Block

4

CHANGE MASTERY

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BLOCK 4: CHANGE MASTERY

The fourth block to the course on Leadership and Change Management deals with understanding change, implementing change, change agents, and disruptive innovation. The block contains four units. The first unit deals with the evolution of an organization through several stages, factors inhibiting change, classification of change, and different modes of change. The second unit deals with the concept of transformation of an organization, understanding organizational culture, the need to change culture, and how culture is changed. The third unit discusses the role of CEOs, middle-level managers, HR personnel, and consultants as change agents in organizations. The fourth unit deals with the concept of disruptive innovation.

The unit twelve, *Understanding Change,* discusses the evolution of an organization. It then goes on to explain the factors that inhibit change. It then discusses the classification of change. The unit concludes with a discussion on different modes of change.

The unit thirteen, *Implementing Change,* discusses the steps involved in the transformation of an organization. It then explains the concept of organizational culture. It then discusses the need to change culture. The unit finally discusses how culture is changed using mental models.

The unit fourteen, *Change Agents*, discusses the role of CEO as change agents in organizations. It then goes on to explaining the role of middle-level managers as change agents. The unit then discusses the role of HR personnel and consultants as change agents.

The unit fifteen, *Disruptive Innovation*, discusses how companies have become successful after adopting disruptive innovation. It then goes on to discuss the concept of disruptive innovation and the factors affecting disruptive innovation. It then discusses the ways in which capabilities can be created to cope with disruptive innovation. The unit concludes with a discussion on the reasons that state why developing countries are ideal locations for disruptive innovations to take place.

Unit 12

Understanding Change

Structure

"The secret of change is to focus all of your energy, not on fighting the old, but on building the new."

- Socrates

12.1 Introduction

For a change to happen, we must be able to focus on right things.

The previous unit gave an overview of the challenges faced by leaders. This unit will discuss how an organization evolves through different stages, the factors inhibiting change, classification of change into different categories, and different modes of change.

This unit discusses the evolution of an organization. It then goes on to explain the factors that inhibit change. It then discusses the classification of change. The unit concludes with a discussion on different modes of change.

12.2 Objectives

By the end of this unit, you should be able to:

- Recall the various stages of evolution of an organization
- Discuss the factors that inhibit change
- Explain the three categories of change
- Analyze the different modes of change

12.3 Evolution of an Organization

According to Larry E. Greiner, an organization evolves through five stages. These include creativity, direction, delegation, coordination, and collaboration in this sequential order. As an organization evolves from one stage to another, it needs to change its culture, skills, and operations.

12.3.1 The Creativity Stage

During its inception, the founders of an organization focus primarily on creating a product and a market. They are technically and entrepreneurially oriented and do not give great weightage to management activities. All their energies are directed at making a new product and selling it.

At this stage, the organization does not have any formal communication channels. Communication is frequent and flows through informal channels. Employees are not paid high salaries yet they stick to the organization because the management promises them a share in the ownership in the form of stock options or partnership. The feedback from the market greatly influences the decisions of founders and the motivation of employees.

Example

Some of the successful New Product Development examples include — Trello for task management and tracking, Zoom for video communication, Dropbox for cloud storage, Figma for designers working remotely, Airtable for relational data management, and so on.

Source:https://mail.google.com/mail/u/0/?ogbl#search/lcm+slm/FMfcgzGmtXDdGLwbNjbdNpp WcdhMLSNw Updated: January 21, 2022

To produce on a large scale, the organization has to acquire knowledge about the efficiencies of manufacturing. Large-scale production needs a large number of employees and informal communication channels are no longer adequate to lead or manage a large number of employees.

New recruits are not motivated by dedication to the product or the organization. At this stage, an organization has to adopt new accounting procedures to ensure prudent financial control. All these activities add more responsibilities and burdens on the founders. Conflicts arise among the leaders and these may even lead to a leadership crisis at the top.

At this stage, the organization is poised for a major change. It needs a leader who can clear the confusion in the organizational thinking, and address managerial problems. The organization needs a strong leader who has the requisite knowledge and skills to bring new business techniques into the organization. Finding such a manager and putting him in charge of the organization is not easy, however. Even if the organization is lucky enough to have such a manager, the founders may not be willing to let go of their control, even when they are clearly unsuitable to head the organization at that stage.

This is the time for the organization to make a critical choice: get a strong leader who can get along with the founders and also take the organization into confidence or fail to evolve.

12.3.2 The Stage of Direction-setting

Once an organization emerges successful from the first round of transformation, i.e. after it gets a strong manager to take care of the organization, it starts growing. Under the new leadership, a functional organizational structure is introduced. Manufacturing activity is separated from marketing activity, and specialization determines job assignment.

At this stage, accounting systems are introduced in inventory and purchase departments, and incentives, budgets, and work standards are introduced. The organization also adopts a hierarchical structure where communication is more formal. Decision-making now lies with a few managers. The new leader and his/her trusted managers set the future course for the company. Managers at the lower level of the organization are regarded as functional specialists. They no longer have the freedom to make independent decisions.

Example

Apple follows centralized management structure. Much of the decision-making responsibility lies with the Chief Executive Officer (CEO) Tim Cook, who took the leadership role after the death of Steve Jobs. Apple is always viewed as an organization that follows high centralized control over the company's strategic initiatives including new product development and company's acquisitions.

Source: https://opentextbc.ca/principlesofaccountingv2openstax/chapter/differentiate-between-centralized-and-decentralized-management/ Accessed on 21-12-21

These changes translate employees' energy into growth for the organization. But after some time the structures and systems created by these changes become cumbersome for a diversified and complex organization. The controls that brought orderliness into the organization now breed bureaucracy in the organization. Centralized hierarchy becomes a burden for employees at the lower levels.

- Lower-level employees face a peculiar situation.
- They have gathered first-hand experience about the markets and machinery, and may know more about the markets than their leaders.
- Thus they are pulled between competing alternatives: acting on their own, which might benefit the organization; or sticking to procedures.

At this stage the organization passes through a crisis of autonomy. The organization is again in need of a major change: prudent delegation. However, delegation is not easy to achieve. The top managers in the organizations who are used to giving directives may not be very comfortable delegating. The lack of decision-making experience of lower-level managers further complicates the problem. Thus many companies stick to centralized decision making at this stage, and this makes employees at the lower levels dissatisfied and they may leave the organization.

12.3.3 The Stage of Decentralization

In the next stage, the organization adopts a decentralized organizational structure. Managers of manufacturing plants and sales territories are given more autonomy, authority, and responsibility. The organization introduces profit centers and bonuses to motivate employees. The top management intervenes only when it is necessary. It starts to rely on periodic reports from the field to run the organization. The top management does not communicate very frequently with the lower level management.

Example

Kraft Foods in Europe had a highly centralized structure and the entire power was concentrated for more than 25 years in few hands. However, group companies lost the vigour and earnings declined, forcing Kraft Foods to imbibe decentralized structures, leading to improvement.

Source: https://www.capgemini.com/2020/05/what-works-best-a-centralized-hierarchical-organization-or-one-where-authority-is-delegated/ May 6, 2020 Accessed on 02.02.202

At this stage, the organization looks for possible acquisitions. The idea is to acquire companies that fit into organization’s design as decentralized units. The organization expands during this phase of delegation owing to the dynamism of motivated managers at the lower levels. With their new-found freedom and power, these managers enter new markets, formulate opportunistic strategies, respond quickly to customer needs, and create new products.

Over a period of time, this management style leads to another type of problem. The top management realizes that it is losing control over the company’s diverse operations. They come to the painful realization that autonomous field managers are getting increasingly bold and are interested in running their own fiefdoms.

The field managers often make no efforts to coordinate operations and activities with other managers. This lack of coordination leads to bloating expenses for the organization.

Example

This was the case with IBM in the early 1990s, before Louis Gerstner took over as CEO. All its international operations in different countries were run by country managers who ran them as their fiefdoms. The company was close to collapse.

When the top management realizes that the organization is falling into a crisis of control, it tries to get hold over the whole organization.

Some organizations that face control problem return to the centralized system. But these organizations eventually fail because, by this time, their scope of operations has increased and they cannot be managed through a centralized system. Some organizations, however, adopt special coordination techniques, which lead to better coordination.

Check Your Progress - 1

1. In a decentralized organizational structure, how are employees motivated?
   a. Through profit centers and bonuses
   b. By assigning more work to the employees
   c. By taking them for an outing
   d. By giving them promotions

12.3.4 The Stage of Coordination

At this stage, special coordination techniques are adopted. The executives at the top take on the responsibility of introducing these new systems. Formal systems are put in place to ensure greater coordination. Formal planning procedures and intense reviews of these plans are a desirable course of action. Staff members placed at the company headquarters begin to guideline managers on setting up control and review programs.

Capital expenditures are approved only when they are prudent. Decentralized units in the earlier set-up are restructured into product groups. These product groups are treated as investment centers. Funds are allocated for these investment centers on the basis of the returns they generate.

While technical functions like data processing are centralized, daily operating decisions remain decentralized. Employee involvement becomes a key issue. To ensure employee involvement, the organization introduces stock options and profit sharing. These gestures are aimed at making employees identify with the whole organization and not just the units where they work.

Example

Johnson & Johnson, known for medical devices and diagnostics and pharmaceutical business, chose decentralized set-up because their local managers understand the consumers, government, marketplaces, and the people with whom they are directly working, much better than their leaders. They trust their managers to run the businesses.

Source: https://www.betterup.com/blog/decentralization-in-management April 20, 2021 Accessed on 28.02.2022

The new coordination system ensures growth through better allocation of resources. Field managers learn to look beyond their local units. They cooperate with managers in other departments. Though they have substantial responsibility for decision-making, yet they behave responsibly as they are accountable to the top management at the headquarters. However, this setup also leads to a new type of problem.

A lack of confidence develops between the line and staff employees and between the people at the headquarters and those in the field.

Line managers start taking advantage of the staff's ignorance of local conditions. The staff, in turn, begins to complain that the line managers have become uncooperative. Both the groups blame the bureaucratic system for the problems.

Procedures become more important than problem solving. Unnecessary procedures discourage new initiatives and new thinking in the organization. As a result, innovation takes a back-seat in such organizations. Once again the organization is ripe for a major change. The organization has become so large and complex that it cannot be governed by just formal programs and rigid systems.

Check Your Progress - 2

2. While in the coordination stage, data processing is centralized, what about daily operating decisions?
   a. Decentralized
   b. Important
   c. Centralized
   d. Unimportant

12.3.5 The Stage of Collaboration

At this stage, the emphasis of the organization is on interpersonal collaboration to minimize the redtapism that was prevalent in the previous stage. Here the emphasis is on teamwork and efforts to minimize interpersonal differences. Quick problem-solving based on a team approach becomes the accepted phenomenon. Cross-functional teams are formed to address specific tasks. Staff people at the headquarters are minimized, and are made part of interdisciplinary teams. Staff employees no longer direct the field units and instead play an advisory role to them.

A matrix type of structure is employed to form useful teams that address organizational problems.

Formal control systems are simplified into single multipurpose systems. Key managers meet fairly frequently to address major problems. They use real time information systems in regular decision making.

In order to institutionalize teamwork, rewards are based on team performance rather than on personal accomplishment. Experimentation such as adopting new practices is encouraged in the organization.

Many US organizations are in this collaborative stage. Even this style of working is not without difficulties. Evidence shows that employees get physically and emotionally exhausted when they work in teams. Working in teams can be very demanding as it necessitates the constant generation of innovative solutions.

Greiner says that new structures and programs are necessary to address this problem. Employees might need time to rest, reflect, and revitalize their energies. A dual organization structure could provide a solution. Organizations with a dual structure employ one structure to take care of daily work, and another structure to create new perspectives and ensure personal enrichment. These organizations shift their employees from one structure to another as the situation demands.

Example

Corporates partner with start-ups in US through corporate funding, resources and customer access for mutually beneficial reasons as corporates want to innovate to stay ahead of their competitors.

Source: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/collaborations-between-corporates-and-start-ups May 2021 Accessed on 28.02.2022

Change does not happen easily. Many obstacles crop up while initiating and overseeing it. As Machiavelli said, there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than the creation of a new system.

Check Your Progress - 3

3. At the stage of collaboration, interpersonal collaboration helps an organization to:
   a. Address organizational problems
   b. Minimize the red-tapism
   c. Use real time information system
   d. Simplify formal control systems into single multipurpose systems

Activity 12.1
She Needs is a cosmetics company in the UK. The company is planning to expand its operations in Asia. A research conducted by the company revealed that the Indian cosmetics market is a growing market. The company also noted that the market is intensely competitive with already established domestic as well as international players. Hence the top management of the company decided to focus on creating its product and the market. The management initially did not focus on other activities. Identify and discuss the stage of evolution in case of She Needs. Discuss other stages of evolution of an organization. **Answer:**

12.4 Factors that Inhibit Change

Organizational change is an important element for business success. If a company fails to change, it may inevitably lead to its end. Many factors contribute to a business success, however, its ability to face change is a major contributing factor.

Companies grow by expanding into new competitive space, attaining a complex mix of financial, material and knowledge assets, expanding market scope, and replicating and standardizing their wins in similar market spaces.

Competitive spaces undergo change, new technologies emerge, and customers change. But companies sometimes fail to change and make the most of new opportunities because they are still trying to get the best out of the old opportunities. They find this convenient and less risky.

