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The nature of change

The Shorter Oxford Dictionary (1973) offers several definitions of change, ranging from the ‘substitution or succession of one thing in place of another’ to the ‘alteration in the state or quality of anything’. Changes can be large or small, evolutionary or revolutionary, sought after or resisted. This chapter examines the nature of change, reviews theories relating to patterns of change, considers some of the factors that facilitate or limit change and explores some of the implications of different types of change for change management practice.

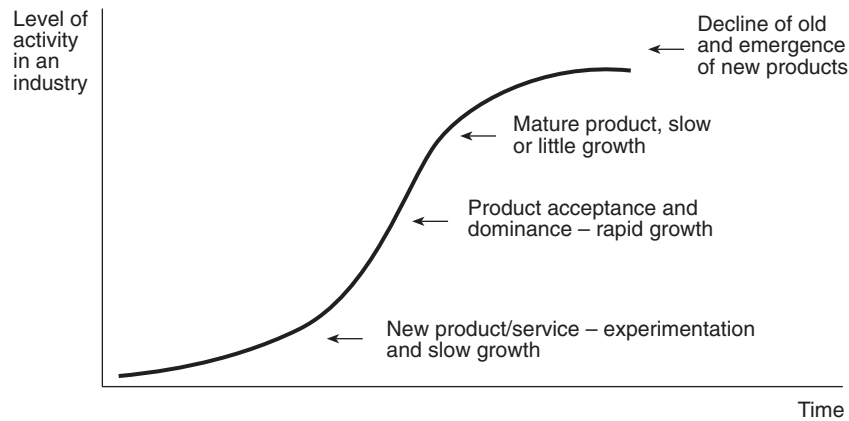
The chapter ends with two exercises. The first invites you to analyse the nature of the change involved in four case studies. The second invites you to reflect on the nature of the changes confronting the organisation you work for, or another organisation that you know well, and classifying these changes using the conceptual frameworks presented in this chapter.

Until recent times, almost all received models of change were *incremental* and *cumulative*. This theoretical consensus had implications for change management practice. The aim of planned change efforts tended to be continuous improvement (what the Japanese refer to as *kaizen*) and most attention was focused on changing sub-systems or parts of the organisation in turn, rather than attempting to change the whole organisation at once. Since the 1980s, however, many traditional assumptions about the incremental nature of change have been revised.

The rate of change is not constant

Starting in the late 1970s Tushman and his colleagues at Columbia University studied hundreds of companies in several industries over time. They found evidence to support what many already knew. The rate of change, as an industry evolves, is not constant. It follows a sigmoidal (s-shaped) curve with a slow beginning (lag phase) associated with experimentation and slow market penetration, a middle period of rapid growth (log phase) as the product gains acceptance and as dominant designs emerge, and finally a tapering off as more advanced or completely different products attract consumers’ attention (Figure 1.1). The pattern then starts all over again (see Tushman and Romanelli, 1985; Tushman, Newman and Romanelli, 1986).

Similar variations in the rate of change were identified much earlier by Ryan and Gross (1943) when they studied how 259 farmers in Iowa

Figure 1.1 Pattern of industry evolution

responded to the introduction of a new superior hybrid seed corn. The new seed was available in 1928 but it was 1932 before the first farmers began planting. In 1934 sixteen farmers adopted the new seed, followed by slightly higher numbers in the following two years. But it was nine years after the seeds were first available before there was widespread acceptance. The breakthrough came in 1937. The first users were innovators who ‘infected’ the early adopters, a group who carefully monitored the success of the initial trials before deciding what to do. This group was followed by a mass of movers, the early and the late majority. The last group to adopt the seeds were the laggards, and it was 1942 before all but two of the 259 farmers were planting the new seeds.

Gladwell (2000), in his book *The Tipping Point*, cites some more dramatic examples, including the sudden and dramatic decline in crime in New York in 1990 and the take-off of fax machines in the US (when, only three years after they were first introduced, over a million machines had been sold) to support his assertion that many social changes do not occur gradually. They spread like viral epidemics and change, when it happens, is sudden. The ‘tipping point’ is the name he gives to the dramatic moment in an epidemic when everything changes at once.

The proposition that some changes happen quickly, over relatively short periods of time, whereas others gradually evolve, suggests that the tempo of change might provide a useful basis for thinking about the nature of change and the implications of different types of change for change management practice.

The punctuated equilibrium paradigm

Gould (1978) challenges the notion of gradual, continuous change. He is a natural historian with an interest in Darwin’s theory of evolution.

Traditionalists assert that evolution involves a slow stream of small changes (mutations) that are continuously being shaped over time by environmental selection. While Gould accepts the principle of natural selection, he rejects the proposition that change is gradual and continuous. He asserts that the evidence points to 'a world punctuated with periods of mass extinction and rapid origination among long stretches of relative tranquillity' (1978: 15). Some of his essays focus on the two greatest 'punctuations'. After 4 billion years of almost no change there was the Cambrian explosion of life (about 600 million years ago) and, after another longish period of very slow change, the Permian extinction that wiped out half the families of marine invertebrates (225 million years ago).

Gersick (1991) has studied models of change in six domains (individual change, group development, organisation development, history of science, biological evolution and physical science) and found support for the *punctuated equilibrium paradigm* in every domain. The paradigm has the following components: 'relatively long periods of stability (equilibrium), punctuated by compact periods of qualitative, metamorphic change (revolution)' (p. 12).

Gersick goes on to assert that in all the models she studied across the six domains:

the relationship of these two modes is explained through the construct of a highly durable underlying order or deep structure. This deep structure is what persists and limits change during equilibrium periods and is what disassembles, reconfigures, and enforces wholesale transformation during revolutionary periods. (p. 12)

The essence of the punctuated equilibrium paradigm is that systems (organisations) evolve through the alternation of periods of equilibrium, in which persistent *deep structures* permit only limited incremental change, and periods of revolution, in which these deep structures are fundamentally altered. This is in stark contrast to the traditional gradualist paradigm which suggests that (a) an organisation (or an organisational sub-system) can accommodate any change at any time so long as it is a relatively small change, and (b) that a stream of incremental changes can, over a period of time, fundamentally transform the organisation's deep structure.

