

## CHAPTER II

### LITERATURE REVIEW

This chapter reviews some of the literature and research on the change process in organizations. The chapter first explains why change may be required; and uses a model to identify the elements of the change process. In addition, the characteristics of a successful change agent are discussed. Besides this, the chapter elaborates on the main causes of resistance to change and the techniques used to break the functional mind set in organizations. Finally, the chapter specifies the steps in the transformation effort that can be utilized to achieve the objective of the change process.

#### A MODEL OF THE CHANGE PROCESS

Planned change is defined as 'the systematic attempt to redesign an organization in a way that will help it adapt to changes in the external environment or to achieve new goals'.<sup>4</sup> Although planned change is not simple, inexpensive or painless, organizations undertake a program of planned change for several reasons; as follows:

**( i ).** *Environmental changes threaten the organization's survival.* If the organization loses touch with customers' needs, it may find that it is offering products that are not required.

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<sup>4</sup> Stoner, James, A.F. and Freeman, R. Edward (1992) Management, Fifth Edition, Prentice-Hall Inc., Englewood, New Jersey, pp. 410-416.

( ii ). *Environmental changes offer new opportunities for prosperity.* This is illustrated by the computer industry, where Microsoft monopolizes the software application sector.

( iii ). *The organization's structure is slowing its adaptation to environmental changes.*

Two major environmental changes - globalization and information technology - are the driving forces to which every organization today has to respond to immediately. Most of the largest companies which have built up tall organizational structures and were efficient before, have become vulnerable nowadays. Competitive advantage has taken over bureaucratic red tape. Organizations must now become leaner, and more flexible, creative and innovative in reacting to the ever changing environment.

According to the 'force-field' theory of Kurt Lewin, behavior is the result of an equilibrium between driving and restraining forces.<sup>5</sup> An increase in driving forces might increase performance, but might also increase the restraining forces. Therefore, managers have to understand that an effective way of increasing productivity is to reduce restraining forces. Lewin's model mentions that there could be multiple driving forces and restraining forces that can affect the behavior of an individual, group or organization.

According to Lewin, most change processes fail for two main reasons. First, employees, like most people are unwilling to change long-established attitudes and behavior. Second, if employees are willing to change their attitude and behavior, these changes tend to be short-lived or temporary. Normally, people who are left on their own, tend to return to their old patterns of behavior. Lewin developed a three steps sequential

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<sup>5</sup> Lewin, Kurt (1951), *Field Theory in Social Science*, New York: Harper & Row.

model of the change process. The steps involved are ( i ) “**unfreezing**” the present behavior pattern, ( ii ) “**changing**” or developing a new behavior pattern, and then ( iii ) “**refreezing**” or reinforcing the new behavior. “**Unfreezing**” involves making the need for change so obvious that the individual, group, or organization can readily see and accept it. “**Changing**” involves appointing a trained change agent, who will lead individuals, groups, or the entire organization through the process. During the process, the change agent will foster new values, attitudes, and behavior through the processes of identification and internalization. “**Refreezing**” means locking the new behavior pattern into place by means of supporting or reinforcing mechanisms, so that it becomes the new norm.

### CHANGE AGENTS

A “**change agent**” is the individual leading or guiding the process of change in an organization. Between 1993 to 1995, McKinsey & Co. director, Jon R. Katzenbach (1995) and his team of six researchers studied middle-manager change agents in organizations of various sizes and types such as Compaq Computer, Mobil Oil and New York City Transit.<sup>6</sup> One of the findings is that for large-scale transformations, a critical mass of change leaders in the middle management level of the organization is required if the behavior of the employees is to be changed. In order to succeed, one-third of the middle managers should be change agents, but in most of the companies studied, only 10 percent of the middle managers qualified as real change agents.

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<sup>6</sup> Sherman, S. (1995) “*Wanted: Company Change Agents*,” *Fortune*, (December), pp. 119-120.

Generally, change agents tend to be young (in the 25 to 40 age range), more flexible than other managers, and much more people oriented. They are high performers as far as productivity and profits are concerned but possess a combination of technical skills and interpersonal skills. They also figure out how to get the job done by themselves and their usual learning process is finding themselves stuck in a difficult situation and fighting their way out of it.

The change agents practice situational leadership. They can adopt whatever leadership style is needed to foster the changes required by the organization. They optimize their resources by concentrating on results rather than methods.

The role of top management is mainly to understand and recognize the mindset of a change leader, and then look for the middle managers who have it. The different attributes of change leaders from other managers should be the deciding factor. Change leaders are not satisfied with just financial numbers. To them, the most gratifying aspect of the job is getting their staff to do more than they could. Another characteristic of change leaders is that they are hungry for information from the marketplace. They go out and get feedback from customers as well as competitors and they use the information to motivate their staff.