Steering mechanisms in organizations grow as the organizations get involved in more complex activities. These steering mechanisms are essential to make meaning out of the innumerable activities that go on inside the organization. Steering mechanisms are created to align the organization with the founder's vision, and also to align the company's vision with changes in the marketplace. But these objectives may be contradictory. The founder's vision might not be relevant in the new market scenario. While most of the organizations have mechanisms that are aligned with their vision, there are a few organizations in which mechanisms are aligned with the realities in the business environment. Only organizations in which mechanisms steer the organization in line with business realities can remain tuned to change.

Obsolete steering mechanisms downgrade or ignore market signals. Rigid steering mechanisms ignore complaints and unwelcome feedback, which can be valuable if put to the right use.

As managers rely on steering mechanisms, whenever an unexpected circumstance arises, they tend to ignore any information that does not fit into the existing mechanism.

Mechanisms have a limited period of validity; they may have served the company well in the past when a particular strategy was successful. But the usefulness of the mechanisms may be limited when managers address new problems.

In such situations, managers are often perplexed as to why their decisions go wrong. As Chris Argyris says, any newly espoused strategy, however explicit and sensible, inevitably comes up against an implicitly enacted strategy supported by all the aged, compounded steering mechanisms that the company already has in place. This is largely because people fear uncertainty. They fear that if they embrace change, their current status maybe adversely affected. Defensive mechanisms stop an organization from adapting to change.

Check Your Progress – 4

4. Which of the following steering mechanisms downgrade or ignore market signals?
   a. Rigid steering
   b. Obsolete steering
   c. Defensive steering
   d. Systematic steering

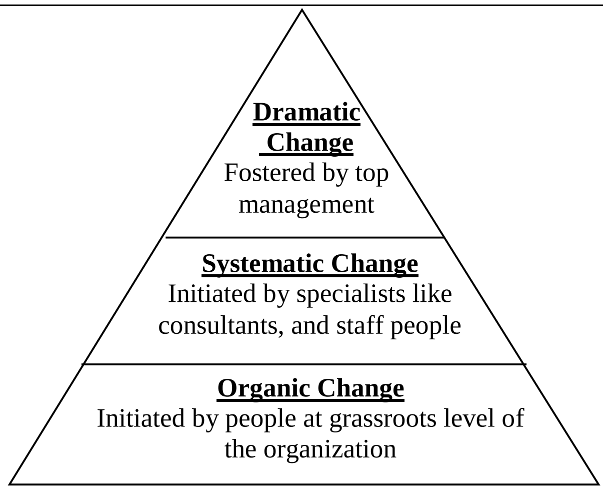
12.5 Classification of Change

According to Henry Mintzberg, and Quy Nguyen Huy, change can be classified into three categories:

- Dramatic change
- Systematic change
- Organic change.

Dramatic change is initiated by the top management. This change incites revolution. Systematic change originates at lateral level of the organization. Middle-level managers initiate such change. Organic change begins at the grassroots level (for a diagrammatic representation, refer to Figure 12.1).

Figure 12.1: Change and its Origins



Compiled from various sources.

12.5.1 Dramatic Change

Top leaders in the organization attempt dramatic change in times of crisis or extraordinary opportunity. Some examples of dramatic change are: reducing costs, organizational restructuring, repositioning strategy, and changing the organizational mind-set. The leadership resorts to dramatic change with the expectation that this initiative would be welcomed by everyone. But there is usually some covert or overt resistance.

Example

When Satya Nadella took up the reigns of Microsoft, the company was running into serious internal problems with its organizational structure. He undertook some major restructuring for the company and the result is the stock price rose high. Internal rivalries reduced and Nadella could unify all warring teams, thereby bringing dramatic changes in Microsoft.

Source: https://www.tinypulse.com/blog/3-examples-of-organizational-change-and-why-they-got-it-right Accessed on 21-12-21

Check Your Progress - 5

5. Which of the following is not an example of dramatic change?
   a. Repositioning strategy
   b. Changing the organizational mind-set
   c. Strategic planning
   d. Reducing costs

12.5.2 Systematic Change

As compared to dramatic change, systematic change is more focused and carefully constructed. Systematic change is often characterized by orderliness.

This type of change is attempted only after thorough planning and careful consideration. Quality improvements, work reprogramming, benchmarking, and strategic planning are examples of systematic changes. Staff groups and consultants from planning and organizational development functions attempt these changes.

Though these changes are less risky, yet they emerge only after a lot of formalities are gone through. Exhibit 12.1 deals with systematic changes at Amazon.

Exhibit 12.1: Systematic Change – Amazon's Way

Amazon, an American multinational technology company, is a seamless example for systematic changes. Started as an online bookseller, it has transformed itself systematically to match with the changes in the requirements of the customers. It has expanded leaps and bounds by pitching in to offerings from books to CDs and DVDs till launching Amazon Prime Video.

Amazon can be named as the master of change. Jeff Bezos has been continuously looking for the changes in and around the business and kept expanding their offerings more and more. Amazon has expanded into cloud computing services through Amazon Web Services. It has collaborated with Whole Foods and started delivery services for supplying food through Amazon Prime.

To speed up transport, it has implemented warehousing automation where robots collect and supply their products. Amazon has also started online pharmacy and retail grocery stores called Amazon Go. To compete against the Netflix, it has launched Amazon Prime Video. The list is endless. Success in all the ventures can be owed to the effective change management, workplace culture and the employee mind-set.

The culture built by Jeff Bezos was contributing for the learning, experimentation, improvement and innovation at Amazon which he called as a "Day 1" mindset. It is the model of systematic change plan designed by Bezos to offer the best customer experience. He has nurtured organizational culture and personal habits of employees that supported the continuous and compounding improvements to reap the amazing benefits. This mantra has resulted in the longevity of the company and in harnessing continuous surprising benefits.

Source: https://josecantera.com/systemic-change-in-business/, February 7, 2020, accessed on 25/10/21.

Check Your Progress - 6

6. Which of the following is an example of systematic change?
   a. Group infusion
   b. Benchmarking
   c. Organizational restructuring
   d. Cost reduction

7. Find the characteristic of systematic change.
   a. Systematic change is focused and carefully constructed.
   b. Systematic change is sudden and forceful.
   c. Systematic change is gradual and eventual.
   d. Systematic change is thoughtful and abstract.

12.5.3 Organic Change

While dramatic change is led by the formal leadership, and systematic change is stimulated by specialists, organic change is brought about by people at the grassroots level in the firm. Organic change is fragmented and anarchical in nature. This change often emerges as a challenge to authority. The results after the change can be dramatic, yet it runs the risk of chaos.

Groups infusing such change may work at cross-purposes and engage in fighting over resources. In other cases, while serving their narrow interests, groups might acquire competencies that are incompatible and not beneficial to the organization as a whole. This type of change can also be brought about by an intelligent leader. He/she can do this by institutionalizing respect for this type of change.

Activity 12.2

IMT Computers Ltd. is one of the leading computer manufacturers in India. Of late the company is witnessing a decline in its sales. The company found that the competition in the computer manufacturing industry had intensified and thus the decline in sales. The CEO of the company Mark Simpson (Simpson) decided to cut the incentives of its employees. He also reduced the structures in the organizational hierarchy to make the process of communication easier. This helped the employees at the lower-level to communicate ideas to the top management.

What is the change brought about at the company by Simpson?

Do you think these initiatives would help the company to arrest the decline in its sales? Why (not)?

Suggest how the company can deal with the crisis.

Answer:

12.6 Mode of Change

In an organization none of the changes mentioned above occurs in isolation. Dramatic change needs to be balanced by orderly change. The top leadership must involve people at other levels in the process of change. They should explain, convince, and justify the need for such dramatic change. Otherwise chaos and a sense of alienation may prevail in the organization. This may lead to the ultimate failure of the entire effort to change.

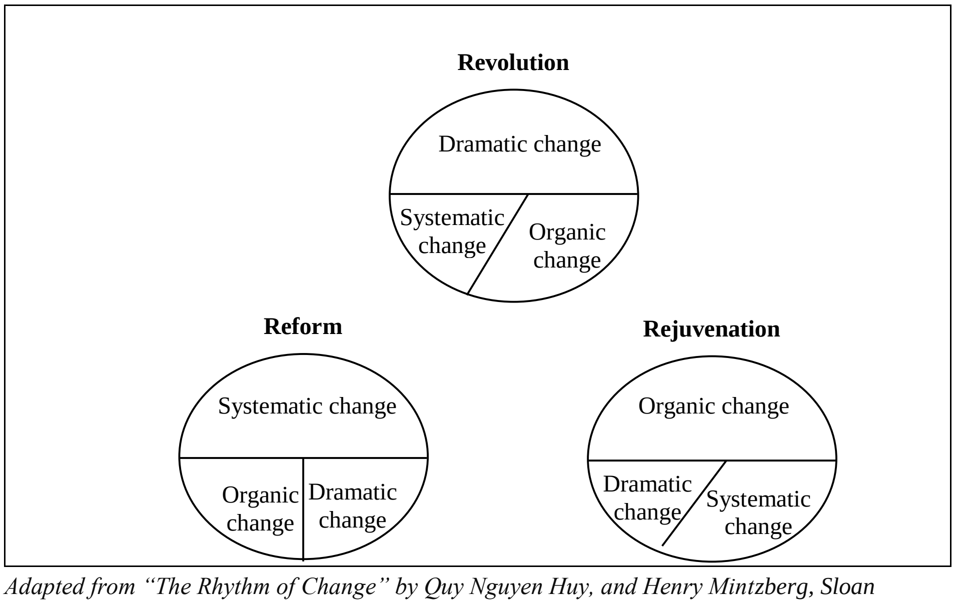
Similarly, systematic change fomented by specialists needs the approval of the top leadership, and the broad engagement of all the people in the organization. Then only can this type of change reap the intended benefits. Though organic change is natural, yet it needs to have the support of leaders at all levels to be beneficial to the organization.

As Nguyen Huy and Mintzberg say, "Dramatic change alone can be just drama, systematic change by itself can be deadening, and organic change without the other two can be chaotic; they must be combined or, more often, sequenced and paced over time, creating a rhythm of change."

A symbiosis of the three types of change appears in three modes: Revolution, Reform, and Rejuvenation as briefed below:

- Revolution is by and large a dramatic change. But the roots may lie with organic change and may need systematic consolidation.
- Reform is systematic, but it may also fuel organic change and be driven by dramatic change.
- Rejuvenation is organic in nature. But its consequences may be dramatic. (The relationship between types of change and modes of change is shown in the Figure 12.2).

Figure 12.2: Mode of Change



Adapted from "The Rhythm of Change" by Quy Nguyen Huy, and Henry Mintzberg, Sloan Management Review, summer 2003.

Check Your Progress - 7

8. Which of the following does an organization implement to create a suitable atmosphere for desired organizational change?
   a. Stringent rules and regulations
   b. Systematic training and development programs
   c. Marshall Plan
   d. Dramatic change

12.6.1 Revolution

Most revolutions in the corporate world are driven by leaders. Revolution appears to consist entirely of dramatic acts which change society. However, small events at the organic level can also trigger dramatic acts. Small incidents may spark revolutions in the organization; following this, leadership may arise, and if the circumstances are favorable, a full-blown revolution occurs.

12.6.2 Reform

Reform is a change that occurs in a calculated and systematic way. The Marshall Plan designed to rebuild Europe after World War II is an example of reform with a view to change. Plans aimed at re-development of Japan after World War II were also systematic in nature. Reforms can be classified into educated reforms and energized reforms.

Educated Reform

Many organizations implement systematic training and development programs to create a suitable atmosphere for desired organizational change.

Energized Reform

Energized reforms are meant to bring about organic change directly.

Example

Changes brought in by Louis Gerstner at IBM can be called energized reforms. The reforms at IBM involved no new vision or revolution. These changes were steady, and consistent; and IBM again started listening to its customers, began to build relationships with them, and became more responsible about the results it delivered. Line managers were given more authority and accountability. Work processes were re-engineered to reduce costs in the long-term.

Planned Reform

Reform in the organization is also brought about through planning. Strategic plans, for example, offer an opportunity to bring in necessary change. A change leader attempting this type of change has to be careful not to clutter the process with too many procedures. Too many procedures and too much obsession with planning can obstruct real strategic thinking.

12.6.3 Rejuvenation

Rejuvenation is largely an organic change. It happens in many ways:

Inadvertent Rejuvenation

Sometimes organizations learn new things accidentally or through unplanned experimentation. The best learners in an organization are the people who are nearest to operations or customers. An engineer in a glass manufacturing company in England once hit upon a new way of manufacturing glass when he was doing the dishes at home. This idea was to manufacture glass by floating it on a bath of liquid tin.

With encouragement from the board, he experimented on the method for seven years. Even after wasting so many years and 1,00,000 tons of wasted glass, his idea still proved impractical. Yet he persisted, and the company board continued to be supportive. Finally, the effort was a success. The company obtained patents for the innovation, and licensed the process worldwide. Thus an idea emerged at the grassroots level and by chance went on to revolutionize the company as well as the industry.

Imperative Rejuvenation

Sometimes an organization finds itself in a situation where it is losing market share, losing money as costs spiral upward, or having to look for new ways to satisfy customer needs. The top leadership in the organization resorts to dramatic changes by bringing a new executive team, downsizing the workforce, bringing in hoards of consultants, and restructuring the company. But these initiatives may not meet with success.

On the other hand, when middle-level managers take sound initiatives, these may spawn the desired change. When middle-level managers are successful in inducing change, one can say that imperative rejuvenation is under way in that organization.

Check Your Progress - 8

9. In the process of imperative rejuvenation, who can successfully induce change?
   a. Top leadership
   b. Grassroot level employees
   c. Middle-level managers
   d. Consultants

10. What is the result of balancing organic change and systematic change?
    a. Helps an organization to sustain its capability to innovate.
    b. Helps an organization to sustain its culture.
    c. Helps an organization to sustain its employees.
    d. Helps an organization to satisfy its customer needs.