Deep structure

Gersick refers to deep structure as the fundamental choices an organisation makes which determine the basic activity patterns that maintain its existence. She argues (1991: 16) that deep structures are highly stable because the trail of choices made by a system (organisation) rules out many options and rules in those that are mutually contingent ('early steps in the decision tree are the most fateful'). She also argues that the activity patterns of a

system's deep structure reinforce the system as a whole through mutual feedback loops.

Tushman and Romanelli (1985) identify five key domains of organisational activity that might be viewed as representing an organisation's deep structure. These are organisational culture, strategy, structure, power distribution and control systems. Romanelli and Tushman (1994: 1144) go on to assert that it takes a revolution to alter a system of interrelated organisational parts when it is maintained by mutual dependencies among the parts, and when competitive, regulatory and technological systems outside the organisation reinforce the legitimacy of the managerial choices that produced the parts.

Greenwood and Hinings (1996) offer a slightly different perspective based on neo-institutional theory, but the core argument is the same: there is a force for inertia that limits the possibility for incremental change, and that this resistance to change will be strongest when the network of mutual dependencies is tightly coupled. Greenwood and Hinings' argument is that a major source of resistance to change stems from the 'normative embeddedness of an organisation within its institutional context'. Organisations must accommodate institutional expectations in order to survive. They illustrate this point with reference to the way that institutional context has influenced the structure and governance of accounting firms. They were (and most still are) organised as professional partnerships, not because that form of governance facilitated efficient and effective task performance, but because it was defined as the appropriate way of organising the conduct of accounting work.

The parameters offered by such an archetypal template provide the context for convergent change. Greenwood and Hinings suggest, for example, that an accounting firm operating as a professional partnership could, as it grows, introduce some form of representative democracy in place of the traditional broadly based democratic governance. This kind of incremental change could be achieved because it is perceived to be consistent with prevailing core ideas and values. However, a move towards a more a bureaucratic form of authority and governance might encounter strong resistance because it is perceived to be inconsistent with the prevailing template. Such a radical change would involve the organisation moving from one template-in-use to another.

These templates work in the same way as Gersick's deep structures. However, the degree of embeddedness and the strength of these templates may vary between sectors, and this will affect the power of the template to limit the possibility for incremental cumulative change in any particular organisation. In the case of the accounting profession the partnership organisational form, with its commitment to independence, autonomy and responsible conduct, is supported by a strong network of reciprocal exchanges between professional associations, universities, state agencies and accounting firms. The outcome is a situation where individual accounting

firms are tightly coupled to the prevailing archetypal template. Greenwood and Hinings argue that radical change in tightly coupled fields will be unusual, but if it does occur it will be revolutionary. However, in loosely coupled fields radical change will be more common and will tend to be evolutionary and could unfold over a relatively long period of time.

Equilibrium periods

Gersick introduces the analogy of the playing field and the rules of the game to describe an organisation's deep structure, and the game in play to describe activity during an equilibrium period. How a game of football is played may change over the course of a match, but there is a consistency that is determined by the nature of the playing field and the rules of the game. The coach and the players can intervene and make changes that will affect team performance, but they cannot intervene to change the nature of the playing field or the rules of the game (the deep structure). In terms of organisational change, during periods of equilibrium, change agents can intervene and make incremental adjustments in response to internal or external perturbations, but these interventions will not fundamentally affect the organisation's deep structure.

An important question is: 'Why do organisations find it hard to change?' According to the punctuated equilibrium paradigm, organisations are resistant to change in equilibrium periods because of forces of inertia that work to maintain the status quo. Gersick argues that so long as the deep structure is intact it generates a strong inertia to prevent the system from generating alternatives outside its own boundaries. Furthermore, these forces for inertia can pull any deviations that do occur back into line.

Gersick identifies three sources of inertia: cognitive frameworks, motivation and obligations. Organisational members often develop shared cognitive frameworks and mental models that influence the way they interpret reality and learn. Shared mental models can restrict attention to thinking 'within the frame'. With regard to change, attention may be restricted to searching for ways of doing things better. In periods of equilibrium assumptions about the organisation's theory of business (Drucker, 1994) often go unchallenged and organisational members fail to give sufficient attention to the possibility of doing things differently, or even to doing different things.

Motivational barriers to change are often related to the fear of loss, especially with regard to the sunk costs incurred during periods of equilibrium. Gersick (1991: 18) refers to the fear of losing control over one's situation if the equilibrium ends, and argues that this contributes heavily to the human motivation to avoid significant system change.

Obligations can also limit change. Tushman and Romanelli (1985: 177) note that even if a system can overcome its own cognitive and motivational barriers against realising a need for change, the networks of interdependent resource relationships and value commitments generated by its structure will

often prevent it being able to achieve the required change. This view, at least in part, adds support to Greenwood and Hining's (1996) proposition that the normative embeddedness of an organisation can limit change.

Episodes of discontinuous change occur when inertia (the inability of organisations to change as rapidly as their environment) triggers some form of revolutionary transformation.

Revolutionary periods

Gersick asserts that the definitive element of the punctuated equilibrium paradigm is that organisations do not shift from one 'kind of game' to another through incremental steps. This, according to Romanelli and Tushman (1994), is because resistance to change prevents small changes in organisational units from taking hold and substantially influencing activities in related sub-units. Consequently small changes do not accumulate incrementally to transform the organisation.

Weick and Quinn (1999) note that punctuated equilibrium theorists posit that episodes of revolutionary change occur during periods of divergence, when there is a growing misalignment between an organisation's deep structure and perceived environmental demands. They report that the metaphor of the firm implied by conceptions of episodic change is an organisation that comprises a set of interdependencies that converge and tighten (become more closely aligned) as short-run adaptations are pursued in order to achieve higher levels of efficiency. This focus on internal alignment deflects attention away from the need to maintain external alignment and, consequently, the organisation is slow to adapt to environmental change. Inertia, as discussed above, maintains the state that Lewin (1947) described as 'stable quasi-stationary equilibrium' until misalignment reaches the point where major changes are precipitated. The only way forward is for the organisation to transform itself. Gersick argues that the transformation of deep structures can only occur through a process of wholesale upheaval:

According to this logic, the deep structures must first be dismantled, leaving the system temporarily disorganised, in order for any fundamental change to be accomplished. Next, a subset of the system's old pieces, along with some new pieces, can be put back together into a new configuration, which operates according to a new set of rules. (1991: 19)

This process of revolutionary change and organisational transformation provides the basis for a new state of equilibrium. However, because of forces of resistance that inhibit continuous adaptation, this new equilibrium gives rise to another period of relative stability that is followed by a further period of revolutionary change. This process continues to unfold as a process of punctuated equilibrium.

