

INSTRUCTOR'S MANUAL

CHAPTER 1: Organizational Change

Main Teaching Point

Organizations engage in a process of strategic renewal in order to respond to changes in their competitive environment. But in order to make strategic renewal work, leaders must find ways to alter the behavioral patterns of their employees through involvement and participation.

Learning Objectives

1. Identify the role of strategic renewal in propelling change.
2. Focus on the behavioral aspect of organizational change.
3. Analyze the dynamics of motivating employees to alter their behaviors.
4. Differentiate between the three faces of change.
5. Understand the source of both employee resistance to and support for change.
6. Appreciate the importance of trigger events in initiating change efforts.
7. Examine the role “going global” plays in triggering organizational change.

Opening Case—*Organizational Change at Nokia*

Theory into Practice of Case: Successful organizations cannot remain static if they hope to continue that success; they must change in order to keep up with a changing world.

Case Summary: Nokia, the world's leading producer of cell phones, had experienced a dramatic drop in the United States market share, from a high of 35% to 7%. In an attempt to repair the damage they added Americans to their senior management team.

Analyzing the Case

1. What was the primary cause of Nokia's drop of market share in the United States?

Perhaps the most damaging cause was Nokia's lack of responsiveness to the shifting tastes and expectations of US customers—especially smartphones.

2. What technological decision did Nokia make which led to their difficulties in the United States?

Nokia built its phones on the European standard GSM format rather than the US standard CDMA format. That decision limited access to the US market, where over half the phones operated with CDMA.

3. What market decision did Nokia make which impacted their effectiveness in the United States?

Nokia failed to forge close ties with wireless providers, instead offering open phones that would then need to be adapted to a particular provider. Nokia's approach worked well globally. In the US, however, wireless providers—Verizon, Sprint Nextel and AT&T, which together controlled 96 percent of the US market—wanted to offer phones themselves that could be co-branded and bundled with long-term service contracts.

4. In 2010, the Nokia board recruited Stephen Elop from Microsoft to transform the global giant. What internal operational barriers did he discover?

Elop publically admitted that Nokia had grown complacent and removed from customers. Instead, "It was management by committee," said one executive describing the company's approach to innovation. "Ideas fell victim to fighting among managers with competing agendas, or were rejected as too costly, risky, or insignificant for a global market leader."

5. What was one of the first moves that Elop made to stem the loss of US market share? Why did he make this move?

One of his first moves as new CEO, Elop announced job cuts. The cuts were intended, he said, to streamline software development for Nokia's smartphones by improving "agility and responsiveness" in the software development and Web services units.

Lecture Outline

1. Strategic Responsiveness

A. Overview:

Stephen Elop was just one of many business leaders facing the challenge of organizational change. Recognizing the need to change is important, of course, but it's just a first step.

- B. Next comes **change implementation**—the actions taken by organizational leaders in order to support strategic renewal and achieve outstanding performance. Successful implementation is required to translate that recognition into an effective strategic response. Poor implementation can undermine the best intentions of organizational leaders.
- C. Many factors require organizations to change, such as significant alterations in customer expectations and demands, new technologies, competitors with innovative business models, shifts in workforce demographics and values and new societal demands and constraints.
- D. In response to those dynamics, organizational leaders often decide to engage in a process of strategic renewal. **Strategic renewal** involves some combination of a new product or service, a new market, and a new business model for an organization.
- E. There is ongoing demand for strategic renewal created by an ever-shifting competitive environment. See Exhibit 1-1 for examples.
- F. For strategic renewal to be effective, organizations need to do more than announce a new strategy.
- G. Leaders need to align internal processes, structures and systems with the demands of that new strategy. New organizational capabilities—talents and skills possessed by employees—need to be built. Underlying all those shifts is the requirement to engage in discontinuous change: large-scale, long-term reorientation of most or all of the central aspects of organizational life. The goal is to create lasting alterations in patterns of employee behavior in order to support strategic renewal.