Steady Rejuvenation

Companies like 3M maintain their capacity for innovation over a long period of time. They do this by introducing the right combination of steady organic change and systematic change. They invest systematically in a wide variety of low-cost experiments to explore emerging markets and technologies. Balancing organic change and systematic change helps an organization to sustain its capability to innovate.

For steady rejuvenation to happen, organizations balance chaos and inertia by keeping their business units at the optimum size. Too small a size and too many units lead to chaos. Too big a size breeds bureaucracy and leads to inertia. By rightsizing their units, they ensure speed and flexibility.

Driven Rejuvenation

Some leaders bring in change by setting a personal example or by changing the organization's culture to encourage employees to undertake organic initiatives. Some organizations rejuvenate their people by encouraging specific behaviors.

A global electricity firm based in Virginia, US, encourages its frontline employees to enhance their expertise and autonomy. It does this, not just by providing training, but also by providing them with sensitive and strategic information generally meant only for senior managers. Such acts may result in rejuvenation.

Check Your Progress - 9

11. Which of the following is not used by leaders to rejuvenate their employees in driven rejuvenation?
    a. By setting personal example
    b. By changing the organization's culture
    c. Encouraging specific behaviors
    d. Obsolete steering mechanisms

12.7 Summary

- According to Larry E. Greiner, an organization evolves through five stages. These include creativity, direction, delegation, coordination, and collaboration in this sequential order.
- As an organization evolves from one stage to another, it needs to change its culture, skills, and operations.
- Companies often fail to change and make the most of new opportunities because they are focused on getting the best out of old opportunities.
- Obsolete steering mechanisms downgrade or ignore market signals.
- Rigid steering mechanisms ignore complaints and unwelcome feedback, which can be valuable if put to the right use.
- According to Henry Mintzberg, and Quy Nguyen Huy, change can be classified into three categories: Dramatic change, systematic change, and organic change.
- A synthesis of dramatic change, systematic change, and organic change appears in three modes: Revolution, reform, and rejuvenation.

12.8 Glossary

Dramatic change: It is initiated by the top management and incite revolution.

Obsolete steering mechanisms: They downgrade or ignore market signals.

Organic change: It begins at the grassroots level.

Rejuvenation: It is largely an organic change.

Revolution: It appears to consist entirely of dramatic acts which change society.

Rigid steering mechanisms: They ignore complaints and unwelcome feedback, which can be valuable if put to the right use.

Systematic change: It originates at lateral level of the organization. Middle-level managers initiate such change.

12.9 Self-Assessment Exercises

1. Discuss the various stages of organizational evolution and the hurdles faced by them to overcome turbulent times.
2. What are the factors that limit organizational change? Discuss the measures to be taken by the companies to ensure smooth transition.
3. Examine the various kinds of change that take place in the organizations and the role of employees at different levels.
4. Explain the modes of change that steers the companies towards path of growth. According to you, which mode of change is beneficial for the company? Justify your answer with appropriate examples.

12.10 Suggested Readings/Reference Material

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10. Ratan Raina, Change Management and Organizational Development, SAGE Publications, 2019
11. Ruchira Chaudhary, Coaching - The Secret Code to Uncommon Leadership, Penguin Random House India, 2021
12. Sajjad Nawaz Khan, Leadership and Followership in an Organizational Change Context, IGI Global, 2021

12.11 Answers to Check Your Progress

1. (a) Through profit centers and bonuses

In a decentralized organizational structure, the organization introduces profit centers and bonuses to motivate employees.

2. (a) Decentralized

In the stage of coordination, technical functions like data processing are centralized and daily operating decisions remain decentralized.

3. (b) Minimize the red-tapism

At the stage of collaboration, the emphasis of the organization is on interpersonal collaboration to minimize the red-tapism that was prevalent in the previous stage of evolution.

4. (b) Obsolete steering

Obsolete steering mechanisms downgrade or ignore market signals.

5. (c) Strategic planning

Some examples of dramatic change are: reducing costs, organizational restructuring, repositioning strategy, and changing the organizational mind-set.

6. (b) Benchmarking

Quality improvements, work reprogramming, benchmarking, and strategic planning are examples of systematic changes.

7. (a) Systematic change is focused and carefully constructed

As compared to dramatic change, systematic change is more focused and carefully constructed.

8. (b) Systematic training and development programs

Many organizations implement systematic training and development programs to create a suitable atmosphere for desired organizational change.

9. (c) Middle-level managers

The top leadership in the organization resorts to dramatic changes by bringing a new executive team, downsizing the workforce, bringing in hoards of consultants, and restructuring the company. But these initiatives may not meet with success. On the other hand, when middle-level managers take sound initiatives, these may spawn the desired change. When middle- level managers are successful in inducing change, one can say that imperative rejuvenation is under way in that organization.

10. (a) Helps an organization to sustain its capability to innovate

Balancing organic change and systematic change helps an organization to sustain its capability to innovate.

11. (d) Obsolete steering mechanisms

Obsolete steering mechanism is not used by leaders to rejuvenate their employees. In driven rejuvenation, some leaders rejuvenate their employees by setting a personal example or by changing the organization’s culture to encourage employees to undertake organic initiatives. Some organizations rejuvenate their people by encouraging specific behaviors.

Unit 13
Implementing Change

Structure

"Change is the law of life. And those who look only to the past or present are certain to miss the future".

- John F. Kennedy

13.1 Introduction

The previous unit discussed the evolution of an organization, the factors that inhibit change, classification of change and different modes of change.

This unit discusses the steps involved in the transformation of an organization. It then goes on to explaining the concept of organizational culture. It then discusses the need to change culture. The unit finally discusses how culture is changed using mental models.

13.2 Objectives

By the end of this unit, you should be able to:

- Discuss the steps an organization goes through while attempting to change.
- Explain the concept of organizational culture.
- Analyze the need to change culture.
- Illustrate how culture is changed using mental models.

13.3 Transforming an Organization

The groundwork for the implementation of Six Sigma at General Electric (GE) had begun in 1988 in the form of an initiative known as the 'WorkOut' program. The company realized that its employees were an important source of intellectual power for new and creative ideas. The WorkOut program gave each employee an opportunity to influence and improve GE's operations. The program set four major goals that laid the groundwork for Six Sigma. The goals were: Build trust, empower employees, eliminate unnecessary work, and create a new paradigm for GE.

The Workout program helped in inculcating the Six Sigma principles of being open to new ideas within GE's culture and encouraged people to work more productively and efficiently.

The program redefined the way GE employees behaved, while Six Sigma redefined the way they worked. In 1991, GE took a few major moves toward adopting Six Sigma; the company began allocating resources, coordinating training programs, and changing its work culture and management style.

GE did not allow its existing corporate culture to stand in the way of implementing Six Sigma. Unlike other companies that customized Six Sigma to their existing culture, GE did not reconstruct the Six Sigma initiatives to fit its existing processes. Instead, the company made concerted efforts to reduce bureaucracy and create a new culture.

Training was the most important part of the implementation of Six Sigma at GE. Training in the Six Sigma quality program was accorded more importance than other professional development programs in the first few years of its implementation.

As a part of this transformation, GE asked each business unit to identify and develop Champions, Master Black Belts, and Green Belts. In 1996, the company invested US$ 200 million to train 200 Master Black Belts, and 800 Black Belts.

In March 1997, Jack Welch, the then CEO of GE, asked every manager at GE to start Black Belt or Green Belt training by January 1998, and complete the training by July 1998. He linked this training to their promotions as well. It took time for GE's large workforce to take to the idea of Six Sigma.

When the employees were convinced that some form of training was necessary for even minimal advancement within the company, they began to sign up for training in greater numbers.

As Six Sigma placed a strong emphasis on the customer, GE developed a tool that became an integral part of its 'Six Sigma' process. The tool was known as the 'Customer Dashboard' and sought feedback from key customers.

Customers were expected to list the most critical-to-quality measurements of any of the company's products or services. The tool helped employees find out how well the company was fulfilling customer needs, in quantifiable, objective terms.

GE also developed an intranet site, for employees to study the Six Sigma process. The site offered information and status reports on Six Sigma projects. Employees could also share their best practices for completing the projects.

GE made its employees realize that Six Sigma could be used not only for improving the quality of products but also for the quality of services offered. Thus, the company applied the tool to its transactions and services businesses also. Managers were trained in Design for Six Sigma (DFSS), to help the company design and induce Six Sigma into every product and service. DFSS could be used for everything ranging from designing an engine blade to answering a phone call about a credit card. The company also believed that DFSS's statistical processes were critical to ensuring that the customer's expectations of quality in its products were met.

Thus, implementing change needs a clear plan and the adequate involvement of people in the organization. The process of considered change has to be well-played, and consistently reaffirmed. Unless the change is rooted in the culture of the organization, the chances of its having a significant impact are poor.

Transforming an organization requires initiative, cooperation, and a willingness of the employees and managers in the organization to make sacrifices. Though change involves a certain amount of pain, according to John P. Kotter, an organization attempting to change can minimize this pain by:

- Establishing a sense of urgency
- Creating a guiding coalition
- Developing a change vision and strategy
- Communicating the change vision
- Empowering employees for broad-based action
- Generating short-term wins and
- Consolidating change.

Check Your Progress - 1

1. According to John P. Kotter, which of the following help an organization attempting to change in empowering employees for broad-based action?

   a. Communicating the change vision

   b. Foreseeing a vision

   c. Developing a Six Sigma culture

   d. Depend on past glories

Each step is part of the process of change, and lasts for quite a long time. Mistakes made in any of these steps can undermine the momentum of the change process significantly. The steps are explained in detail below.

13.3.1 Establishing a Sense of Urgency

Complacency is one of the obvious reasons why organizations do not change. Complacency prevails in the organization for the following reasons:

- There are no signs of visible crisis. For example, the firm may not be losing money; it may not be bankrupt at that point of time. As a result, managers and employees feel comfortable and do not take change seriously. But if one looks closer, there certainly could be a crisis. The company might be gradually but consistently losing its market share and margins. As this is not an immediately engulfing issue, the sense of urgency may not be apparent.
- Employees and managers work in an office environment that still reflects past glories and not current realities. As a result, they are not constantly reminded of where they are, and where they are headed.
- The structure of the organization defines performance in terms of functional goals only, and not in terms of goals at the organizational level. In such organizations all the departments have their own indices to rate their performance. But none of these indices reflect the overall performance of the organization on parameters such as total sales, return on equity, and net income. This mechanism breeds an environment where none of the employees are concerned when the organization goes down in terms of these parameters.
- Managers and employees manipulate internal planning and control systems. They not only change objectives but also the way the organization sets its objectives. At one organization, Kotter observed that an objective was to "launch a new ad campaign by June 15." But neither this objective nor its subsequent objectives were concerned with the results of this campaign. Results means responsibility, and accountability for their actions. Managers and employees seemed to want to avoid these. When managers in the organization do not accept responsibility for growth, naturally a sense of complacency prevails.
- Lack of appropriate performance feedback owing to faulty internal systems. For example, even when a company is losing its market share because of the poor quality of its products, it may not receive any complaints from irate customers because of the absence of a mechanism for receiving complaints. Further, when some responsible employees try to get down working and addressing the problems, they are either ignored or discriminated against.

Example

CANVA and F4S researched on the COVID-19 crisis. Their findings show, realizing the sense of urgency, American workers have shifted more toward problem solving. Sixty percent of those surveyed by them said they were more motivated by identifying and solving problems than by setting individual goals. This was because they had to adapt to multiple crises over the past year.

Source: https://www.fingerprintforsuccess.com/blog/sense-of-urgency Accessed on 22-12-21

How can One Create a Sense of Urgency?

Creating urgency demands bold and risky actions. Such actions might include drawing up a balance sheet reflecting losses accurately. Other hard options would be to sell luxurious headquarters, which the firm can no longer afford. Or to tie 50% of top management salaries to the organization's meeting its market share targets or Return On Equity targets. To establish a sense of urgency, the leadership in the organization needs to remove the factors that breed complacency. Some steps that can bring in urgency in place of complacency are:

- Establishing systems for evaluating managers based on their contribution to broader performance of the organization, rather than on a narrower definition of their function.
- Promoting interaction between unsatisfied customers, unhappy suppliers, and disgruntled shareholders on the one hand and employees on the other. Such interaction wakes employees up from the slumber of complacency.
- Distributing data on customer satisfaction, particularly data that concentrates on the organization's weaknesses compared to the competition, to as many employees and managers as possible.
- Asking consultants to participate in managerial meetings, so that the managers at the meeting get to know a different perspective from their own.
- Highlighting future opportunities, and the current inability of the firm to capitalize on those opportunities.

Earnest steps in this direction can minimize the levels of complacency in an organization.

Check Your Progress - 2

2. Which one of the following ways should an organization adopt in order to remove complacency and instill a sense of urgency?

   a. Making a comparison of the strengths of the organization with that of their competitors.

   b. Establishing systems for evaluating managers based on their contribution to broader performance of the organization, rather than on a narrower definition of their function.

   c. Minimizing future opportunities of growth for shareholders and employees.

   d. Conducting a customer satisfaction survey.

13.3.2 Creating a Guiding Coalition

Often, programs aimed at change or renewal gets the support of only a few people and resources. In the initial stages this may be sufficient, but to progress, and attain successful change, wider support through additional resources and people are essential.