Those who subscribe to the punctuated equilibrium paradigm argue that

revolutionary episodes may affect a single organisation or a whole sector. Marks & Spencer is an organisation that was faced with the need to reinvent itself when, even after a long period of incremental change, it found itself misaligned with its environment and performing less well than other leading retailers. An example of a whole sector that was faced with the need to change its deep structure is the electricity supply sector in the UK. When the Conservative government decided to privatise the industry, this created a new playing field and a new set of rules for all the utility companies in the sector.

Support for the punctuated equilibrium paradigm

Numerous case histories offer support for the paradigm. Pettigrew (1987) reports a study of change in ICI over the period 1969–86. He found that radical periods of change were interspersed with periods of incremental adjustment and that changes in core beliefs preceded changes in structure and business strategy. Tushman, Newman and Romanelli (1986) examined the development of AT&T, General Radio, Citibank and Prime Computers, and observed periods during which organisational systems, structures and strategies converged to be more aligned with the organisations' basic mission. They also observed that these equilibrium periods were punctuated by very brief periods of intense and pervasive change that led to the formulation of new missions and then the initiation of new equilibrium periods.

The first direct test of the paradigm was Romanelli and Tushman's (1994) empirical study of the life histories of twenty-five minicomputer producers founded in the US between 1967 and 1969. They defined 'organisational transformation' as a discontinuous event involving the domains of an organisation that are important to its survival and central to its organisational activities. Five domains were identified but, because of measurement problems, data was only collected for changes in three of these: structure, strategy and power distributions. The key findings of the study were that:

- 1 A large majority of organisational transformations were accomplished via rapid and discontinuous change.
- 2 Small changes in strategies, structure and power distribution did not accumulate to produce fundamental transformations.
- 3 Triggers for transformations were major environmental changes and chief executive officer (CEO) succession.

The gradualist paradigm

The gradualist paradigm posits that fundamental change (organisational transformation) can occur through a process of continuous adjustment, and does not require some major discontinuous jolt to the system in order to

trigger a short episode of revolutionary change. Change is *evolving* and *cumulative*.

Brown and Eisenhardt (1997) argue that many firms compete by changing continuously. They cite companies such as Intel, Wal-mart, 3M, Hewlett-Packard and Gillette as examples and suggest that for them the ability to change rapidly and continuously is not just a core competence but is at the heart of their cultures. They refer to Burgelman (1991) and Chakravarthy (1997), who suggest that continuous change is often played out through product innovation as companies change and sometimes transform through a process of continually altering their products. Hewlett-Packard is identified as a classic case. The company changed from an instruments company to a computer firm through rapid, continuous product innovation, rather than through a sudden punctuated change.

Continuous change, when it occurs, involves the continuous updating of work processes and social practices. Weick and Quinn (1999) argue that this leads to new patterns of organising in the absence of *a priori* intentions on the part of some change agent. It is 'emergent' in the sense that there is no deliberate orchestration of change. It is continuous and is the outcome of the everyday process of management. They cite Orlikowski (1996), who suggests that continuous change involves individuals and groups accommodating to and experimenting with everyday contingencies, breakdowns, exceptions, opportunities and unintended consequences and repeating, sharing and amplifying them to produce perceptible and striking changes.

Weick and Quinn (1999) observe that the distinctive quality of continuous change is the idea that small continuous adjustments, created simultaneously across units, can cumulate and create substantial change. They identify three related processes associated with continuous change: improvisation, translation and learning. Improvising facilitates the modification of work practices through mutual adjustments in which the time gap between planning and implementing narrows towards the point where composition (planning) converges with execution (implementation). Translation refers to the continuous adoption and editing of ideas as they travel through the organisation. Learning involves the continuous revision of shared mental models that facilitates a change in the organisation's response repertoire. They suggest that:

organisations produce continuous change by means of repeated acts of improvisation involving simultaneous composition and execution, repeated acts of translation that convert ideas into useful artefacts that fit purposes at hand, or repeated acts of learning that enlarge, strengthen, or shrink the repertoire of responses. (1999: 372)

Brown and Eisenhardt (1997) studied product innovation in six firms in the computer industry at a time of rapid product development associated with the Pentium processor, multimedia, internet development and the

convergence of telephony with consumer electronics. Three of their case studies related to firms with a record of successful product innovation and business performance and three related to firms with a relatively poor record of developing multi-product portfolios. They identified three characteristics of the firms that were able to manage change as a continuous process of adjustment: semi-structures that facilitated *improvisation*, links in time that facilitated *learning* and *sequenced steps* for managing transitions.

While the punctuated equilibrium paradigm stresses the interdependence of organisational sub-units and a web of interdependent relationships with buyers, suppliers, and others that legally and normatively constrain organisations to established activities and relationships (Romanelli and Tushman, 1994), the gradualist paradigm emphasises the relative independence of organisational sub-units. This loose coupling facilitates change within sub-units. Over time, as unit managers repeatedly alter their goals and relationships to accommodate changes in local environments, the organisation as a whole can be transformed. As noted above, Greenwood and Hinings (1996) support the view that tightly coupled relationships are resistant to change but when change does occur it tends to be revolutionary, whereas in loosely coupled fields radical change can be evolutionary. Weick and Quinn (1999), however, suggest that when interdependencies are loose, continuous adjustments can be confined within sub-units and remain as pockets of innovation.

Continuous adjustment, therefore, may not always lead to fundamental change.

Burke (2002) speculates that more than 95 per cent of organisational changes are, in some way, evolutionary, but he questions Orlikowski's assumption that this can lead to sufficient modification to achieve fundamental change. He asserts it is very difficult to overcome inertia and equilibrium without a discontinuous 'jolt' to the system:

Organisation change does occur with continuous attention and effort, but it is unlikely that fundamental change in the deep structure of the organisation would happen. (2002: 69)

The nature of change confronting most organisations

Dunphy (1996) argues that planned change is triggered by the failure of people to create a continuously adaptive organisation, the kind of organisation that is referred to in Chapter 4 as an 'effective learning organisation'. Weick and Quinn (1999) suggest that this holds true whether the focus is episodic or continuous change, and they propose that the ideal organisation in both cases would resemble the successful self-organising and highly adaptive firms that Brown and Eisenhardt found in the computer industry. However, while some organisations may achieve this ideal and become so effective at double-loop collective learning (see Chapter 4) that they are

never misaligned with their environment, most do not. The majority of organisations, if they survive long enough, experience episodes of discontinuous revolutionary as well as continuous incremental change.