2. The Three Faces of Change

- A. Although there are many diverse approaches, they can be placed within one of three broad categories: turnaround, tools and techniques, and transformation.
- B. Turnaround is an attempt to improve the immediate financial position of an organization by focusing on the income statement and the balance sheet.
- C. Tools and techniques are organizational processes, mechanics, and other interactions intended to produce a product or service. See Exhibit 1-2 for popular change tools and techniques.
- D. Transformation, which focuses on behaviors, involves a change intervention that directly targets patterns of employee actions and interactions.
- E. Three Faces of Change, in summary:

Type	Target	Rationale
Turnaround	Assets	Improve short-term bottom-line performance
Tools and techniques	Processes	Increase internal efficiencies
Transformation	Behaviors	Enhance human capabilities

3. Transformational Change

Theory into Practice:

- If change interventions are to achieve a significant and sustainable impact on performance, they must focus on altering patterns of employee behavior.
- Transformational organizational change seeks to create long-term, sustainable alterations in employee behaviors.

A. Organizations wish to alter behavior of employees, examples are:

1. Employees accustomed to following dictates issued by supervisors might now have to make decisions on their own.
2. Employees used to working as individuals might now have to work as a team.
3. Employees who have been focused purely on technology might need to understand the needs and requirements of customers.
4. Employees accustomed to working entirely within their own functional area might have to work collaboratively with people from other functions and backgrounds.

4. Sources of Behavior

Theory into Practice:

- Behavior comes from both the individual and the organizational context.
- A. Apple, Nike, and Google endeavor to promote an organizational context that shapes individual behavior. They call upon organizational culture and values, the behaviors of leaders, as well as rules and procedures to define a context that shapes employee conduct: the manner in which employees enact their roles, responsibilities, and relationships.

5. Employee Participation and Resistance to Change

Theory into Practice:

- People don't resist change, they resist being changed.
- Employees do not naturally resist change but they often resist change because of the way change is implemented.
- Managers can try to understand the reasons behind employee resistance to change.
- Employee resistance is not just a negative force to be overcome; it also presents an opportunity to learn.

A. **Resistance** is overt or covert action to maintain the status quo. Employee responses to change can range from "commitment" on one end to "aggressive resistance" on the other (see Exhibit 1-4).

1. Commitment to the goals of the organization and the change effort (*commitment*).
2. A willing involvement in the called-for new behaviors (*involvement*).
3. Employees speak out in support of the change effort without taking any explicit actions (*support*).
4. Employees know about the change effort but take no action either for or against (*apathy*).
5. Employees may voice reservation about the change effort or may even threaten to quit (*passive resistance*).
6. Employees make efforts to impede change or undermine the goals of the organization (*active resistance*).
7. Employees sabotage and subvert the change effort (*aggressive resistance*).

6. How Managers Inadvertently Fuel Resistance during Implementation

Theory into Practice:

- Resistance or acceptance of change depends mainly on how the change is implemented.
 - Employee resistance can help leaders to learn.
 - At some point in the change process, employee resistance must be addressed and overcome.
- A. Managers do not set out to create resistance, of course. Just the opposite. They believe the proposed changes are being made for the good of the company and that employees will accept the need for change. Possible sources of resistance include:
- *Employees resist because they remain satisfied with the status quo.* Perhaps management has not included employees in the diagnosis and learning process.
 - *Employees resist because they view change as a personal threat.* Perhaps management has not offered employees the opportunity to acquire the new skills that will be required in the renewed organization.
 - *Employees resist because they see the cost of change outweighing the benefits.* Perhaps management has not articulated the goals of the change adequately to allow a true assessment of the costs and benefits.
 - *Employees resist because they believe that management is mishandling the process.* Perhaps employees have not been given a voice in the process itself.
 - *Employees resist because they believe that the change effort is not likely to succeed.* Perhaps management needs to articulate why this change process is more likely to be effective than past efforts.