Generally, a coalition is formed to guide change in an organization. This coalition usually comprises the CEO and his/her team of senior managers, and other managers and employees. The coalition should be powerful enough, in terms of titles, information, expertise, reputations, and relationships, to guide change in the organization.

Whenever possible, the coalition should try to engage board members, union leaders, and even key customers, to gain backing for bringing in the necessary changes.

The guiding coalition in a firm does not always include the senior management. Sometimes, it has to operate outside the normal hierarchy (a coalition outside the normal hierarchy is chosen because the hierarchy no longer meets the purpose). Such a coalition has to operate beyond set boundaries, expectations and protocol. This way of operating may pose additional challenges.

A sense of urgency among managers eases the process of creating a guiding coalition. This sense of urgency at the managerial level helps the top leadership to bring suitable managers together, and promote a shared understanding of company's problems and threats.

Such an understanding creates trust and facilitates clear communication among the coalition members. Undertaking an off-site retreat for two to three days is a popular method for promoting a shared understanding.

Organizations that succeed are characterized by teamwork at the top. The high-level team is led by a powerful line manager, and not by a staff executive. Without a powerful leader at the top and an equally powerful coalition, the forces opposing change can easily defeat the forces for change.

Example

According to the authors of '*Learning by Doing*', if one has to adapt successfully the PLC (Professional Learning Communities) process, one must grow and utilize a guiding coalition, based on the principle 'no one person will have the energy, expertise, and influence to lead a complex change process".

Contd....

The guiding must possess the following four characteristics:

1. An eagerness to promote change
2. Expertise relevant to the tasks on hand
3. High credibility with all stakeholders
4. Proven leadership skills

Source: https://www.allthingsplc.info/blog/view/423/growing-and-utilizing-your-guiding-coalition June 2020 Accessed on 28.02.2022

Activity 13.1

Gulmohur Collections Ltd. (Gulmohur) is a leading fashion house in India. It is known for its leading fashion brands and top notch designers. The company targeted the premium segment customers and hence was very profitable. The designers launched creative designs and were fast in delivery the products to the market. Of late the company witnessed that an upcoming fashion house, Petals India was also launching innovative products and were fast in delivering the output. Petals India targeted customers at the middle and the premium segment. Though the new fashion house did not have any effect on the profitability of Gulmohur, the CEO of Gulmohur, Dilip Singh (Singh) felt the need to transform the organization before the crisis took place.

Suggest what steps Singh should take in order to bring about a change in the organization.

If you were the CEO of Gulmohur, how would you tackle such a situation?

Answer:

13.3.3 Developing a Vision and Strategy for Change

The guiding coalition needs a vision or a clear picture of the future. The vision provides the direction in which the organization needs to move. Hence, it is referred to as the change vision. This vision should be easy to communicate. It should appeal to customers, stockholders, and employees. In ordinary circumstances, the vision for change arises from a single individual, and is often not clear. After a thorough discussion of the vision by the partners in the coalition, the vision becomes more clear, and the coalition can even chalk out a strategy to achieve the vision.

An unclear change vision can derail the transformation of a company. Without a guiding vision, the efforts aimed at change are fragmented, and amount to nothing more than confusion as they are often incompatible. Efforts without a clear vision are bound to fail, even if plans, directives, procedures, programs, goals, and deadlines are properly laid out. The many details of transformation can confuse or alienate employees unless they have a clear understanding of where they are being led.

A change vision should be compelling enough to motivate fundamental rethinking at all levels of the company. However, it should not be impossible to realize. If the change vision is difficult to attain then it will have no credibility, and change will never take place.

The success of a change vision depends upon the circumstances in which the firm operates, and the leader's ability to communicate. The feasibility of a change vision depends to a great extent on the ability of the leader to carry others with him/her.

A leader who is good at convincing people can make ambitious goals appear quite feasible. Judging the feasibility of the vision also depends on a clear and rational understanding of the organization's strengths and weaknesses, the environment in which the organization operates, and competitive trends. Formulating a strategy that takes into consideration all these aspects is a prerequisite to realizing the change vision.

According to Kotter, the success of a company's transformation process depends on how easily and quickly the leader communicates the change vision to his/her employees and on how readily the employees understand and take an interest in the vision.

Example

Vision Statement of Amazon

"Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online".

Source: https://www.comparably.com/companies/amazon/mission Accessed on 22-12-21

Check Your Progress - 3

3. On what basis does the success of a company's transformation process depend?
   a. How quickly employees leave the organization
   b. Rigidity of the environment
   c. By formation of coalition
   d. How easily and quickly the leader communicates the change vision to his/her employees

13.3.4 Communicating the Change Vision

The power of the change vision can be realized fully only when most people in the organization understand the goals and direction in which they are being led. A shared sense of a desirable future can motivate and coordinate actions in such way that it leads to the desired transformation in the organization.

But often the change vision is not communicated clearly. This happens because the people in the organization, who are unaware of the urgency of the change, don't pay attention to information that clarifies the change vision. This can also happen when the guiding coalition is not coherent, and creates and sends message that describes the change vision inappropriately.

For people who are trained as managers, communicating a vision is often difficult. They normally think only in terms of their immediate subordinates and superiors, and not about the broader constituents (such as policy makers, NGOs, etc.) who are relevant to the vision.

Managers are comfortable with routine factual communication, but not future-oriented strategizing. The communication of a change vision needs a clear sense of the problem and how it can be solved.

Managers tend to blame the so-called limited intellectual capabilities of lower-level employees and human aversion to change for their own inability to communicate. These can be real problems, but the main problem according to Kotter is the process itself.

Making employees and managers "buy" the change vision is challenging, both intellectually and emotionally. People should be ready to go beyond their vested interests and insecurities, and make sacrifices in order to be comfortable with the envisioned future. Convincing people to change in these dimensions is a difficult task.

Exhibit 13.1 deals with Satya Nadella's style of communicating the change vision.

Exhibit 13.1: Communicating the Change Vision – Satya Nadella's Style

In 2014, when Satya Nadella took over the charge of CEO at Microsoft, there was huge internal competition prevailing which was very destructive.

By observing the challenges existing, in 2016, Nadella built a new AI and Research Group by integrating their original group with that of Cortana, Bing and other Information Platform teams. This collaboration has resulted in getting all 5000 engineers and computer scientists to form a group to concentrate and build artificial innovation in all the Microsoft product lines. Before attempting to implement this change, Nadella communicated the new mission to his employees. He said "To empower every person and every organization on the plant to achieve more."

Contd….

He combined all the Microsoft products and platforms into one limited set of common goals so that employees can focus on one common goal. He communicated his thought process saying "Over the past year, we have challenged ourselves to think about our core mission, our soul – what would be lost if we disappeared… We also asked ourselves, what culture do we want to foster that will enable us to achieve these goals?". With the clear message from the CEO, employees got a sense of purpose, and improved their morale. It also resulted in greater employee engagement. All employees started following the common goal to get the real meaning of work.

Source: https://www.tinypulse.com/blog/3-examples-of-organizational-change-and-why-they-got-it-right, June 16, 2020, Accessed on 22.10.21.

How can One Ensure Clear Communication of the Change Vision?

In order to communicate the change vision well, the guiding coalition overseeing change should pay attention to the following aspects:

- The language used to communicate the change vision should be simple and not involve jargon. It should not leave any scope for multiple interpretations or misinterpretations.
- Whenever appropriate, the message should use metaphors, analogies, and examples. These can help paint a clear picture of the future for members of the organization.
- The change vision can be conveyed well if the guiding coalition uses multiple channels. It can take advantage of meetings - both big and small, formal channels like memos, media like newspapers, and informal channels, to spread the ideas that underlie the change vision.
- Ideas pertaining to the change vision do not sink in immediately. They need consistent repetition with a view to reminding people in the organization of the ideas.
- The deeds and words of important people in the organization must be consistent. If the behavior of important people is not consistent with their words, it will undermine the credibility of communication.

Check Your Progress - 4

4. Which of the following is not an aspect that is to be ensured while communicating the change vision?
   a. Use metaphors, analogies, and examples
   b. Consistent repetition with a view to reminding people
   c. Change vision should be simple
   d. Change vision should use jargons

13.3.5 Empowering Employees for Broad-Based Action

Organizational change needs the full support of employees and managers in the organization. For this to happen, the guiding coalition needs to empower people to take action. In many cases the guiding coalition simply communicates the new direction to the people. But this is not sufficient to bring about change in the organization. The obstacles to change should also be removed.

Very often, the people at different levels in the organization want to move in the new direction visualized by the coalition, but they are hampered by obstacles which block the way to change. The obstacles may be organizational structures, skills, systems, and superiors.

To overcome these obstacles, the following steps are necessary:

1. **Ensure Compatibility between the Structure and the Change Vision**

   Structures that are not aligned with the change vision block the required action. If structural barriers are not removed when the change vision is publicized, employees get frustrated, and this undermines the transformational effort.

   If the structure is aligned with the change vision at a later point in time, the organizational energies necessary to employ new structures to realize the change vision, may simply not be generated.

   Changing structures can be difficult because employees are accustomed to a basic organizational design, and are blind to other alternatives. Also they have invested significantly in the existing structure in terms of personal loyalties and functional expertise, and do not want to shift to a different structure.

   Though senior managers may appreciate the need to change the existing organizational structure, they might not be willing to arouse dissatisfaction among middle managers and their peers. Hence, any effort aimed at changing the structure must be carefully planned and executed.

2. **Train Employees**

   Employees feel empowered and show an inclination to change, when they are equipped with the right skills and attitudes to operate in the intended organizational environment. As skills and attitudes are acquired over a long period of time, employees cannot be expected to shed all their old skills and attitudes and acquire new ones within a few days of training.

   Employees and managers need enough time for this. Sometimes, employees are provided training to acquire only technical skills and not social skills and attitudes. It is also common to find that after training the employees, nobody bothers to check how successfully they are employing their skills, and what problems they are encountering while using these skills.

Leaders overseeing the change process need to pay enough attention to the new behaviors, skills and attitudes necessary to bring about the desired change.

3. **Align organizational systems to the vision**

   Organizational systems that are not aligned with the vision act as blocks to the required actions. Though systems are easier to change than culture, simply erasing all inconsistencies between the new vision and current systems in a day or two may not be possible. This too needs proper planning and consistent effort. For example, the HR department needs time to align the HR systems such as performance appraisal, compensation, promotions, etc. with the new vision.

Example

Organizational alignment is a key differentiator between high-performing and low-performing companies. In fact, research by LSA (Learning Solutions Alliance) Global, a Business Management Consultant in California, USA, found that highly aligned companies grow revenue 58% faster and are 72% more profitable, and outperform unaligned peers in employee engagement, customer satisfaction and retainment, and leadership.

Source: https://www.quantumworkplace.com/future-of-work/how-to-align-organizational-goals Feb 2021 Accessed on 28.02.2022

4. **Confront errant managers**

   Managers resisting change can derail the process of change. Senior managers confronted with such errant managers, take recourse to marginalizing them. But marginalizing errant managers can take time, and is wasteful of the senior manager's precious time and energies.

   Another option, Kotter suggests, is to have an honest dialogue with such managers. The senior manager must make clear what the organization's expectations are. He/she should also ask what the organization can do to align the manager concerned with the change vision. If this dialogue does not yield any results, the errant manager should be fired.

13.3.6 Generating Short-term Wins

If a re-engineering effort delivers cost reduction as promised in a given time, then it is a win. Similarly, if reorganization leads to reduction in the company's new product development cycle from 10 months to 3 months, then it too is a win. These wins are short-term wins because they are attained in a relatively short period. Whatever the size of the organization, some small wins are clearly necessary in the initial stages of transformation. According to Kotter, a short-term win has the following characteristics:

- It has to be clearly visible and verifiable. The result of this win has to be concrete and real; not subjective or similar to hype.

- The win should result in an improvement in the organization. There should not be any confusion over that aspect.
- The win should be relevant to the change effort.

Did You Know?
While working on short-term wins, the team will work simultaneously on item(s) that take longer to accomplish.

Source: https://iris.peabody.vanderbilt.edu/module/inc/cresource/q4/p10/ Accessed on 22-12-21

Why are Short-term Wins Important?

Scoring short-term wins is important for the following reasons:

- They reinforce that sacrifices made by the organization are worth the effort. The wins provide justification for short-term costs.
- Positive feedback that comes with these wins boosts the morale of the people attempting change, and improves their motivation levels.
- As short-term wins provide concrete data to test the vision against reality, they help fine-tune the vision and the strategies to achieve it.
- They provide evidence that clears the doubts of cynics, and undermines the resistance of people interested in maintaining the status quo. Improvements in performance reduce the obstacles that stand in the way of change.
- Short-term wins also step up the momentum of the change effort by converting people who were earlier undecided, to supporters of change, and transforming reluctant supporters into active helpers.

Identifying performance improvements that indicate short-term wins is often difficult as organizations rarely have information systems that track improvements accurately. So special care should be taken to generate and take note of short-term wins that are visible.

Check Your Progress - 5

5. Which of the following is not a characteristic of a short-term win?
   a. The win should be relevant to the change effort.
   b. The win may not show any improvement in any process.
   c. The win has to be clearly visible and verifiable.
   d. The win should result in an improvement in the organization.

13.3.7 Consolidating Change

Any major change takes time to take effect. Many factors influence the movement toward change. If there is a turnover of some principal change agents, this reduces the momentum of change.

A similar problem arises when the change leaders in the organization are exhausted by their efforts. Short-term wins help the firm continue in the direction of change with the same momentum.

But if short-term wins are celebrated too much, this can lead to a reduction in the sense of urgency. Once this urgency is lost, forces opposing the change take over, and derail the change process.