There are three main categories of organisations that may not experience periods of discontinuous change:

- 1 The kind of self-organising and continuously changing learning organisations identified by Brown and Eisenhardt.
- 2 Companies operating in niche markets or in slow-moving sectors where they have not yet encountered the kind of environmental change that requires them to transform their deep structures.
- 3 Organisations that are able to continue functioning without transforming themselves because they have sufficient 'fat' to absorb the inefficiencies associated with misalignment.

With these exceptions, most organisations experience change as a pattern of punctuated equilibrium. This pattern involves relatively long periods of equilibrium, during which an organisation may engage only in incremental change, punctuated with short episodes of discontinuity during which an organisation's survival may depend on its ability to transform itself.

Incremental change

According to the punctuated equilibrium paradigm, incremental change is associated with those periods when the industry is in equilibrium and the focus for change is 'doing things better' through a process of continuous tinkering, adaptation and modification. Nadler and Tushman (1995) make the point that incremental changes are not necessarily small changes. They can be large in terms of both the resources needed and the impact on people. A key feature of this type of change is that it builds on what has already been accomplished and has the flavour of continuous improvement. According to the gradualist paradigm incremental change can be cumulative and, over time, can lead to an organisation transforming its deep structures and reinventing itself. However, according to the punctuated equilibrium paradigm incremental change is incapable of fundamentally transforming the deep structures of an organisation.

Transformational change

According to the punctuated equilibrium paradigm, transformational change occurs during periods of disequilibrium. Weick and Quinn (1999) and Gersick (1991) refer to this kind of change as revolutionary, but most writers – for example Tichy and Devanna (1986), Kotter (1999) and Burke and Litwin (1992) – use the term transformational change. It involves a break with the past, a step function change rather than an extrapolation of

past patterns of change and development. It is based on new relationships and dynamics within the industry that may undermine core competencies, and question the very purpose of the enterprise. This kind of change involves doing things differently rather than doing things better. It might even mean doing different things. The reprographics industry provides a good example of a sector that was faced with a major discontinuity. Companies found that their core competence in optical reproduction was undermined when digital scanning technology was developed and made available to their customers.

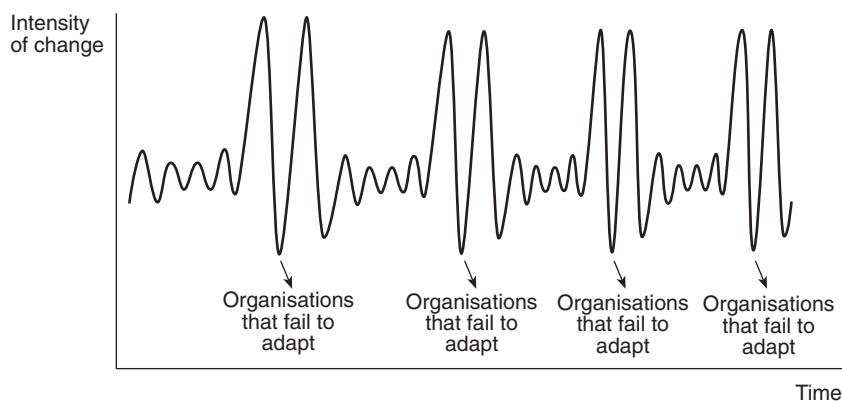
The studies undertaken by Tushman and colleagues (summarised in Nadler and Tushman, 1995) suggest that most companies not only go through periods of continuous incremental and discontinuous transformational change, but that:

- this pattern of change repeats itself with some degree of regularity
- patterns vary across sectors (e.g. periods of discontinuity may follow a thirty-year cycle in cement, but a five-year cycle in mini computers)
- in almost all industries the rate of change is increasing and the time between periods of discontinuity is decreasing (Figure 1.2).

This last point is important because it predicts that all managers will be confronted with an ever-greater need to manage both incremental and transformational change.

Not all organisations are able to successfully negotiate episodes of discontinuity, and those that fail to adapt may drop-out or be acquired by others. Forester and Kaplan (2001) provide chilling evidence of the consequences of failing to adapt. They refer to changes in the *Forbes* top 100 companies between 1917 and 1987. Out of the original 100 companies only eighteen were still in the list in 1987 and sixty-one no longer existed.

Figure 1.2 Punctuated equilibrium: a recurring pattern of continuous and transformational change



The possibility of anticipating change

Sometimes it is relatively easy to anticipate the need for change. For example, companies operating in the European Union (EU) can, if they pay appropriate attention, anticipate the impact of new regulations that are currently being discussed in Brussels. Companies competing in markets where margins are being squeezed can anticipate the need to secure greater efficiencies or generate new income streams. There are, however, occasions when organisations are confronted with changes that are very difficult to anticipate – for example, the effects of the 9/11 terrorist attacks or the SARS epidemic.

Some organisations are much better at anticipating the need for change than others. They are *proactive*. They search out potential threats and opportunities. They prepare for destabilising events that might occur or anticipate changes that they could initiate to gain competitive advantage. Other organisations are much more *reactive* and act only when there is a clear and pressing need to respond.

Whether the need is for incremental continuous or transformational change, the earlier the need is recognised the greater the number of options managers will have when deciding how to manage it. Whenever managers are forced to react to an urgent and pressing need to change they are relatively constrained in what they can do. For example:

- 1 *There is less time for planning* Careful planning takes time, something that is more likely to be available to those who are proactive and anticipate the need for change.
- 2 *There is unlikely to be sufficient time to involve many people* Involving people and encouraging participation in the change process can aid diagnosis, reduce resistance and increase commitment, but this also takes time.
- 3 *There will be little time to experiment* Early movers not only have time to experiment, they may also have the time to try again if the first experiment fails. When there is a pressing need for change it is more difficult to search for creative solutions.
- 4 *Late movers may have little opportunity to influence shifts in markets and technologies* Early movers may have the opportunity to gain a competitive advantage by not only developing but also protecting new products or technologies (for example, through patents).

