*[132] The merging of different cultures and the adoption of new operating systems and procedures can often lead to conflict. The way in which this is managed can be a major determinant of the success or failure of a merger or acquisition.[133]
- *Balancing change and continuity.* Depending upon what type of merger or acquisition it is (see Table 4.11), current research suggests that a balance is needed between the disruptions caused by the change and the need for continuity of work and positions in order to retain or reestablish employee identity with, and commitment to, the new organization.[134]

EXERCISE 4.4
Identifying Frontline Change Experiences

Go back through the business press (*Fortune, The Economist, BusinessWeek,* etc.) and find at least three articles related to either downsizing, implementation of a new technology, or a merger or acquisition.

1. What were the key frontline experiences listed in relation to your chosen change?
2. How do they relate to those listed in this chapter? Did you identify new ones confronting change managers?
3. How would you prioritize these experiences? Do any stand out as "deal breakers"? Why?
4. What new insights into implementing this type of change emerge from this?

- *Due diligence.*[135] The lack of due diligence can lead to the incorrect pricing of the target company and integration of the two organizations. This affects shareholder wealth and is reflected in the market value of the stock.[136]
- *Employee retention.*[137] If people are an organization's best asset, then keeping key employees postmerger is another critical challenge facing merged organizations.[138]
- *Contingency planning.*[139] Many mergers do not begin with a compelling, well-thought-through strategy.[140] The ability to plan and set priorities and goals for the future is needed.[141]
- *Power structure.*[142] If there is a lack of commitment to the merger at all levels of the organization, especially the senior level,[143] then they may use their power to undermine the success of the merger; change managers therefore need to be aware of this potential issue and identify strategies for both detecting and dealing with it.
- *Communication.*[144] Communicating effectively to employees, customers, and shareholders is an important issue when undergoing a merger or acquisition. Failure to recognize the significance of this issue can be detrimental to success.

Revisiting Downsizing, Technological Change, and Mergers and Acquisitions: How Fast?

An important question that is under current discussion in the change literature concerns the pace and sequence of carrying out change.[145] The view that radical change has to occur quickly in order to create the necessary momentum to overcome inertia has come under scrutiny. Also under scrutiny is the order in which change should occur. Should change be implemented across the organization simultaneously to reduce resistance or staged in some sections and then others? If the latter view is adopted, another set of change management questions emerges regarding whether the focus first up should be on either the core or the peripheral functions of the organization.[146]

In their longitudinal study of 36 Canadian Olympic national sports organizations, Amis and colleagues concluded "that rapid change throughout organizations is not only insufficient to bring about radical change, but may even be detrimental to its outcome."[147] This is because short bursts of change, followed by steadier change steps, allowed time for trust to be built up and so enhance working relationships. At the same time, they suggest that it is important to focus the early bursts of change on the high-impact decision-making areas required for the change since these will have a lasting symbolic value and reinforce the message that the changes will be enduring. Managers need to implement high-impact changes with sensitivity since they are likely to be the most contentious and create resistance: "If they are not carefully planned and introduced, changes to high-impact elements may subsequently need to be withdrawn and possibly modified, inevitably slowing the change process and likely decreasing its probability of success."[148]

Conclusion

In this chapter, we have seen how not all changes are of the same order of magnitude. Indeed, what constitutes magnitude of change depends on who is doing the assessing, how close they are to the change, and how much they are affected by it. It is in this sense that images of managing and change are relevant to this chapter. If change managers are unaware of the power of images and mental frames, then they will be continually surprised by the reactions of others in their organization to the introduction of change. What may appear to them to be a small, relatively inconsequential change may produce reactions from those affected by the change way beyond that anticipated by the change manager. It is the framing of change and peoples' *sense making* of it that come into play here (see Chapter 7 for more on this). Rather than adopting a *directive* change management image, being aware of the different *interpretive* processes at work in the organization will lead the change manager to engage in different change actions at different places in the organization in order to influence these differential understandings. What these actions might be will be addressed in more detail in the chapters that follow.

Finally, in the second part of this chapter, we have explored a variety of frontline experiences of three common, larger forms of organizational change. In reflecting on these frontline experiences despite their different foci, we can see that there are areas in which they overlap. Communicating where the change is headed and why, conducting due diligence about the need for the change, assessing its impact on the cultural imprint of the organization, ensuring that the appropriate people are on side and not disrupting the change, and both trying to plan the timeframe for the change as well as anticipating future problems that might eventuate were common to the three changes we considered. The challenge of the chapters that follow is identifying the change approaches and strategies available to managers of change upon which they can draw in order to address such issues.