Change does not take place easily. There are two reasons for this:

- Changing corporate culture is extremely difficult;
- The inter-connections between the different parts of the organization make it difficult to change anything without changing everything.

One part of the organization influences decision making in another part of the organization either directly or indirectly. In order to bring about change in an organization, it is usually not enough to change a particular element in the organization. Several elements in the organization need to be changed at the same time.

In the phase of consolidation, the guiding coalition attempts to cash in on the credibility generated through short-term wins. It does so by taking up larger change projects.

More people are brought into change mode to promote and bring in more changes. The top leadership makes an effort to ensure clarity in the shared purpose of change, and maintain a sense of urgency.

People from the lower levels of the organization also start taking initiative, and provide leadership in specific projects. Senior managers attempt to remove redundant interdependencies to make change easy both in the short term and the long term.

Check Your Progress - 6

6. Why does not change take place easily?
   a. Changing the decision-making is difficult.
   b. Changing corporate culture is extremely difficult.
   c. Changing organizational structure is difficult.
   d. Managers attempt to maintain redundant interdependencies.

13.4 Understanding Organizational Culture

According to Edgar H. Schein (MIT), organizational culture is the pattern of basic assumptions that a given group has invented, discovered or developed, in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel, in relation to these problems.

Culture is influenced by unconscious assumptions which determine how a group perceives, thinks, and feels. The assumptions are actually learned responses.

Members of the group learned to react according to the need of the situation. These learned responses were, in turn, espoused values at some point of time in the past. Values are reflected in behavior.

When the behavior addresses the problem at hand, the values are slowly taken for granted, and they become, over a period of time, underlying assumptions.

As people assign importance to the values giving rise to their behavior by following them and continuing to behave in a certain way, the values underlying the behavior become unconscious assumptions.

Such unconscious assumptions are very powerful. They become sacred to the people who hold them. These people often refuse to even discuss them. For example, "education benefits people" is one such unconscious assumption. Although it is widely held, it is nevertheless an assumption. Similarly, "freedom is good for society" is an unconscious assumption. Today, most people consider these assumptions as self-evident truths. When events that are not congruent with the organization's culture occur in an organization, employees get dissatisfied, and sometimes even leave the organization. This is what happened at Netscape when it was taken over by AOL.

Netscape was known for its casual, flexible, and independent culture. Employees were not bound by rigid schedules and policies, and were free to come and go as they pleased. They were even allowed to work from home.

The company promoted an environment of equality – everyone was encouraged to contribute his/her opinions. This was also evident in the company's cubicle policy. Everyone, including the then CEO Barksdale, worked in a cubicle.

The company promoted experimentation and did not require employees to seek anyone's approval for trying out new ideas. For example, Patrick O'Hare, who managed Netscape's internal human resources website, was allowed to make changes to any page on the site, without anyone's approval. This was the culture at Netscape prior to the merger with AOL.

After the merger, in spite of assurances to the contrary by the CEO of AOL, people at Netscape were required to change the way they worked. As a result, by late 1999, most of the key employees who had been associated with Netscape for many years, had left.

Ramanathan Guha, one of Netscape's most senior engineers, threw up a US$ 4 million salaries at AOL to join Epinions.com. He was soon joined by Lou Montulli and Aleksander Totic, two of Netscape's six founding engineers.

Other Netscape employees helped start Responses. Some employees joined Accept.com and others Auction Watch. Spark PR was staffed almost entirely by former Netscape PR employees.

David B. Yoffie, professor at Harvard Business School, explains "...The heart and soul of the Netscape engineers' culture was to try to change the world through technology, not to change the world through media." AOL was attempting to change the world through the media. This difference of emphasis made many employees feel that they were working in the wrong place. So most of the engineers left and Netscape was transformed from a technology company to a media company.

13.4.1 Formation of Organizational Culture

Culture is formed and survives in an organization, as embedded in groups. The strength of the culture depends on the homogeneity and stability of group membership. If the members of the group leave the group after a brief stay then they will not imbibe much of the culture. In this case, the culture of the group will not be strong. The strength of the culture also depends upon the length and intensity of shared experiences.

If the members of a group go through difficult experiences or survive difficult organizational problems, then they tend to imbibe and pass on a strong organizational culture to new members in the group. If not, though the individual members hold strong assumptions the group may not reflect a strong culture. Such groups constitute the organization. The culture of the organization is the sum and substance of cultures of all these groups.

13.4.2 Role of Founders in the Formation of Organizational Culture

The founding group forms theories and paradigms based on how the group reaches consensus on various matters. Naturally, the evolution of culture is a multi-stage process. The organization and the development of its culture evolve through several stages of group formation. The final organizational culture then depends on the complex interaction between the assumptions and theories founders set in the beginning, and how the organization learns from subsequent experiences.

How are solutions (which subsequently form the core of the culture) developed in an organization?

The founders and early leaders in the organization bring cultural solutions into the new group of people comprising the organization. They arrive at these solutions by trying out different options, and adopting or rejecting them based on their usefulness.

Initially, the founders have a high level of influence on the organization. But as the organization ages and acquires its own experiences, it starts adopting its own solutions.

13.5 The Need to Change Culture

The culture of an organization has to evolve with the changing marketplace. This can be a matter of survival. The example of Digital Equipment Corporation (DEC) shows what happens when a company's culture gets outdated as the times change.

Ken Oslen founded DEC as a hardcore engineering company in 1957. The engineers prided themselves on their ability to create innovative products.

The values upheld at DEC were freedom and creativity. Driven by such a culture, which upheld these values, the company became the second largest computer manufacturer in the world.

The company was successful for nearly three decades. But the same culture turned out to be its undoing. The company failed to evolve when computers became a commoditized product.

DEC was not founded and run for making profit. It was founded for giving life to innovation and creativity. But the commoditized computer market wanted a product that was economical. The innovativeness of the product was not that important.

Under the innovation-based culture, products were required to compete with each other internally.

Based on this culture, DEC funded every good idea that ever occurred to its engineers. When computers became a commodity, nobody in the company was sure which model to back (three groups were working on three different PC models).

The lack of focus on a single product delayed the arrival of the final product in the market, and the company was also less competitive in the marketplace. The major problem was the lack of adequate resources for competing models within the firm.

One group was working on a large water-cooled computer that needed expensive technology and a lot of funding. Another group was working on the 'Alpha' chip that needed the same level of funding. DEC could not fund both adequately at the same time. It could have chosen one of the two.

But neither the founder nor the board was sure which would be the best bet. Neither of the groups was willing to allow higher priority to the other. Each was sure about the potential of their product and wanted the founder and the board to focus on it.

Innovation demands a culture which encourages debates and arguments. For over three decades this style characterized decision-making at DEC. But this model of decision-making degenerated into indecision, with each group maneuvering for resources for its pet project.

The new market conditions demanded a culture that emphasized cost-cutting. A culture that abhorred inefficiency was the need of the hour. But the top management at DEC was not willing to sacrifice its legacy.

It believed that the company's new products would generate enough growth to make up for its inefficiencies. Changing the culture was absolutely necessary. But the founder himself believed in the old culture. Bringing in any change would have required a complete overhauling of the company's leadership, including doing without the founder himself.

Bringing in new leadership might also result in the loss of the company's best engineers, and killing off many promising projects.

But despite the strains, the board decided to go ahead and overhaul the company. Without these changes DEC might have been history. The company's board fired Ken Oslen, and slashed the product line. It also fired most of its employees. Finally, the company survived as an entity, but was an entirely different DEC.

In the case of DEC, the company had to go through turmoil because it was not ready to change its cultural fabric when the market environment changed. As long as the survival of organization depends on its success in the marketplace, it has to pay attention to changing trends.

Culture is a binding force that gives coherence to organizational efforts. It should propagate success and not failure. When it is not steering the company toward success, it has to be changed or abandoned, using all the available means.

Activity 13.2

CVL Ltd. (CVL) is a leading consumer appliances company in India. The company encouraged its employees to offer innovative ideas for new product development. The ideas were collected and scanned by the top management and the best idea was selected and implemented. Sometimes more than one idea was selected and two projects ran at the same time. The company invested considerable resources in such projects. This however delayed the delivery of the products to the market. This gave an edge to its competitors and led to a decline in the sales of CVL. Thus the top management decided to focus on one project at a time so that resources were invested adequately. Moreover, all the employees were asked to work one project. This was not well-received by the employees since they aimed to grow the company by working on multiple projects.

In this situation, what should the top management do to change its culture?

If you were the CEO of the company, how would you explain the employees the need to change the culture? Discuss.

Answer:

13.6 Changing the Culture

Organizational culture is powerful, and changing it is difficult. Because people in the organization are carefully selected based on their compliance with the exiting culture, and they are further indoctrinated. And culture exerts itself through the actions and thinking of thousands of people.

To change culture one needs to change all these people. Once a particular culture is set, it often develops further without conscious intent or knowledge. It becomes difficult to either challenge or discuss it. In order to change a cultural unit, it is necessary to identify the group that is the culture's creator, host, or owner. Systems thinking helps in identifying these and facilitates the change of culture.

Check Your Progress - 7

7. On what does the strength of a culture depend?
   a. On theories and paradigms based on groups
   b. When people assign importance to traditions
   c. The homogeneity and stability of group membership
   d. Innovative products
8. Which is the binding force that gives coherence to organizational efforts?
   a. Leadership
   b. Innovation
   c. Human resources
   d. Culture

13.6.1 Changing Culture by Changing Mental Models

One way to change organizational culture is to change the mental models of employees in the organization. Organizational culture is significantly influenced by the mental models the employees in the organization hold. Mental models are the beliefs, images, and stories which people carry in their minds about other people, institutions, and every aspect of the world.

Mental models determine how people see the world. They are invaluable for day-to-day living. But all mental models are flawed in some or other way. When employees are forming their mental models, their past bias is already influencing the way this happens. From the beginning, mental models are only approximations of reality. They do not represent the situation exactly as it is.

Mental models play a key role in decision making in organizations. Some mental models might cause behavior that is not in the best interests of either the employees or the organization.

For example, assume that "the organization exists to make money" is the mental model held by a majority of employees in an organization. This mental model might be useful in the short-term, but it could be dangerous in the long-term.

Once the organization becomes reasonably successful, people get complacent and the organization starts ignoring customers and competition. Mental models such as these have to be changed. But the problem is that mental models are hard to identify. Identifying mental models needs reflection on one's thinking.

Once employees become aware of how they think, they can identify their mental models, and then move to change the organizational culture if necessary.

Example

According to a McKinsey academic research, when corporations launch transformations, roughly 70 percent fail. Many factors contribute to these failures.

They don't put the right change-management infrastructure in place. McKinsey has changed this trend by reverse engineering the failures and taking out bad behaviors. But the truth is that it is impossible to change an organization without changing its culture, its shared mental models.

Source: https://www.mckinsey.com/business-functions/transformation/our-insights/why-do-most-transformations-fail-a-conversation-with-harry-robinson July 2019 Accessed on 28.02.2022

Experiments conducted by Stanford psychologist Leon Festinger in 1957 show that people change their mind-sets only when they see the purpose of changing.

When they are convinced about the purpose, they are more ready to change and serve the intended purpose.

People are comfortable with change and will be enthusiastic about changing their mental models when they understand their role, and are satisfied about the importance of their role in the context of organizational change.

So any leader attempting to change culture has to first understand, thoroughly, why he/she is doing what he/she is doing, and then he/she must explain it to the others in the organization.

Changing culture does not merely mean going beyond the existing culture. It also involves creating new beliefs, attitudes, and systems. Toward this end, organizations can engage in building mental models.

Example

Marshall Bergmann, ex VP, of Regis Company, in his article gives examples of two senior regional vice presidents, Asher and Emery, with different set of mental modes on customer satisfaction. While Emery thinks that product price is important for customer satisfaction, Asher thinks that employee satisfaction leads to customer satisfaction.

Contd.....

When such cases arise, the most important task for the leader is to help them change their mental models to suit to the growth of the organization.

Source: https://www.regiscompany.com/change-your-mental-models/ Accessed on 22-12-21

Changing Beliefs

The beliefs that influence specific behaviors need to be changed. First one has to understand how these beliefs are formed.

People form beliefs relating to work during training, or during their experiences in the organization, or when they hear inside or outside stories on the company's prospects, or when they learn of their leaders' perspectives when they hear them or see them doing something.

Exhibit 13.2 illustrates the views of Jack Welch on beliefs and mental modes.

Exhibit 13.2: Jack Welch and the Alignment of Mental Models

Jack Welch (Welch), the former CEO of General Electric (GE) believed that the art of running a business involved ensuring that all important decision makers had access to precisely the same set of facts. If this had happened; they would approximately reach the same conclusion about how to deal with a business issue.

In ensuring that the same information was reaching all the decision makers, Welch was ensuring that all the decision makers were operating based on the same "mental models." At his corporate executive council meetings, he encouraged key leaders at GE exchanged their ideas. This exchange was an important part of learning, in his opinion.

By exchanging their ideas, the leaders at GE were gravitating toward similar "mental models." GE also relied heavily on employee surveys as part of its learning culture. What is GE doing here? It was ensuring that the leaders at the top grasp the "mental models" prevalent at different levels in the organization.

Source: ICMR (IBS Center for Management Research).

People change only when they see new evidence that proves that their old beliefs are false. This is what leaders are supposed to do. They should communicate as much as possible using the available new evidence.

Changing culture is possible only when people who are part of the culture become aware of their beliefs and behaviors.

Dick Brown, the then CEO of EDS between 1998 and 2003, tried to change his organization's culture by focusing on beliefs and behaviors in the organization. In a senior leadership meeting in January 2000, he asked his people to try to state the beliefs that had shaped their view of the company in the last five years, and then the beliefs that were needed to take the organization forward at that point.