A typology of organisational change

Combining two of the dimensions of change discussed so far – the extent to which change involves incremental adjustment or transformational change and the extent to which the organisation's response to change is proactive or reactive – provides a useful typology of organisational change (see Figure 1.3).

Figure 1.3 Types of organisational change

	Incremental	Transformational
Proactive	Tuning	Re-orientation
Reactive	Adaptation	Re-creation

Source: Adapted from Nadler, D.A., Shaw, R. and Walton, A.E., *Discontinuous Change* (1995): 24. Reprinted with permission of John Wiley & Sons, Inc.

Nadler *et al.* (1995) identify four types of change:

- 1 *Tuning* is change that occurs when there is *no immediate requirement to change*. It involves seeking better ways of achieving and/or defending the strategic vision. For example, improving policies, methods, procedures; introducing new technologies; redesigning processes to reduce cost, time-to-market, etc. or developing people with required competencies. Most organisations engage in a form of fine tuning much of the time. This approach to change tends to be initiated internally in order to make minor adjustments to maintain alignment between the internal elements of the organisation and between the organisation's strategy and the external environment.
- 2 *Adaptation* is an incremental and adaptive response to a pressing *external demand for change*. It might involve responding to a successful new marketing strategy adopted by a competitor or to a change in the availability of a key resource. Essentially, it involves, within broad terms, doing more of the same but doing it better in order to remain competitive. An example of adaptive change might be what happens when one company (for example, Nestlé) is forced to respond to a competitive move by another (for example, Mars may have either increased the size or reduced the price of some of its confectionary products). This kind of change is not about doing things in fundamentally different ways or about doing fundamentally different things.

While tuning and adaptation can involve minor or major changes, they are types of change that occur within the same frame, they are bounded by the existing paradigm. Re-orientation and re-creation, on the other hand, are types of change that, to use Gersick's analogy, target the playing field and the rules of the game rather than the way a particular game is played. They involve transforming the organisation and bending or breaking the frame to do things differently or to do different things:

- 3 *Re-orientation* involves a *re-definition of the enterprise*. It is initiated in *anticipation* of future opportunities or problems. The aim is to ensure that the organisation will be aligned and effective in the future. It may be necessary to modify the frame but, because the need for change has been anticipated, this could involve a gradual process of continuous frame-bending. Nestlé offered a good example of re-orientation in the mid-1980s. At a time when it was doing well it embarked on a major change programme to ensure it would remain aligned to its environment over the medium term. It initiated a 'top-down review' to decide which businesses it should be in. (Should it, for example be in the pet foods business, should it continue to manufacture baked beans at a time when margins on that product were diminishing or, as a major consumer of tin cans, should it supply its own or buy them in on a just-in-time (JIT) basis?) It also embarked on a major project to reengineer the supply chain across the business and a 'bottom-up' analysis of the added value contributed by each main activity. British Gas provides another example. After it had been privatised as a monopoly supplier of gas the company was referred to the Monopolies and Mergers Commission (MMC). It was obvious to the top team that when the Commission delivered its report the company would be forced to change and might even be broken up. In order to prepare for this, a team of ten very senior managers was created to explore and test possible scenarios and help the organisation develop the capability to respond to the inevitable (but at that time unspecified) changes it would have to face.

In those cases where the need for change is not obvious to all and may not be seen as pressing by many, senior management (as in the British Gas example) may need to work hard in order to create a sense of urgency and gain widespread acceptance of the need to prepare for change.

- 4 *Re-creation* is a reactive change that involves *transforming the organisation* through the fast and simultaneous change of all its basic elements. Nadler and Tushman (1995) state that it inevitably involves organisational frame-breaking and the destruction of some elements of the system. It can be a very disorienting process. An often-cited example of this kind of change is that introduced by Lee Iacocca when he moved to become the new CEO at Chrysler. He embarked on a process of revolutionary change that involved replacing most of the top team, withdrawing the company from the large-car market and divesting many foreign operations.

The most common type of change is incremental (either fine tuning or adaptation) but it is not unusual for a single organisation to be involved in more than one type of change at the same time. Confronted with ever-diminishing opportunities to grow the mining business, UK Coal reappraised its assets and considered how it might revise its theory of business. The way forward was to explore the possibility of redefining the

company as a land and property management *and* mining company. This re-orientation involved many changes, including bringing in new people with competencies in the area of land and property management. However, while this transformational change was being implemented at the highest level, the company was also pursuing incremental continuous improvement programmes to increase the efficiency of individual deep mines.

Implications of different types of change for change management practice

Different types of change can affect the focus for change efforts, the sequence of steps in the change process and the locus for change.

The focus for change efforts

With incremental change, the aim is to improve alignment between existing organisational components in order to do things better and improve the efficiency of the organisation. With transformational change, the aim is to seek a new configuration of organisational components in order to re-align the organisation with its changing environment. As noted above, this often leads to doing things differently or doing different things.

The sequence of activities required to achieve a desired outcome

Inertia is often one of the major barriers to change. As an organisation moves through a period of equilibrium interdependencies tighten, ideologies that prescribe the best way of operating become more widely accepted and the fear of losing benefits associated with the status quo strengthens resistance to change. The first step in the change process, therefore, involves equilibrium breaking, a step that Lewin (1947) referred to as 'unfreezing'. This unfreezing creates the conditions that facilitate transitioning, moving the organisation to a new state. The need to unfreeze is not limited to transformational change. Even when the change is a relatively small incremental change there may still be resistance from 'local' organisational members and other stakeholders. Thus with most incremental and all transformational change unfreezing is an essential first step in the change process. However, in a minority of cases, where constantly adapting organisations (of the type identified by Brown and Eisenhardt, 1997) are operating in high-velocity environments, the issue may not be overcoming inertia and unfreezing the organisation but re-directing the continuous process of change that is already under way. Weick and Quinn (1999) suggest that the appropriate change sequence required to redirect this kind of continuous change starts with '*freezing*' in order to take stock and highlight what is happening, then

moving on to *'rebalancing'*, a process that involves reinterpreting history and re-sequencing patterns so that they unfold with fewer blockages, followed by *'unfreezing'* to resume improvisation, translation and learning 'in ways that are more mindful of sequences, more resilient to anomalies, and more flexible in their execution'.