TABLE 4.13 Chapter Reflections for the Practicing Change Manager

- How do you approach the paradox of change: in your view, is the risk of failing at change less risky than not changing? Is this a good assumption for all the changes that you undertake? What criteria can you develop to assist you in assessing this balance for future change decisions?
- When introducing new organizational changes, what assumptions do you make about traditional organizational practices: that they must be replaced? Retained? Modified?
- Where's your change focus? Are you open to both incremental and transformational changes? Do you tend to gravitate to one of these most often? Why? Are the changes you make more likely to be reactive or anticipatory? What influences this for you?
- What are your frontline experiences? Reflect upon the critical success factors. What were they? How well did you address them? What would you do differently in the future? What barriers might you face?
- How aware have you been as a change manager to the different sense-making routines that occur in organizations going through change? How might this knowledge assist you in the future?

Supplemental Reading

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Case Study *Nestlé*

By 2000 Nestlé was considered the world's biggest food company with 500 factories operating in 80 countries employing 224,000 people with annual sales of $47 billion.[149] A worldwide leader known for manufacturing products as diverse as chocolates and cosmetics, it is now a far cry from the company that was created by the underlying desire to help new mothers who could not breastfeed their newborn infants.[150] With a commitment to long-term outcomes that "will never be sacrificed for short-term performance,"[151] Nestlé has clearly been through many changes over the years.

CHANGING NESTLÉ

As a Swiss national organization, Nestlé only sold through sales agents to countries outside of its home market. By the 1900s, it changed its approach to global expansion and began purchasing local subsidiaries in foreign markets.[152] Its launch into the American market was initiated when the First World War increased demand for dairy products. Nestlé took this opportunity to establish its presence in the United States by acquiring several existing factories.[153] During the Second World War, a feeling of isolation in Switzerland led to the transfer of many executive offices offshore to the United States.[154] These moves into offshore markets were part of Nestlé's commitment to changing the company in order to increase efficiency and productivity.

In 1974 Nestlé diversified for the first time outside the food industry in order to promote growth. It became a major shareholder in the cosmetic giant L'Oréal. This diversification has had significant consequences for the organization that continue today with investor concern that Nestlé may have overextended itself with its acquisition of debt-ridden L'Oréal.[155] To offset the instability of the risk involved in investing in developing markets,[156] Nestlé later made a second foray outside the food industry with the purchase of Alcon Laboratories Inc., a U.S. manufacturer of pharmaceutical and ophthalmic products.[157]

The CEO during the 1980s, Helmut Maucher, focused on financial improvement through divestitures and a continuation of strategic acquisitions. This resulted in the sale of many nonstrategic and nonprofitable businesses and more focused acquisitions such as the purchase of Carnation in 1984.[158] The restructuring that continued through this period into the 1990s created a company that was designed to be more flexible.[159]

NESTLÉ TODAY

> You can have slow and steady change, and that is nothing to be ashamed of [CEO Brabeck-Letmathe].[160]

Restructuring is a continual process at Nestlé, with restructuring charges of up to $300 million each year.[161] When he first began as CEO of Nestlé, Brabeck-Letmathe initiated a complete overhaul of the executive board, replacing it with 10 new executives.[162] Nevertheless, Brabeck-Letmathe views his focus as developing the strengths of the organization and holds the view that radical change is ideal for a crisis, but if a company is doing well, then unnecessary change should be questioned:

> Why should we manufacture dramatic change? Just for change's sake? To follow some sort of fad without logical thinking behind it? We are very skeptical of any kind of fad.[163]

The way in which change occurs at Nestlé is focused and conscious. Brabeck-Letmathe admits that

> My actions may sound slow in Silicon Valley, but they are fast for a company with factories in more than 80 countries and products that are sold in every country in the world.[164]

Nestlé relies on the commitment of its managers who have been "steeped in Nestlé's corporate culture" and who would choose to maintain the longevity of the organization rather than improve its short-term operating profit.[165] In this culture, Nestlé has developed a list of "untouchables"—a number of the company's strengths such as how corporate growth should be handled[166] and the role of technology. In relation to technology, for example, Nestlé does not deny the importance of IT as a tool that can be used within the organization but rejects the implementation of new technology as being a central strategic direction in and of itself.[167] For Brabeck-Letmathe, the focus is on how to reinforce and sustain strengths rather than changing them.

You have to be clear about why the company has been successful in the past, and how you are going to keep those fundamentals from breaking down or disappearing.[168]

Questions

1. Did Nestlé undergo either first-order and/or second-order change according to the case? Answer, listing examples of types of change from the above story.
2. Brabeck-Letmathe emphasizes the need for an incremental approach to change. Do you agree that this is what he has done? Discuss the differences and similarities between his view and your view of what has occurred at Nestlé, both historically and in recent times.
3. What implications for change managers would apply specifically to Nestlé? Outline how the Nestlé management team may have reacted to each implication.
4. Find three examples of lessons from the front line that are evident in the Nestlé case. How could these issues be overcome?

TABLE 4.14
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PY and the Dome (A)
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