They came up with the following list:

- The new EDS beliefs became the agenda for attitude change among all EDS leaders.
- Bringing a new set of beliefs and practices into the culture of an organization can be difficult, even when the beliefs and practices are consistent with the core of the culture.
- Imagine how difficult it would be to bring in practices that are contrary to the existing culture.

B.F. Skinner's theories highlight the importance of conditioning and positive reinforcement in nurturing the desired behavior. Organizational designers must design reporting structures, management and operating processes, and measurement procedures (such as setting targets, giving rewards) in such a way that they reinforce the desired culture. If there is no reinforcement of the company's new culture, employees will not adopt the desired culture all the time.

Organizations often make the mistake of expecting their employees to change their culture without providing them the skills required to do so. Employees generally encounter problems in adapting general guidelines to their specific situations. To transform themselves, the first thing employees need is time. They rarely get sufficient time to change their behavior.

David Kolb, an American educational theorist, demonstrated in the 1980s that adults cannot learn to behave in a desirable way just by listening to instructions. He showed that in order to learn, they have to absorb new information, experiment with it, and integrate that knowledge with their existing knowledge.

Hence, teaching aimed at creating and nurturing new culture must give enough consideration to the time frame necessary. It should be kept in mind that large-scale change never occurs in a day or two. It is a slow and arduous process.

Table 13.1 points the differences between old EDS beliefs and New EDS beliefs.

Table 13.1: Changing Beliefs at EDS

Old EDS Beliefs	New EDS Beliefs
1. We are in a commodity business. (The company is in a mature industry, where there is hardly any product differentiation or new growth opportunities.) 2. We cannot grow at market rates. (EDS is the biggest player in the commodity business. EDS can rarely find profitable growth opportunities.)	1. We can grow faster than the market-profitably, and by using capital efficiently. 2. We can increase productivity year after year.

Contd.….

3. Profits follow revenues. (EDS can make profits only when there is an increase in revenues.)	3. We are committed to our clients' success.
4. Each leader owns all the resources - control is the key. (This belief resulted in lack of coordination among business units.)	4. We will achieve service excellence.
5. My peer is my competitor. (The competitor in actuality is in market place, not in the next unit.)	5. Collaboration is the key to our success.
6. People are not accountable. (This amounts to "it's not my fault".)	6. We are going to be accountable and committed.
7. We know more than our clients. Our people will tell the client what solutions he or she needs. (This belief prevented EDS from listening and learning about actual customer needs.)	7. We will be better listeners to our clients.

Adapted from "Execution: The Discipline of Getting Things Done," By Larry Bossidy and Ram Charan, Crown Business, https://www.amazon.in/Execution-Discipline-Getting-Things-Done/dp/1847940684/ref=pd_lpo_1?pd_rd_i=1847940684&psc=1 3 February 2011

Exhibit 13.3 details on the differences between the years of depression and post-depression in U.S.

Exhibit 13.3: Going beyond the Depression Era

John P Kotter writes about a company in the years of depression and post-depression in the US in his book "Leading change." This company was founded in 1928 - the depression era. As a result, the practices followed in the company were conservative. The norms and values also reflected the same conservatism.

When the company faced problems in the 1980s, the top management tried to make major changes in the way the company operated. Though they were necessary, and though the company had no other alternatives, tensions mounted in the organization between the people who were conservative and those who were more willing to take risks. The evidence indicated that new methods were appropriate. These methods had the full support of the management, yet the old culture refused to die.

The top management took the following steps:

1. It communicated extensively on how new practices were leading to performance improvements.
2. It discussed the origins of the old culture, how it had served the organization well, and why this culture was no longer useful.

Contd….

3. It encouraged people over 55 years to retire, and did its best to retain people who were enthusiastic in their support of the new culture.
4. It ensured that new hires were not recruited based on the old norms.
5. It saw to it that promotions were given strictly on the basis of the individual's adherence to norms.
6. It ensured that the three candidates most likely to replace the CEO did not hold the values of the organization's depression era culture.

Adapted from "Leading Change," by John P. Kotter, https://www.amazon.in/Leading-Change-New-Preface-Author/dp/1422186431 6 November 2012 Accessed on 28.02.2022

Check Your Progress - 8

9. In which of the following ways, an organizational culture can be changed?
   a. Change the mental models of employees
   b. Apply force or coercion
   c. Give more incentives or benefits
   d. Give authority to all the employees
10. What is the significance of a mental model in cultural change?
    a. Retains the beliefs, stories, and images which people carry in their minds
    b. Helps in developing leadership qualities
    c. Makes people self-sustainable
    d. Plays a key role in decision making in organizations
11. When can the employees of an organization accept culture change?
    a. When they are satisfied that their old beliefs are retained
    b. When they understand their role, and are satisfied about the importance of their role in the context of organizational change
    c. When they are promoted
    d. When the core values and beliefs are changed

13.7 Summary

- Transforming an organization requires initiative, cooperation and willingness to make sacrifices from most of the employees and managers in the organization. The transformation process will be successful, when the organization goes through a step-by-step process.

- John P. Kotter suggests some preliminary steps before attempting to change the culture of the organization. The steps are: establishing a sense of urgency, creating a guiding coalition, developing a change vision and strategy, communicating the change vision, empowering employees for broad-based action, generating short-term wins, and consolidating change.
- Organizational culture is the pattern of basic assumptions that a given group has invented, discovered or developed, in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to these problems.
- Culture is a binding force that can give coherence to organizational efforts. It should propagate success, and not failure.
- One way to change organizational culture is to change the mental models of employees in the organization. Organizational culture is significantly influenced by the mental models the employees in the organization hold. Mental models are the beliefs, images, and stories which people carry in their minds about other people, institutions, and every aspect of the world.

13.8 Glossary

Organizational culture: Organizational culture is the pattern of basic assumptions that a given group has invented, discovered or developed, in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel, in relation to these problems.

13.9 Self-Assessment Exercises

1. Explain the process of change as suggested by John P. Kotter.
2. What are the various hurdles that organization faces in the process of transformation?
3. Discuss the need for understanding the culture of an organization.
4. Describe need to change culture.
5. Explain how culture is changed.

13.10 Suggested Readings/Reference Material

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12. Sajjad Nawaz Khan, Leadership and Followership in an Organizational Change Context, IGI Global, 2021

13.11 Answers to Check Your Progress

1. (a) Communicating the change vision

According to John P. Kotter, an organization attempting to change can minimize this pain by: establishing a sense of urgency, creating a guiding coalition, developing a change vision and strategy, communicating the change vision, empowering employees for broad-based action, generating short-term wins and consolidating change.

2. (b) Establishing systems for evaluating managers based on their contribution to broader performance of the organization, rather than on a narrower definition of their function

To bring in urgency in place of complacency, organizations need to establish systems for evaluating managers based on their contribution to broader performance of the organization, rather than on a narrower definition of their function.

3. (d) How easily and quickly the leader communicates the change vision to his employees

According to Kotter, the success of a company's transformation process depends on how easily and quickly the leader communicates the change vision to his employees and on how readily the employees understand and take an interest in the vision.

4. (d) Change vision should use jargons

In order to communicate the change vision well, the guiding coalition overseeing change should pay attention to the following aspects:

- The language used to communicate the change vision should be simple and not involve jargon. It should not leave any scope for multiple interpretations or misinterpretations.
- Whenever appropriate, the message should use metaphors, analogies, and examples. These can help paint a clear picture of the future for members of the organization.
- The change vision can be conveyed well if the guiding coalition uses multiple channels. It can take advantage of meetings - both big and small, formal channels like memos, media like newspapers, and informal channels, to spread the ideas that underlie the change vision.
- Ideas pertaining to the change vision do not sink in immediately. They need consistent repetition with a view to reminding people in the organization of the ideas.
- The deeds and words of important people in the organization must be consistent. If the behavior of important people is not consistent with their words, it will undermine the credibility of communication.

5. (b) The win may not show any improvement in any process

According to Kotter, a short-term win has the following characteristics:

- It has to be clearly visible and verifiable. The result of this win has to be concrete and real; not subjective or similar to hype.
- The win should result in an improvement in the organization. There should not be any confusion over that aspect.
- The win should be relevant to the change effort.

Hence option b is incorrect.

6. (b) Changing corporate culture is extremely difficult

Change does not take place easily. There are two reasons for this: changing corporate culture is extremely difficult (this aspect is discussed in detail below); and the inter-connections between the different parts of the organization make it difficult to change anything without changing everything.

7. (c) Homogeneity and stability of group membership

The strength of the culture depends on the homogeneity and stability of group membership.

8. (d) Culture

Culture is a binding force that gives coherence to organizational efforts.

9. (a) Mental models of employees

One of the ways to change organizational culture is to change the mental models of employees in the organization. Organizational culture is significantly influenced by the mental models the employees in the organization hold.

10. (d) Plays a key role in decision making in organizations

Mental models play a key role in decision making in organizations.

11. (b) When they understand their role, and are satisfied about the importance of their role in the context of organizational change

Experiments conducted by Stanford psychologist Leon Festinger in 1957 show that people change their mind-sets only when they see the purpose of changing. When they are convinced about the purpose, they are more ready to change and serve the intended purpose. People are comfortable with change and will be enthusiastic about changing their mental models when they understand their role, and are satisfied about the importance of their role in the context of organizational change.

Unit 14
Change Agents

Structure

"It is not the strongest or the most intelligent who will survive but those who can best manage change."

– Charles Darwin

14.1 Introduction

Managing change is most important as change is inevitable and constant.

The previous unit discussed the steps involved in the transformation of an organization and how culture is changed using mental models.

This unit discusses the role of CEO as change agent in organizations. It also explains the role of middle-level managers and HR personnel and consultants as change agents.

14.2 Objectives

By the end of this unit, you should be able to:

- Explain how CEOs act as change agents in an organization.
- Discuss how middle-level managers bring about change and influence people in an organization.
- Illustrate the traditional and new roles played by HR personnel as change agents.
- Analyze the role of management consultants as change agents.

14.3 CEOs as Change Agents

Bringing in change on a large scale is a demanding task for any CEO. He/she needs to leverage the forces for change latent in the organization to ensure successful change. A CEO has to be clear about his/her role and his/her plan of action.

Translating a powerful new strategy into effective action needs an active leader at the helm, a constructive corporate staff and a compatible organizational structure. Suitable management processes and a supportive corporate environment are essential for change to take place.

These are the basic assumptions a CEO has to keep in mind:

- Organizations are unique, and so are the working systems in these organizations.
- Leadership is the engine that drives the vehicle called change in the organization.
- Leading change is a process, not an event.
- Managers in an organization know the direction of change better than outsiders such as consultants.
- Change has to be driven, both bottom-up, and top-down.
- People participation is the key that unlocks change. People support what they create.
- Organizations are systems.
- Change can involve both rational and non-rational situations.
- A sense of timing is as important as leadership is, in ensuring change.

The change process might get derailed if the CEO falls into certain traps on the way.

As he/she is heading the organization he/she is expected to be impartial, and to ensure uniformity in the organization in terms of the goals the business units pursue, the organizational structure they adhere to, the various business activities they engage in, the rewards they are bestowed with, and the strategies they adopt.

This effort to maintain uniformity across the organization is praiseworthy if the business units are similar in all aspects. However, this treatment is inappropriate in the case of diversified organizations. In such organizations, each business unit has different priorities and needs a different approach to meet the new situations it faces.

The CEO is responsible and accountable to the company’s shareholders. There are situations in which he/she has to be conservative. But if conservative behavior becomes the norm, it may stifle creativity in the organization.

In an uncertain business environment, risk cannot be entirely eliminated but it can be anticipated and managed.

A CEO who is overly conservative in his/her approach discourages creative initiatives that come with a certain level of risk. When a CEO is trying to avoid risks like this, other managers and employees in the organization also adopt the same approach, and become fault-finders rather than catalysts for change.

In most cases, the CEO has many years of line experience in the industry concerned. This should not lead him/her to believe that he/she is totally conversant with whatever is happening in the marketplace. The CEO should not also accept changes in strategic plans suggested by the senior managers in the organization, without scrutinizing them carefully. He/she should question the hidden assumptions that underlie the strategic plans drawn up for the organization.

A CEO heading a large and diversified organization learns to delegate his/her authority. As a result, he/she tends to lose first-hand experience. Subsequently, he/she loses the feel for business activities. He/she may be forced to rely on his/her subordinates for crucial information.

To ensure that he/she obtains such critical information, the CEO should encourage open communication. He/she should be prepared to discuss issues on which he/she himself/herself is uncertain, with his/her subordinates. He/she should encourage them to convey all the information they have, irrespective of whether it carries good news or bad news.

Example

Google's Larry Page and Sergey Brin introduced the "20% Policy", wherein employees were encouraged to spend 20% of their time, working on creative and innovative ideas that could benefit Google and its future success along with their regular duties. By giving autonomy to subordinates, innovation has taken place in Google in the form of Google News, Google Mail, and even AdSense that brought profits in billions of dollars. In order for this policy to work effectively, Page and Brin were confident in their employees' skills, ability to motivate themselves, and the humility. They used to consult the bosses for help whenever they needed.

This example shows how Google bosses used to coordinate with their subordinates.

Source: https://www.thesuccessfactory.co.uk/blog/amazing-examples-of-leadership, Accessed on 23-12-21

Corporate strategy is the prime instrument for ushering in change in an organization. When the CEO is keen to bring in change, he/she should not delegate the responsibility of creating corporate strategy to others.