The locus for change

Nadler and Tushman (1995) argue that an important factor that determines how change will be managed is the intensity (level of trauma and dislocation) of the change. With reference to the typology of change presented above, transformational change is more intense than incremental change. Gersick (1991) observes that since organisations are no longer directed by their old deep structures, and do not yet have future directions, organisational members (including senior managers) experience uncertainty, often accompanied by powerful emotions. Reactive change is also more intense than proactive change. Nadler and Tushman (1995) contend that during reactive change everybody is aware that failure may threaten survival. Furthermore, organisational members may find that their efforts are constrained by time pressures, and often by a shortage of resources. They go on to argue that the change with the lowest intensity is tuning, followed by adaptation. There is a jump in intensity associated with re-orientation but the highest level of intensity is associated with re-creation.

The main thrust of Nadler and Tushman's argument is that when the intensity of change is low it can usually be managed through project management and other forms of implementation associated with normal management processes and systems of accountability. As the intensity of change increases, so does the burden of change management until it reaches a point where it cannot easily be managed through normal management processes. When the intensity of change reaches this level senior management often create special structures and roles to aid the process and they may even appoint an internal or external change agent to facilitate the change. Nadler and Tushman (1995: 32) refer to this approach to change management as *transition management*:

[It] involves mechanisms specially created for the purpose of managing a specific change . . . the senior team plays a supporting role, and the organisation continues to be run as it was before. If the change is intense enough, it may appear on the senior team's agenda as one of a number of important items to be reviewed and managed over time. (1995: 32)

However, as the intensity of changes increases still further change management is no longer just one of the items on the senior team's agenda, it *is* the senior team's agenda and the CEO assumes responsibility for directing the change rather than delegating it to others.

New patterns of change

Gersick's (1991) multi-level and multi-domain exploration of punctuated equilibrium suggests that this pattern of change is not new. What is new is how people are experiencing it. When the pace of change was slower, a good number of people could spend their entire working life in organisations that were never significantly misaligned with their environment. Consequently their experience of organisational change might have been confined to incremental fine tuning and adaptation. However, with the increasing pace of change many more organisations have experienced periods of *strategic drift* (Johnson and Scholes, 1999) and misalignment with their environment to the point where the only way forward requires some form of radical transformation.

Nadler and Tushman (1995) report research findings indicating that the periods between episodes of revolutionary change are becoming shorter and shorter. Therefore, while the underlying pattern of change may not be changing, an acceleration in the *pace of change* is affecting the way many organisations and organisational members are experiencing change.

The impact of change on organisational members

It is over thirty-five years since Toffler, an eminent futurologist, published his book *Future Shock* in which he discussed three aspects of change and speculated about how they would affect people. Toffler (1970) argues that, in many respects, 'future shock' is similar to culture shock, but with one very important difference – there is no going back. If people find it difficult to adapt to a new culture there is often the alternative of returning to the familiar culture they left behind. For example, if emigrants fail to settle in a new country (national culture) it may be possible for them to return home. However, when confronted with future shock this option is unlikely to be as available.

'Future shock' is the product of three related trends:

- 1 *Transience* Toffler notes that impermanence and transience are increasingly becoming important features of modern life because of a major expansion in the scale and scope of change and the accelerating pace of change.

The accelerating pace of change affects people's relationship with things, places, people, organisations and ideas. As acceleration occurs, these relationships become foreshortened, telescoped in time. People respond to this increase in the pace of change in different ways. Those who internalise the principle of acceleration make an unconscious compensation for the compression of time – they modify their durational expectancies. But some find this more difficult than others.

- 2 *Novelty* is the second major trend identified by Toffler. He argues that having to live at an accelerating pace is one thing when life situations are more or less familiar, but having to do so when faced by unfamiliar, strange or unprecedented situations is distinctly another, and this is the reality for increasing numbers of people. Today the balance between the familiar and the unfamiliar is changing. In Toffler's words, the novelty ratio is rising.
- 3 *Diversity* is Toffler's third major trend. The Orwellian view that people will become mindless consumer-creatures, surrounded by standardised goods, educated in standardised schools, fed a diet of standardised mass culture and forced to adopt standardised styles of life could not be further from the truth, according to Toffler. The reality is that most of us are faced with a paralysing surfeit of choice that, especially at work, complicates decision making.

Toffler summarises the consequence of these trends:

When diversity converges with transience and novelty we rocket society toward an historical crisis of adaptation. We create an environment so ephemeral, unfamiliar and complex as to threaten millions with adaptive breakdown. This breakdown is future shock. (1970: 285)

The changes that confront individuals and groups as a consequence of organisational adjustments are often incremental. People may be required to develop additional competencies or modify their ways of working. Such changes may be regarded as incremental in that they build on what is already there. However, sometimes a change can destroy, rather than modify, the relationship that exists between individuals and the organisation. The change may undermine the assumptions that people make about themselves and how they relate with the world around them. Just as an organisation may have to redefine its theory of business, individual organisational members may find that, as a result of an organisational change, they have to redefine their theory of being. This may not always be easy and, as noted above, Toffler points to the possibility of adaptive breakdown. Many reports document the increasing levels of stress experienced by workers. Much attention has also been focused on those who believe that the 'psychological contract' between themselves and their organisation has been violated.

All of these developments affect performance, commitment and the physical and psychological wellbeing of individual employees, and they also create problems for managers, supervisors and co-workers. They have to manage people who are upset by change at a time when the same changes are increasing their own workloads.

With increasing frequency, especially in times of discontinuous transformational change, organisational members have to cope with multiple and concurrent changes. At such times, having to cope with other peoples' emotional response to change is an added burden that sometimes is difficult to manage. This issue will be given more consideration in Chapter 14.

Conclusion

The management of change poses many challenges for managers. Burnes (2005) observes that:

Managing and changing organisations appears to be getting more rather than less difficult, and more rather than less important. Given the rapidly changing environment in which organisations operate, there is little doubt that the ability to manage change successfully needs to be a core competence for organisations. (2005: 85)

Many, and some argue the majority, of change projects fail to achieve their intended outcomes. This book addresses this problem and explores how theory can help to improve the practice of change management.