7. Employee Participation Builds Support for Change

Theory into Practice:

- Transformational change seeks to motivate employees to change their behavior, not to force, coerce or trick them into changing.
- A. Imposed change creates resistance, while participation invites commitment. People don't resist change, they resist *being* changed.
- B. Sustainable change requires motivation on the part of employees for the change. This cannot be created through manipulation or coercion. The organizational context must be shaped to encourage and support employees' desire for individual and company change.

8. Trigger Events and Change

Theory into Practice:

- Trigger events, either external or internal, precipitate the need to alter behavioral patterns of employees.
- A. Organizational change is typically initiated in response to a **trigger event**—a shift in the environment that creates a need for altered strategies and new patterns of employee behavior. For Nokia, the trigger event was the launch—and overwhelming public enthusiasm for—the iPhone.
- B. Trigger events stir up feelings and emotions that come to affect people's reactions to the change.

9. Going Global and the Requirements for Organizational Change

Theory into Practice:

- “Going global” takes many forms and they all require organizational change.
- A. An organization’s reason(s) for “going global” may include:
- They may seek to outsource certain activities that had previously been performed in the home country.
 - They may seek to enter new, non-domestic markets.
 - They may seek non-domestic suppliers for needed raw materials.
 - They may seek strategic alliances with related companies in other countries.
 - They may seek to locate research and development activities in multiple nations as a way of better understanding the needs of non-domestic customers.
- B. Any time an organization embraces multiple national cultures, it adds a degree of socio-cultural diversity and uncertainty. That complexity is the result of what is known as psychic distance. Differences exist not only in culture, but also in language and the political/economic/legal infrastructure of countries.

10. Conclusions

- A. Strategic responsiveness to a dynamic environment requires organizational change.
- B. Not all employees will greet change efforts with equal enthusiasm.
- C. Trigger events precipitate the requirement for strategic renewal and organizational change.
- D. When organizations go global, dealing effectively with people and organizations in multiple cultures become vital.

Additional Suggested Reading

- James C. Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York: HarperBusiness, 1994).
- Lynn A. Isabella, "Managing the Challenges of Trigger Events: The Mindsets Governing Adaptation to Change," *Business Horizons* 35 (September-October 1992).
- Michael A. Mische, *Strategic Renewal: Becoming a High-Performance Organization* (New Jersey: Prentice Hall, 2001).
- David A. Nadler and Michael L. Tushman, "Organizational Frame Bending: Principles for Managing Reorientation," *Academy of Management Executive* (1989), pp. 194–204.
- Randall S. Schuler, "Strategic Human Resource Management: Linking the People with the Strategic Needs of the Business," *Organizational Dynamics* 21 (Summer 1992), pp. 18–33.

Chapter 1 Discussion Questions

1. Select one of the companies. Based on the brief statement of its renewed strategy (or research the company for further details), think about how patterns of employee behavior will have to change.

IBM – The move from product to service/consulting requires employees to have more subject matter knowledge, greater customer responsiveness and higher levels of collaboration across organizational boundaries.

Netflix – The move from providing DVDs through mail to providing streaming entertainment requires employees to have greater knowledge about technology and more sophisticated customer interaction skills.

Renault – The move from a French-based to an internationally focused automobile company will require employees to be less French-centric, willing and able to travel, work in other cultures (most notably Asian) and probably be multi-lingual.

Pandora – The move from selling through third parties to selling direct will require employees to have greater knowledge of retail operations and greater direct sales skills.

Facebook – The move from a restricted college-campus-only social network to a “universal utility” open to everyone will require employees to have more skill in interacting with persons of all backgrounds and ages.

2. Explore the challenges facing Stephen Elop at Nokia. What can he do to revitalize the company in the US smartphone market?

Stephen Elop needs to correct the previous mistakes made by Nokia in their failed attempt to enter the US cell phone market. First, they need to develop a smartphone that uses the CDMA format. Second, they need to partner with a large US-based wireless providers. Additionally, Mr. Elop should continue his efforts to eliminate the internal barrier to innovation. Hopefully, the fine reputation of Nokia will bring US customers back once they have a product they can embrace.