Change leaders are more motivated by the results they obtain than the recognition they get. They would like to have a continually challenging job. Over time, they develop a confidence in their ability to deliver the goods and are not afraid of losing their jobs. However, according to the study, a combination of good managers and change leaders is required because while the change agent is busy shaking the organization, the good manager should be busy keeping things under control.

## RESISTANCE TO CHANGE

Managing change is primarily concerned with managing resistance to change. Leading practitioners of radical corporate reengineering report that the success rate in implementing the change process in *Fortune 1000* companies is well below 50 percent, some say as low as 20 percent. Paul Strebel (1996) who worked in the Change Program at the International Institute for Management Development in Lausanne, Switzerland with more than 200 managers from 32 countries discovered that the difficulties encountered in the change process have at least one common root cause: managers and employees view change differently.<sup>7</sup>

Both groups know that vision and leadership drive successful change, but only a few leaders recognize the ways in which individuals commit to change to bring it about. Top managers see change as an opportunity to strengthen the business by aligning operations with strategy, to take on new professional challenges and risks and to advance their careers. On the other hand, for many employees (including middle managers) change is neither sought after nor welcomed. It is disruptive and intrusive and upsets the balance in their life. Senior managers in particular consistently misjudge the effect of this gap. Therefore, managers of all levels must learn to put themselves in their employee's shoes in order to fully understand the change process from the employee's point of view and examine the "**personal compacts**" between the employees and the organization. Paul

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<sup>7</sup> Strebel, Paul. "Why Do Employees Resist Change?", *Harvard Business Review*, May-June 1996, pp.86-92

Strebel (1996) defines the “**personal compact**” as “the relationship between the employees and their organizations which have reciprocal obligations and mutual agreements and commitments, both stated and implied”.

It is unrealistic for managers to expect employees to fully buy into changes that alter the status quo unless managers can define new terms and persuade employees to accept them. Otherwise, disaffected employees will undermine their manager’s credibility and well designed plans. However, some change leaders have successfully initiated the revision of “**personal compacts**” to support major change although the process was not necessarily explicit or deliberate. According to Paul Strebel, there are three major dimensions of “**personal compacts**” in all organizations, namely, *formal, psychological, and social*.

The *formal* dimension of a personal compact describes the basic tasks and performance requirements for a job as defined by organization documents, such as job descriptions, employment contracts, and performance agreements. The *psychological* dimension of a personal compact deals with aspects of the employment relationship that are mainly implicit and often unwritten, and which underpin an employee’s personal commitment to individual and organizational objectives. The *social* dimension of a personal compact addresses how the employees gauge an organization’s culture. The employees translate their perceptions about the organization’s values and practices and the management’s attitude toward them, into beliefs.

The extent to which personal compacts are written depends on the organization’s culture and in many cases its home country. The more homogenous the culture, the more

implicit the formal dimension of personal compacts is likely to be. This also applies to the psychological and social dimensions. For instance, in Japan and continental Europe, the legal system of settling disputes is based on a civil code and documented in statutes. However, the systems carry over only the underlying principles in legal contracts. The personal compact is not defined too explicitly or in too much details in these countries. By comparison, in countries like the United States, personal compacts tend to be supported by a formal and a rigid system in order to ensure that the objective of certain standards can be met. Furthermore, a defined structure exists to support employee-employer relations, in the forms of organization policies, and the role of the human resource department is clearly defined. But, regardless of the cultural context, organizations will not accomplish their goals if the revision of personal compacts is not treated as integral to the change process.

### **FIVE POSSIBLE CAUSES OF RESISTANCE TO CHANGE**

Edgar Wille and Philip Hodgson (1995) identify five patterns of believing, feeling, and behaving which may cause resistance to change; as follows.<sup>8</sup>

#### **( i ). Rigidity**

Some people find great comfort in knowing the rules and the system and sticking to them. They will be inflexible about changing anything.

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<sup>8</sup> Wille, E. and Hodgson, P., "What Works and What Doesn't", *World Executive's Digest*, August 1995, pp 18-20.

**( ii ). Overreaction**

People who enjoy drama and crisis tend to overreact to change. They so easily get carried away with the excitement of change that logical and rational evaluation is not possible. They are busy wrestling with the crisis rather than thinking about the solutions.

**( iii ). “Yes, but”**

Everybody acknowledges the problem and has thought about it in some depth. But nobody wants to be responsible for making decisions. They spend a lot of time and effort in blaming others instead of moving forward.

**( iv ). Suspicion**

When suspicion exists in the organization, managers and employees spend most of their time protecting their vested interests, and scoring points off each other. The organization will suffer from chronically low levels of trust.

**( v ). Action orientation**

The people in this category normally give in to the pressure of more tasks and more activity and avoid thinking. They are probably effective in short term because of the energy level generated but over the long run, they are exhausted and become ineffective. These people believe that to do better, you have to work harder, not smarter.