This chapter ends with a series of case studies of organisations adapting to changing circumstances. You are invited to reflect on the content of this chapter and consider how it applies to these cases.

Exercise 1.1 Types of change

Read the following five case studies (Case studies 1.1–1.5) and use Nadler, Shaw and Walton's typology of change presented below (1995: 24) to identify the type of change described in each case.

	Incremental	Transformational
Proactive	Tuning	Re-orientation
Reactive	Adaptation	Re-creation

Types of organisational change

- 1** The BBC
- 2** UK Coal
- 3** Leicester Royal Infirmary
- 4** McDonald's restaurants
- 5** GNER



Case study 1.1 The BBC

After a long period of stability, during which the BBC had developed a reputation for honest reporting and programmes of outstanding quality, the Corporation had become complacent. Staff believed that the Corporation was financially secure and that the BBC was the best programme maker and broadcaster in the world. But then the world began to change and the Corporation was slow to respond.

The situation when John Birt came to the BBC

John Birt came to the BBC, as Deputy Director General, in 1987 and was appointed Director General in December 1992. In his autobiography *The Harder Path*, he reports that he was surprised to learn that there was little hard information about the Corporation's basic business. He described the culture within the BBC as a kind of imperialism, where every regional commander in every part of the Corporation acquired a full fleet of facilities, irrespective of need. The result was a vast excess of facilities: 'We could have covered Wimbledon, the World Cup and a world war, and still have had unused resources to spare.' He also found that staff utilisation was low and that in some areas there was between 25 and 50 per cent more staff than necessary. Part of the problem was that facilities, overheads and support services were funded by the centre and not charged to particular programmes. One result of this was that nobody had the slightest idea how much it cost to make a programme.

Until the mid-1980s the Corporation was able to survive in spite of its inefficiencies because, for a period of sixty years, its income from the licence fee had grown, on average, 4 per cent per annum. But, because of a new political climate, this changed in 1985.

Political pressures for change

In 1979, Margaret Thatcher and a Conservative government came to power with an agenda for change that included plans to privatise much of the public sector. Thatcher viewed the BBC as a bloated bureaucracy that was over-manned, inefficient and, therefore, ripe for reform.

In 1985 the government froze the licence fee (paid to the BBC by everybody in the UK who owns a radio or television) in order to force the Corporation to become more efficient. Even though over the next decade the licence fee remained constant or was reduced in value, costs continued to rise. Thatcher's intention of delivering a 'rude shock' to the BBC did not have the intended immediate impact because Birt's predecessor had begun his term of office with a huge cash surplus which he spent on funding the growing gap between licence fee income and costs. When this surplus was used up the Corporation started borrowing until, in 1992, it faced a deficit of £100 million. Birt recognised that this situation could not continue and that major changes were required.

Technological developments and new market pressures

The problem was further complicated by a wave of technological developments that threatened to undermine the BBC's traditional ways of working. The

biggest challenge came from the development of digital technologies that opened up the possibility of many more channels, better technical quality, video-on-demand and interactivity. There was also increased competition from new players, for example, Murdoch's launch of BSkyB.

Birt's strategy for change

Birt felt that he had no option other than to introduce radical reforms as quickly as possible in order to ensure the Corporation's survival.

Case study 1.2 UK Coal

The state-owned coal industry in the UK was privatised in 1994–5. At that time UK Coal operated about twenty deep mines and the same number of surface (open cast) mines. By 2004 turnover was down by half and the number of mines had fallen by more than 50 per cent.

The main reason for the closure of many of UK Coal's deep mines was the exhaustion of economically viable reserves. New mines were not developed to replace those that had been closed because the continuing downward trend in world coal prices had undermined the business case for new investment.

The exhaustion of economically viable reserves was not the only problem. Others included environmental opposition to the burning of coal with a high sulphur content. Imported coal was more attractive to major customers (the power generators) on this count, as well as on price. Another factor was the very considerable capital investment required to develop a new deep mine.

The change strategy

The reduction in the number of deep and surface mines encouraged UK Coal to begin looking for ways of improving the company's operating efficiency. One way of achieving this was to reduce the overhead cost of its central corporate headquarters by making each mine more autonomous and delegating to each unit a wider range of activities than used to be the case. Alongside this re-structuring, UK Coal introduced a continuous improvement programme across all the remaining deep mines in order to make them more efficient and ensure their long-term survival.

Confronted with ever-diminishing opportunities to grow the mining business, UK Coal also began to reappraise its assets and consider how it might revise its theory of business. It decided to explore the possibility of redefining the company as a land and property management *and* mining company. This re-orientation involved many changes, including bringing new senior managers into the organisation with competencies in the area of land and property management.

However, while this change was being implemented at the highest level, the company continued to pursue continuous improvement programmes to increase the efficiency of individual deep mines.

Case study 1.3 Leicester Royal Infirmary

The hospital is one of the largest teaching hospitals in England with 1,100 beds and 4,200 staff. By the late 1980s it had developed a reputation for being well run and it was near the top of the National Health Service (NHS) efficiency league tables. However, even though the hospital was at the forefront of change (for example, it was one of the first hospitals to introduce general managers in the mid-1980s, it was an early adopter of clinical directorates in 1986 and it gained NHS Trust status in 1993), there were growing pressures for further change.

The new pressures for change

The city of Leicester had three acute hospitals located close to each other and integrated by a common medical school. When the opportunity of gaining more independence presented itself the original proposal was that all three hospitals would become a single NHS Trust. The Department of Health rejected this proposal and in the end three separate Trusts were established. This created the possibility for competition between the three hospitals. For example, the District Health Authority (DHA, the body that purchased services from providers – hospitals – on behalf of the community) adopted a policy of service rationalisation which raised the prospect of the Leicester Royal losing contracts to one of the other hospitals.

The NHS internal market, introduced in 1991, led to another competitive pressure from the primary care sector as community-based doctors (those who were General Practitioner (GP) Fundholders with delegated budgets to purchase certain elective services) began 'shopping around' the three hospitals to obtain the most cost-effective and best quality provision. Purchasers also began to put considerable pressure on the hospitals to reduce patient waiting times.

In addition, the introduction of national targets to improve efficiency placed new demands on all hospitals to make year-on-year savings.