Managers should be allowed to formulate strategies, at the level of their business units. But it is the CEO who has to define the vision for the organization. This vision must be consistent with the corporate strategy he/she is formulating.

A CEO's intimate involvement in the formulation of corporate strategy should not mean that he/she is the only one to be involved in the process. He/she has to take the help of his/her subordinates to analyse and define important components of the vision.

Example

Tim Cook, CEO of Apple, once said that Apple needs "to own and control the primary technologies behind the products we make." It has doubled down on that commitment, becoming a major chip producer, in order to supply both iPhones and Macs. In Nov 2020, Apple announced M1, the first chip it has designed for the Mac. The CEO has to define the vision for the organization and the strategies need to be consistent to the vision.

Source:

https://www.voanews.com/a/silicon-valley-technology_apple-ceo-tim-cook-fulfilling-another-steve-jobs-vision/6194915.html

24 August 2020 Accessed on 28.02.2022

A CEO can send signals about the intended change, in the following situations:

- While guiding the activities of staff employees
- When defining a specific vision for the company
- During discussions
- By issuing public statements.

Thus a coordinated program of change, backed by sound and relevant strategy, and led by an active chief executive, can ensure significant progress in the desired direction in an organization.

Activity 14.1

Spin Motors (Spin), a manufacturer of electric engines and electric motors, was once a leading auto maker in the US. The company's slowness to adapt new models and reluctance to phase out its non-selling models resulted in the company facing losses. Thus the company appointed a new CEO Marshall Robinson (Robinson) to bring about changes in the organization and make it profitable. As a first step, Robinson restructured the organization. He changed the designations, new machinery was bought, and many fringe benefits of employees were cut down. These changes were not well-received by the employees and they refused to work till the benefits were restored.

Do you think Robinson had not implemented change in an effective manner? Why (not)?

What should Robinson do so that employees do not resist change and accept them in order to make the company profitable? Discuss.

Answer:

Exhibit 14.1 illustrates how Xerox' CEO acted as change agent to develop the company.

Exhibit 14.1: CEO as Change Agent

Xerox management announced organizational changes in 2021 to attain long-term growth by creating three new businesses i.e. Financing, Software and Innovation. Xerox Vice Chairman and CEO, John Visentin, disclosed the execution plans. He supposed that creating three new businesses would help the organization in concentrating on the offerings made in each category by offering better reach and would also initiate organic growth. He anticipated that separating businesses would give more flexibility, focus and visibility in operations and to stand firm in the future.

To support the change, CEO John Visentin said that icole Torraco was promoted as senior vice president for Xerox Financial Services (XFS) and would be reporting to him directly. Further he said that Sam Waicberg, who joined Xerox in the process of CareAR acquisition, would be the vice president and general manager of Digital Services to lead the software business, and should be working with the President and Chief Operations Officer Steve Bandrowczak. Naresh Shanker would be the senior vice president and chief technology officer and head the PARC Innovation business.

Source: https://www.piworld.com/article/xerox-announces-organization-changes/ Feb 2021, Accessed on 27.12.21.

Check Your Progress - 1

1. Which of the following should a CEO keep in mind while implementing change?
   a. Leading change is an event and not a process.
   b. Change is driven only from top to down.
   c. Leadership is the engine that drives the vehicle called change in the organization.
   d. Consultants know the direction of change better than the managers.
2. Which of the following is the prime instrument for ushering in change in an organization?
   a. Corporate strategy
   b. Diversification strategy
   c. Layoff
   d. Cultural dynamics

3. A CEO can communicate the desired change in the organization by:
   a. Delegating the responsibility of creating corporate strategy to others
   b. Accepting changes in strategic plans suggested by the senior managers in the organization
   c. Conducting informal meetings
   d. Defining a specific vision for the company

14.4 Middle-Level Managers as Change Agents

The role of middle managers is crucial in managing change. They act as a connecting link between the top management's aspirations and strategic intent, market realities, and the capabilities of the work force.

Example

At Fort Wayne, Indiana (USA), the electrical motors business of General Electric had been languishing with zero percent return on investment. But with some remarkable initiatives taken by middle managers at this unit, the returns reached 25% in a few years. How did they do it?

- The doses of market reality infused by these middle-level managers stimulated employee innovation, and higher levels of productivity. "Quick market intelligence" was the key word.
- To gain information about the market, managers interacted with customers frequently, and did competitor product analysis.
- Information relating to the marketplace was shared during Monday morning meetings.
- This information helped the business unit to adapt to change in the marketplace (in terms of customer preferences) and competitor practices.

Middle-level managers can bring about change in the actions of people around them. They influence the actions of people reporting to them as well as the people who they report to.

Example

At Texas Commerce Bank (TCB), the top management led by the CEO envisioned a complete redesign of processes. The visible objective of the change effort was to reduce costs by US$ 50 million.

Contd….

The middle-level managers felt that the mission was uninspiring. The mission did not appeal to employees at lower levels also. Just as the change initiative was about to fail, a group of middle-level managers suggested a new objective to the top management. The objective was to "Eliminate what annoys customers and employees." This caught the imagination of thousands of employees.

Finally, the change effort went far beyond meeting the financial objective. The change effort at TCB still continues, based on the partnership between the then CEO Marc Shapiro (Shapiro) and a group of middle-level managers. The relationship is remarkable because it went beyond rigid vertical hierarchies and informal networks.

As Shapiro himself has admitted, without the initiative and regular feedback from the middle-level managers, he might have ignored the importance of going beyond cost reduction.

In spite of a great team at the top management level, a major change initiative will never succeed unless there is dedicated cadre of middle-level managers signed up for the change.

Example

Even before COVID-19 arose, the position of middle managers was declining. Many started thinking the middle managers are unnecessary when work from home started by many companies. James Heskett, emeritus professor at Harvard Business School, asks the readers to think whether technology and changing organizational relationships associated with remote work made the middle manager's role less necessary.

Can much of what middle managers do be replaced by artificial intelligence?

Source: https://hbswk.hbs.edu/item/what-does-remote-work-mean-for-middle-managers 01 MAR 2021 ACCESSED ON 28.02.2022

This example illustrates the changing nature of middle level management positions.

Check Your Progress - 2

4. Who acts as the catalyst between the top management's aspirations and the market realities while enforcing change?
   a. CEO
   b. HR personnel
   c. Middle-level managers
   d. Consultants

14.5 HR Personnel as Change Agents

HR departments in organizations are meant to improve performance levels by minimizing costs, to develop leadership in the organization, and to bring in the necessary change in the culture, structure, systems, and processes at the workplace.

Example

According to an article in Forbes, 62% of people don't like leaving their comfort zone. Change isn't easy because it forces people to move outside their comfort zone. HR as a change agent helps bridge the gap between the requirements of a change project and how that change is personally impacting employees.

Source: https://www.airiodion.com/hr-role-in-change-management/ Jan 2021 Accessed on 28.02.2022

14.5.1 Traditional Role in New Circumstances

Detailed planning and quick execution are extremely important for managing change. Some critical issues that may surface during change management are:

- Creating new job descriptions (changes in roles and responsibilities of employees, redefining the role of managers)
- Compensation and other reward systems
- Methods of transferring knowledge and education
- Maintaining high performance levels
- Maintaining appropriate relations with the employees and among them.

HR personnel have an important role to play during both the planning of change and its execution.

Example

During the merger between HP and Compaq, their HR departments acted swiftly and decisively. They designed the entire organizational structure top-down immediately after the merger was announced.

Teams were set up in each business area to look after the regular business activities. Country general managers, sub-region managers, function and customer business managers were in place by the time the merger was announced. This clarity in planning reduced the confusion that usually accompanies any merger.

HR departments worked with business managers in ensuring the proper representation of employees of both the companies on all the important teams. This made the integration process easier. One critical issue the departments faced was to ensure the compatibility of the new HR strategy with the business strategy of the merged entity. As a part of the reorganization of the company, the departments instituted a new employee selection process. This process was arrived at after looking into the scope and structure of the new business entity and staff requirements to perform the company's activities.

The HR personnel also had to ensure a proper alignment of the new organizational structure with the overall business strategy.

HR departments had to face challenges such as the diverse employee laws and consultation agreements in 39 countries in Europe, Middle East, and Africa. They had to address these new challenges while ensuring business continuity in a competitive environment.

If employees lack adequate knowledge of developments during a merger, they tend to misconceive the merger process and become victims of insecurity and poor morale.

In order to address this problem, the HR departments of HP introduced a change management tool called "Fast Start"- a program of "new team" discussion meetings for every employee. These meetings were intended to promote interaction between employees and their newly announced managers. During these meetings, the managers helped their employees get better understanding of the new HP "big picture."

The discussions usually ranged from the market strategy of the company, its approach to customers, and its culture, to the specific strategy for the business unit to which they belonged, and business unit goals, down to individual roles within a team.

One of the most important contributions made by the HR people was in the reorganization of job titles and base pay. They reorganized the global job structure and designed a common system of job codes, titles, and functions. The global grade structure and common pay ranges were implemented across units in different countries. Thus the active role played by the HR personnel as change agents resulted in a smooth integration process.

14.5.2 New Role amid New Circumstances

In some organizations such as Serco, HR is no longer seen simply as a personnel and administration function but also as a strategic component of the business itself. The senior HR people at Serco are referred to as "Change directors."

The new role of the HR department at Serco is:

- To define company's vision in people terms
- To act as the guardian of company's culture
- To play a key role in the development of business strategy

- To define Serco's "Route Map for Change" - an organizational process for bringing and managing internal change
- To train, educate, and develop Serco managers by providing the tools and techniques necessary for ushering in the desired change.

When bringing in change, HR departments face many challenges.

Though traditional skills are important, there is a need for broader business and commercial skills to manage change. Serco also faced this problem. To overcome this problem, the HR department at Serco identified the broad spectrum of skills that are necessary to facilitate change and began recruiting people who possessed these skills.

Today, the top HR personnel at this company act as strategic advisors to the board.

14.6 Consultants as Change Agents

The role of management consultants in creating new perspectives aimed at bringing about change has received lot of attention in recent times.

According to Smircich and Stubbart, management consultants challenge existing thinking patterns. They 'state the obvious, ask foolish questions, and doubt everything'. This forces the management to take a fresh look at the organization.

Gattiker and Larwood say that consultants are experienced at observation and analysis. And they can take an objective view of organizational problems because they do not need to defend their past actions. Though there are varied perspectives on the role of consultants, they certainly have a significant role to play as change agents.

Consultants play the role of change agents by changing the perspectives of the management on the emerging environment. Consultants need to possess the skills to assess the organization's readiness to change, to understand and appreciate the perspectives on resistance, to develop internal resources that will be needed to address similar problems in the future, and to give the appropriate non-judgmental and open feedback.

Example

Change is inevitable and organizations are looking for skilled change agents to bring progressive changes. Then what are the skills required for a change agent?

Michigan State University discusses the qualities required by change agents:

1. Flexibility: Change agents should be open to change and be connecting to people always.

Contd….

2. Diversified knowledge: Change agents should possess diversified knowledge and should know what is currently happening inside and outside the industry.
3. Prioritization: Change agents should be able to prioritize business goals for effective decision-making.
4. Accountability and responsibility: To gain the trust of the people, change agents are to take accountability and responsibility for the changes they have initiated.
5. Effective listening skills: Change agents must possess good listening skills to develop stronger relationships with their people.

Source: https://www.michiganstateuniversityonline.com/resources/leadership/qualities-of-effective-change-agents/January 12, 2022 Accessed on 28.02.2022

They familiarize the management of the organization with the problem-solving process. While reporting the results of a McKinsey study conducted in 1970 to GE's management, Fred Borch, the CEO of GE from 1963 to 1972, said:

"We decided that their recommendations on both the operating front and the staff front, conceptually were very sound. They hit right at the nut of the problem, but the implementation that they recommended just wouldn't fly as far as General Electric was concerned. We accepted about 100% of their conceptual contribution and virtually none of their implementation recommendations."

As the quote shows, consultants provide information, concepts, tools, and procedures necessary to understand the problems at hand.

Consultants provide the authority of knowledge necessary for a change initiative.

For example, Philips Electronics benefited immensely from the reputation of Cap Gemini (a consulting organization). Before restructuring, the company had 24 divisions and 300,000 employees spread all over the world. It had antiquated managerial systems and was governed from its headquarters in Holland.

This was the time when Japanese electronics giants such as Sony were dominating the consumer electronics market. Many felt that Philips Electronics would be wiped out. Media reports said that the company would split up and sell off key divisions. When Cap Gemini took on the role of change agent at Philips, investors and lenders began to regain confidence in the company.

A consultant's typical role is to act as an advisor to a taskforce comprised of client personnel. The taskforce, in most of the cases, has adequate technical knowledge. Members of the taskforce are clear about the objectives of the change initiative.

A consultant's task is to attain change smoothly and guide the management away from pitfalls. Consultants help minimize conflict of opinion by making the decision-making context clear and by introducing objectivity and relevance into the organizational decision-making system.

The leader of the organization is responsible and accountable for the problems in the organization. Consultants do not have such deep institutional responsibility. Hence, consultants are required to complement and not supplant the leadership in the organization.

A process-based consultant acts as a catalyst for change. He/she plays a key role in influencing the approaches taken, methods used, and values applied by employees (of his/her client), and thus facilitates the desired change. His/her business knowledge, analytical skills, and familiarity with the client give him/her considerable power to influence the thinking of the management. Yet he/she has no say in implementation. He/she cannot ensure that his/her recommendations are followed.