## BREAKING THE FUNCTIONAL MIND-SET

Some organizations endure the trauma of reengineering only to discover that their performance is no better or worse than before. The common causes of such failure are: a failure to focus on those parts of the business that were important to customers and a failure to integrate autonomous, functionally focused information systems into a shared database and network. However, another reason that is often ignored or forgotten is that managers tend to underestimate the actions required to transform the way employees behave and work with one another.

Managers believe that the restructuring organizations will by itself cause employees to shed their functional mind-sets and work as a team to fulfill the organization's objective. Ann Majchrzak and Qianwei Wang (1996) conducted a study of U.S. electronics manufacturers such as Texas Instruments, Hewlett-Packard, and Unisys over three years which rejects this assumption.<sup>9</sup> Their findings indicate that the most important aspect of breaking the mind-set is to take the steps required to change the organization's culture by cultivating a collective responsibility. Four techniques can be used to build a collaborative culture, as follows.

### **( i ). Make responsibilities overlap**

Managers can make responsibilities overlap by designing jobs with a relatively broad range of duties, or by having a relatively small number of job titles, or both. Designing jobs so that employees can at least partially perform most of the functions

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<sup>9</sup> Majchrzak, A. and Wang, Q., "Breaking the Functional Mind-Set in Process Organizations", *Harvard Business Review*, September-October, 1996, pp. 93-99.

assigned to a department helps create a shared sense of responsibility because employees understand one another's work and share common constraints and objectives. The research showed that departments can reduce cycle times by designing jobs with overlapping responsibilities.

**( ii ). Base rewards on unit performance**

Rewarding unit performance is important because it prevents employees from placing their individual functional needs above customer needs. The rewards may take the form of bonuses, increments or non-financial recognition. By measuring unit performance against individual performance, employees were motivated to work together to solve any problems that arose.

**( iii ). Change the physical layout**

The layout of a work site can either inhibit or promote collective responsibility. Physical layouts that allowed employees to see others at work resulted in cycle times 4.4 times faster than those that didn't. Layouts can encourage employees to share information about one another's work and to try out new ideas openly.

**( iv ). Redesign work procedures**

Three ways for management to encourage collaborative culture are: share ideas for improvement with people in other disciplines, involve everyone who would be affected by a decision in making that decision, and help others do their work even if it causes their productivity to suffer. One example of having effective communication was providing all workers with access to the electronic-mail network.

### WHY TRANSFORMATION EFFORTS FAIL

Between 1985 and 1995, John P. Kotter (1995), a professor at Harvard Business School, studied more than 100 companies including Ford, General Motors, British Airways, Eastern Airlines and Bristol-Myers Squibb in order to analyze the transformation efforts attempted by these organizations.<sup>10</sup> The most important conclusion of the study is that the change process goes through a series of phases that usually require a considerable length of time. Secondly, critical mistakes in any of the phases can have a devastating impact on the process, slowing its progress, and diverting it from its objective.

According to the findings, the eight steps that managers fail to execute in the change process are:

- a). **Establishing a Great Enough Sense of Urgency** - The management should examine market position and realize the competitive advantages. Furthermore, they should identify and discuss the existing crises, potential crises, or major opportunities. To be successful, they should make the status quo seem more dangerous than launching into the unknown.
- b). **Forming a Powerful Guiding Coalition** - The next step is to assemble a group with enough power to lead the transformation, and encouraging the group to work together as a team.
- c). **Creating a Vision** - The management should create a vision in order to help direct the transformation effort. Without a sensible vision, a change effort can easily

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<sup>10</sup> Kotter, J.P. : "Leading Change: Why Transformation Efforts Fail", Harvard Business Review, March-April 1995, pp.59-67.

dissolve into a list of confusing items that lead the organization in the wrong direction. Developing strategies for achieving that vision is another important aspect.

- d). **Communicating the Vision** - Executives should utilize every vehicle possible to communicate the new vision and strategies. They should inculcate new behavior through the example set by the guiding coalition that had been formed. However, it is important to recognize that nothing undermines change more than behavior by important individuals that is inconsistent with their words.
- e). **Empowering Others to Act on the Vision** - The managers should get rid of obstacles to change, especially the major ones. They should change the systems or structures that seriously undermine the vision. The employees should be encouraged to take risk and contribute nontraditional ideas, activities, and actions.
- f). **Planning for and Creating Short-Term Wins** - Another important factor is planning for visible performance improvements and creating those improvements. The management should recognize and reward the employees who were involved in the improvements.
- g). **Consolidating Improvements and Producing Still More Change** - The management should utilize its increased credibility to change systems, structures, and policies that don't fit the vision. The process of hiring, promoting and developing employees who can implement the vision must be continued. Rejuvenating the process with new projects, themes, and change agents to maintain the credibility of the organization is also a must.

- h). **Institutionalizing New Approaches** - In order to ensure that institutionalizing change in corporate culture is a continuous agenda, change agents should focus on two factors. First, the management should articulate the connections between the new behavior and corporate success. The second factor is to develop the means to ensure leadership development and succession.