The change strategy

The Leicester Royal was much better placed than most hospitals to face these challenges and the leadership team proactively sought additional funding from the government to embark on a major change programme (see McNulty and Ferlie, 2002).

Because of the Leicester Royal Infirmary's earlier success in eliminating inefficiencies there were few easy targets for further cost-cutting. McNulty and Ferlie (2002) quote one member of the Trust Board as saying 'I believe that there is no way we could improve the effectiveness and efficiency of this hospital simply by trying to do better than which we already do'.

Leicester Royal Infirmary, like hospitals generally, was organised according to functional principles. However, early experiments that involved introducing process-based principles of organising led to some dramatic improvements in parts of the organisation. In neurology, for example, the introduction of a single visit clinic reduced the time from visit to diagnosis from twelve weeks to one day, and in hearing services the time to fit a hearing aid was reduced from fourteen months to six weeks.

These early successes encouraged the hospital to embark on an ambitious organisation-wide programme of business process reengineering. It was introduced in 1994 as a 'top-down' programme to redesign two of the hospital's core

processes – patient visits and diagnostic tests. The aim was to transform the organisation from one that was characterised by fragmented functional thinking that directed attention and activity towards narrow departmental priorities to one where everybody worked together across functional boundaries to achieve wider organisational goals.

Case study 1.4 McDonald's restaurants

McDonald's is the world's largest quick-service restaurant chain. In 2004 the company operated 1,250 outlets in the UK, of which 35 per cent were franchised. McDonald's experienced rapid growth in the UK market from the early 1970s until the late 1990s. However, from the late 1990s it began to experience a slow-down in growth leading, in 2000, to a fall in both total sales and market share.

Over the last forty-five years its core business had been selling burgers, fries and soft drinks. Over this period McDonald's introduced only occasional and relatively minor changes to its menu. Some commentators have suggested that because of its track record of sustained success McDonald's was slow to recognise and respond to changes in its external environment.

Several factors appear to have contributed to the change in the company's fortunes:

- Greater competition from new entrants into the market, including new chains of coffee shops and sandwich bars
- A desire on the part of consumers for a wider choice of food
- A greater awareness of the importance of leading a healthy lifestyle and eating healthy foods
- New evidence on the causes of obesity
- Media interest that has publicised possible links between certain kinds of 'fast-food' and obesity.

An additional threat that has received media attention, and that could affect the company in the future, is the possibility that the UK government might introduce restrictions on advertising to children. There have also been rumours that it might consider imposing new taxes on those foods that are deemed to be 'unhealthy'.

McDonald's response to the new situation

In 2004 the company broadened its food offering and focused more attention on healthy eating with the launch of 'Salads Plus'. This was the biggest change to the McDonald's menu since it started business in the UK in 1974. The 'Good Food Fast' menu strategy involved the simultaneous introduction of eight new items to the McDonald's menu: caesar salad, bacon ranch salad, mixed salad, quorn sandwiches, chicken-filled sandwiches, yogurt and berry pot, fresh apples and muffins.

This major change to the company's product line involved a series of related changes:

- The introduction of new cooking equipment in all 1,250 outlets
- Training 70,000 staff to cook and serve the new products
- Training restaurant managers how to order and store new raw ingredients, and how to manage the introduction of the new menu in a way that enhanced profitability
- Preparing managers at all levels, who had a wealth of experience of how to manage in a steady-state environment, to lead the introduction of these changes.

Case study 1.5 GNER

GNER is a train-operating company and a part of Sea Containers Ltd; a highly entrepreneurial Bermuda-registered company with regional operating offices in London, Genoa, New York City, Rio de Janeiro, Singapore and Sydney. GNER started business in 1996 when it won a seven- (later extended to nine-) year franchise to operate the East Coast high-speed intercity routes from London to all major cities on the eastern side of the UK. From 2005 the franchise for the following ten years was to be awarded on the basis of open competition. For GNER it was a 'win or die' situation. The only way it could retain its business was to submit the winning bid. If it was unsuccessful all the company's assets would be transferred to a new operator.

The company's response was to establish a new development team, headed by a director of development, charged with preparing the company's bid for the East Coast franchise. The bid was successful and GNER won the franchise until 2015. The company decided to build on this experience and grow its business through bidding for other railway franchises as and when opportunities presented themselves. Its first venture was to join forces with the MTR Corporation, which runs the highly successful mass-transit railway in Hong Kong, to bid for the Integrated Kent Franchise that includes the commuter rail services between southeast England and London and the new high-speed line from London to the channel tunnel. This first bid for new business was unsuccessful but, at the time of going to press, GNER (again in partnership with MTR) has been short-listed for the new South Western franchise.

The change strategy

GNER's change strategy is to develop the existing East Coast railway and generate additional revenue through the provision of enhanced services. Plans include rebuilding all the electric fleet carriages, introducing an innovative on-board wireless internet service on all trains and increasing the number of daily intercity services to London from fifty-three to eighty. Alongside this development of the intercity East Coast business the company plans to grow by acquiring more franchises in the UK. It is anticipated that these will include different types of railway (intercity, regional and commuter) each with different risk patterns, and a portfolio of franchises with different expiry dates that will help to provide the company with greater stability.

Exercise 1.2 The nature of the changes that confront your organisation (or some other organisation that you are familiar with)

You may find it useful to reflect on the nature of the changes that have confronted the total organisation or the part of the organisation that you know best over the last year:

- Overall, would you describe the main type of change as incremental or discontinuous?

In terms of the organisation's typical response to change, think back and consider how the organisation has responded to change over the last few years. How does this compare with the organisation's current way of responding to change?

- Is the organisation's typical response to change reactive or proactive?

Make a note of your answers on a separate sheet or in the space provided below.

Notes on the nature of change confronting your organisation



Summary

This chapter has considered the nature of change, giving particular attention to issues of continuity and time pressure. The effects of change on individuals and organisations have also been examined and a typology specifying four types of change has been presented.

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Note: The page numbers in brackets indicate the page where the full reference can be found. There are some entries that are only bracketed. This indicates that the entry either refers to additional reading cited at the end of the chapter but not referred to in the text (e.g. Arnold, J. page 220) or to co-authors who are not listed in the text (e.g. Ziegert on page 57 is a co-author of Schneider, referred to as Schneider *et al.* on page 53).

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