3. What are the three approaches to organizational change? In what ways are they different and in what ways do they overlap?

The three approach to organizational change are; (1) turnaround, with its emphasis to short term bottom line performance (2) tools and techniques, which focus on increasing internal efficiencies through revamping internal processes and (3) transformation, which targets human capabilities and behaviors.

Attending to techniques and tools without paying at least equal attention to the behavior of employees can be a path not just to disappointment but also to dysfunction. When employees participate in the design and implementation of new technology, they are more likely to alter their behaviors in ways that will help ensure effectiveness.

4. Identify the main external forces triggering the need for organizational change. Pick three and discuss how they might necessitate behavioral change on the part of organization's employees.

The list of potential external trigger events is long. Examples of common trigger events include: new competitive forces, decline of an industry niche, new technology, recession, globalization, mergers/acquisitions, regulation/deregulation and even labor markets.

New technology: Employees must be adaptive/flexible, willing to learn, not resist needed change and engage in more collaborative behaviors as the new technology is integrated into the organization.

Globalization: Employees must be willing to take on new responsibilities as the organization re-distributes the resources and changes organizational structure, embrace diversity, be willing to travel, learn about the differences between national cultures and perhaps learn a new language.

Merger/acquisition: Employees must accept the change, learn new internal process, accept the loss of established work units, be willing to relocate, work with new team members and commit to the new organization.

5. Why is motivation important to behavioral change? How might leaders approach change differently if they are trying to motivate employees to change rather than forcing employees to change?

Motivation refers to the degree to which employees are committed to the achievement of outstanding performance both for themselves and for their company. New behaviors will not be sustainable if they have been prompted by manipulation or coercion. Because motivation is internal to each employee, the change leader's challenge is complex. The task involves shaping the organizational context in such a way as to encourage and support an internal desire on a large number of employees to alter their behaviors in ways consistent with the shifting demands of the new strategy. Allowing employees to actively participate in the change process is an effective tactic.

ASDA Case Discussion Questions

1. What are the types of changes that Archie Norman needs to undertake at ASDA?

The case states:

“Everything about the organization—from the way they purchased and displayed products to the way store managers interacted with shop floor employees—would have to change. *Everything.*”

During class discussions students should list the many specific areas where change is needed, these might include; revamped corporate vision and values, replacement of top management, sell-off of non-food operations, headcount reductions, culture change, empowerment of the workforce through self- managed work teams and investing in facility upgrades.

2. Referring to Exhibit 1-3, what faces of change does ASDA need to engage?

All three faces of change—turnaround, tools and techniques and transformation—require engagement, with the focus on turnaround and transformation.

The case outlines actions taken related to turnaround, namely the selling of the furniture and carpeting operations, pay cuts and freezes and lay-offs. These can be discussed as to their wisdom at the strategic level. The discussions on the tools and techniques might use Exhibit 1-2 as a guide, reviewing the popular approaches and determining those that might be effective at ASDA. Transformation discussions should focus on the store level. The adoption of self-managed work teams and the issue of if each store should be allowed to manage their own renewal should be addressed. Additionally, the instructor should have the class discuss what behavioral changes the “associates” in the store will need to make to make “the ASDA way of working” a reality.

3. What actions can Norman and his top management teams take to build employee motivation to engage in change?

Class discussion about motivation should start with the idea that “Organizational change seeks to create long-term, sustainable alterations in employee behavior” and the notion that “patterns of employee behavior impact a company’s bottom-line performance.”

Additionally, the textbook states that organizations should “...call upon organizational culture and values, the behaviors of leaders, as well as rules and procedures to define a context that shapes employee conduct, the manner in which employees enact their roles, responsibilities, and relationships.”

Have the class list and discuss specific rules/policies and actions or approaches that managers could take to facilitate worker motivation/commitment.