Most consultants are package-based rather than process-based. Package-based consultants are experts in their field. They relate to the client in a doctor/patient model of consulting. In this model of consulting, it is assumed that whenever a client (company here) faces a problem, it will be a standard problem and the consultant is already aware of the nature of such problem and he/she can suggest a solution for it.

Though this approach seems convenient, if there is no generic solution to the problem at hand, the problem may not be solved at all, and new problems may arise. So this approach should be used with caution.

On the other hand, a process-based consultant takes a client-centered approach. He/she asks reflective questions that reveal inner state of client's employees. He/she is a good listener. More than just listening, he/she can step into the shoes of his/her client and understand the reality the client is facing.

He/she knows the importance of feeding back the language the client is using. As he/she does this, he/she tries to identify assumptions that underlie the client's words. The consulting he/she does is facilitative in nature. This facilitative approach educates people in the organization and enhances their problem-solving ability.

Thus a process-based consultant helps his/her client solve the problems on his/her own. That way he/she strengthens the learning process of his/her client.

This task of developing internal resources is crucial to manage long-term change. Consultants can act as catalysts to build the organizational capacity necessary to change.

But real change is said to have occurred only when change is apparent in the day-to-day working of the firm. Then only can one say that change has materialized. This sort of comprehensive change takes a lot of time. Consultants cannot be expected to oversee this comprehensive change fully.

A consultant as a change agent is sensitive to both the client's values and attitudes. As James Smith, founder of Resources for Change, a consulting partnership located in Shoreview, says, the consultant serves his clients by helping them find ways of behaving when there is development, deterioration, obsolescence in the company's environment.

Activity 14.2

CSL Ltd. is a leading semiconductor manufacturing company in the US. Of late, the company witnessed that several local as well as international semiconductor manufacturers had entered the US market. This also led to a decline in its sales as the competitors offered their products at cheaper rates. To arrest the decline in its sales, the CEO of the company, Jack Milton (Milton), employed a consulting agency Alexa Consultants (Alexa). Alexa found that the company had rigid hierarchical structure which made communication process difficult.

The consultant also advised the company to spun off all its diverse business segments. Having taken the suggestions, Milton reduced the hierarchical structure of the organization. He also spun off its non-performing business segments. But he retained some of its diverse profitable businesses.

In this instance, Alexa is which type of consultant?

Do you think the measures taken by Milton would help the company in becoming profitable? Why (not)?

Suggest how else the consultants can deal with this problem.

Answer:

<u>Check Your Progress - 3</u>

5. Which of the following is a critical issue that may surface during change management?
   a. Delegation of work
   b. Creating new job descriptions (changes in roles and responsibilities of employees, redefining the role of managers)
   c. Need for a merger
   d. When change is apparent

6. What is the skill that a consultant must possess in the process of bringing in change in the organization?
   a. Understand and appreciate the perspectives on resistance
   b. Offer advices irrespective of the nature of change
   c. Study in detail about organizational change
   d. Bridge the gap between the employees and management
7. Which type of consultant is ideally a catalyst for change?
   a. Organization-based
   b. Task-based
   c. Process-based
   d. Package-based
8. Package-based consultants are those who:
   a. Are already aware of the nature of the problem and can suggest a solution for it
   b. Are facilitative in nature
   c. Educate people in the organization and enhance their problem-solving ability
   d. Give importance to long-term change

14.7 Summary

- Bringing in a dramatic change on a large scale is a demanding task for any CEO. He/she needs to leverage the forces latent in the organization to ensure successful change. A CEO has to be clear about his/her role and his/her plan of action.
- The role of middle managers is crucial in managing change. They connect and align the top management's aspirations and strategic intent, with ground realities of the marketplace.
- The HR department is actively engaged in the strategic component of the business as well. In bringing in changes, HR departments face many challenges. Though traditional skills of HR managers are important there is a need for broader business and commercial skills to manage change.
- Consultants help introduce new techniques into an organizational system. Sometimes they act as an extra resource in the organization to complement the efforts of internal staff. Consultants are also hired because they legitimize the process of change attempted by the management.

14.8 Glossary

Change agent: He brings in change on a large scale in an organization.

Consultants: They provide the authority of knowledge necessary for a change initiative.

Package-based consultants: They are experts in their field. They relate to the client in a doctor/patient model of consulting.

Process-based consultant: He acts as a catalyst for change

14.9 Self-Assessment Exercises

1. Discuss the role played by the CEO in executing organizational change. What are the challenges encountered by him/her during the transition phase?
2. Evaluate the importance of a middle-level manager as a change agent. In your opinion, to what extent can a manager succeed in influencing people to adapt to change?
3. What is the contribution made by the HR personnel dealing as a change agent?
4. How significant is the contribution made by the consultant in coping with change?

14.10 Suggested Readings/Reference Material

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14.11 Answers to Check Your Progress Questions

1. (c) Leadership is the engine that drives the vehicle called change in the organization

The basic assumptions a CEO has to keep in mind:

- Organizations are unique, and so are the working systems in these organizations.
- Leadership is the engine that drives the vehicle called change in the organization.
- Leading change is a process, not an event.
- Managers in an organization know the direction of change better than outsiders such as consultants.
- Change has to be driven, both bottom-up, and top-down.
- People participation is the key that unlocks change. People support what they create.
- Organizations are systems.
- Change can involve both rational and non-rational situations.
- A sense of timing is as important as leadership is, in ensuring change.

2. (a) Corporate strategy

Corporate strategy is the prime instrument for ushering in change in an organization. When the CEO is keen to bring in change, he/she should not delegate the responsibility of creating corporate strategy to others. Managers should be allowed to formulate strategies, at the level of their business units.

3. (d) Defining a specific vision for the company

A CEO can send signals about the intended change, in the following situations:

- While guiding the activities of staff employees
- When defining a specific vision for the company
- During discussions
- By issuing public statements.

4. (c) Middle-level managers

The role of middle managers is crucial in managing change. They act as a connecting link between the top management's aspirations and strategic intent, market realities, and the capabilities of the work force.

5. (b) Creating new job descriptions (changes in roles and responsibilities of employees, redefining the role of managers)

Detailed planning and quick execution are extremely important for managing change. Some critical issues that may surface during change management are:

- Creating new job descriptions (changes in roles and responsibilities of employees, redefining the role of managers)
- Compensation and other reward systems
- Methods of transferring knowledge and education
- Maintaining high performance levels
- Maintaining appropriate relations with the employees and among them

6. (a) To understand and appreciate the perspectives on resistance

Consultants play the role of change agents by changing the perspectives of the management on the emerging environment. Consultants need to possess the skills to assess the organization's readiness to change, to understand and appreciate the perspectives on resistance, to develop internal resources that will be needed to address similar problems in the future, and to give the appropriate non-judgmental and open feedback.

7. (c) Process-based

A process-based consultant acts as a catalyst for change. He/she plays a key role in influencing the approaches taken, methods used, and values applied by employees (of his client), and thus facilitates the desired change.

8. (a) Are already aware of the nature of such problem and he can suggest a solution for it

Package-based consultants are experts in their field. They relate to the client in a doctor/patient model of consulting. In this model of consulting, it is assumed that whenever a client (company here) faces a problem, it will be a standard problem and the consultant is already aware of the nature of such problem and he/she can suggest a solution for it.

Unit 15

Disruptive Innovation

Structure

"Disruptors don't have to discover something new; they just have to discover a practical use for new discoveries."

- Jay Samit

15.1 Introduction

The practical use is important for a disruptive innovation to raise.

The previous unit discussed the roles of CEO, middle-level managers, HR personnel and consultants as change agents in organizations business model.

This unit discusses the concept of disruptive innovation and the factors affecting disruptive innovation.

15.2 Objectives

By the end of this unit, you should be able to:

- Explain how companies have become successful after adopting disruptive innovation.
- Illustrate the concept of disruptive innovation.
- Discuss the factors that affect disruptive innovation.
- Recall the ways in which capabilities can be created to cope with disruptive innovation.
- Analyze the reasons which make developing countries ideal locations for disruptive innovation to take place.

15.3 The Rise and Fall of Great Companies

Toyota, the Japanese car manufacturer, severely undercut the competitiveness of American automobile manufacturers in the lowest tiers of the car market with the launch of its Corona model in the 1960s.

Corona was simple and reliable, and soon became the second car of middle-income customers. Inspired by the success of Corona, other Japanese automobile companies such as Honda and Datsun (later renamed Nissan) entered these segments and started to compete with Toyota.

In order to maintain its profit margins, Toyota entered the upper segment of the market with its launch of the Corolla, the Tercel, the Camry, the 4Runner, the Lexus, and the Avalon lines.

Honda and Datsun followed suit. These small Japanese companies of the 1960s which manufactured cheap products eventually became huge global corporations manufacturing the highest-quality automobiles. Here, Toyota created a new growth market through its disruptive innovation.

Another good example of disruptive innovation is the Sony transistor radio of the 1950s. It was a disruptive technology; it was different from standard radios of the day in that the volume of sound it could produce was very low. But Sony's customers who were mainly teenagers did not mind the low volume as they could listen to their favorite rock-and-roll music without their parents knowing about it.

Within a few years, Sony had driven American high quality radio manufacturers out of the market. Sony followed the same approach in the television market. It entered the market with the launch of a cheap black and white model, going on to produce the super-sophisticated.

Japanese companies gained success through disruptive innovation. Disruptive innovations have a limited applicability.

The best customers of these companies become sophisticated and demanding. They stop accepting disruptive products. In order to serve sophisticated and demanding customers, the Japanese companies planned in advance, and this enabled them to compete in established markets.

But as companies get used to serving their best customers in a planned way, they lose their capacity to be aggressive, take risks, and create new markets. When they attempt to enter new markets or lower segments, their profit margins fall. As a result, they tend to get stuck in the upper segment of the market.

This phenomenon is not peculiar to Japanese companies. It can be seen in American companies as well.

Major growth markets are always stimulated by disruptive innovations. Subsequently, migrating from lower segments to upper segments yields greater revenue and can be rewarding.

Nucor, Intel, Dell, Cisco Systems, Walmart, Charles Schwab, Intuit, and Qualcomm - all US companies - experienced this ride to the upper segments of the market. But once they reached this segment, they realized that there were not enough volumes to sustain growth. This resulted in painful consolidation.

According to Christensen and Thomas, both the Japanese and the US companies face the innovator's dilemma when they approach the high end of the market and are not able to pursue disruptions at the lower end of the market.

But according to them, the US economy has performed better than the Japanese economy in recent years, because the United States was able to repeat the cycle of disruption.

When the top US companies are stuck at the upper segment in their markets, their employees leave the company, approach venture capital firms, and start companies that create disruptive innovations.

All the American companies mentioned in the paragraph above, played the disruptive game once. But, even when established companies fail in disruptive innovation, fresh cycles of disruptive innovation have been seen in the Silicon Valley, where fluid labor and capital markets have attracted the resources necessary to create these innovations.

Example

IBM (International Business Machines Company), a multinational technology company based in the United States, is recognized globally as a disruptive brand, mainly for its innovative computer hardware and incredible technology. The IBM launched into the technology market, intending to make the most outstanding solutions around. Today, we find IBM as the world leader in mainframe computers and nano-technology.

Source: https://digitalleadership.com/blog/disruptive-innovation-examples/ July 2021 Accessed on 28.02.2022

Japanese companies were once disruptive innovators. But today, they no longer have the same growth options. They cannot even attempt disruptive innovations now, as the Japanese industrial structure is very inflexible. In the Japanese economy today, it is difficult to start new companies that promote disruptive innovations.

Immobility of labor is one major obstacle. Japanese employees usually stick to a single large company for life. They aspire to climb the corporate ladder of the company rather than start their own companies. This tendency is a hindrance to the development of a vibrant venture capital infrastructure in Japan.

The absence of venture capital keeps talented people in the same old companies where innovation is not possible, thus creating a vicious cycle.

Most Japanese firms rely on debt from financial institutions to fund their finance needs, rather on the more flexible private and public equity markets seen in the US.

Financial institutions offering loans look for clear plans and predictability in the firm's revenues. But successful disruptive entrepreneurs have to create new markets where the new technology is valued.

The initial business plans, product concept, and expected customer reaction are quite uncertain. As a result, lending institutions discourage disruptive innovations. Successful disruptive innovations take place when outstanding talent from established companies and venture capital are both available.

Example

FedEx is a disruptive innovation company in the US that transformed its industry. Fred Smith, the founder of FedEx, innovated in the way mail and packages were transported worldwide by purchasing an aviation firm. FedEx wanted to tackle the challenges and inefficiencies in the shipping practices. It initiated with the concept of "express mail" delivery. FedEx's disruptive innovation became a success for the efforts of Fred Smith.

Source: https://digitalleadership.com/blog/disruptive-innovation-examples/ July 2021 Accessed on 28.02.2022

15.4 Disruptive Innovation

When the best products in the market are offering technology that is far beyond what the customer needs, disruptive innovation involves introducing products that are not as good as those in use in established markets.

The performance of these innovative products is not good enough to be in mainstream markets. However, these products are simple and convenient to use, and are less expensive.

They are meant for customers from new, small, and initially unattractive segments. Disruptive innovation helps the customer meet his/her needs, but at a far lower price and more conveniently.

Exhibit 15.1 explains the disruptive innovations affecting industries in 2021.

Exhibit 15.1: Disruptive Innovations affecting Industries in 2021

Jack Uldrich, founder/CEO of The School of Unlearning, writes in Forbes on, 'Five Disruptive Innovations affecting Various Industries in 2021' Artificial intelligence (AI), Retro-fitted self-driving cars, Cultured meat, 3D-printed houses and Synthetic biology. AI is able to improve existing drugs to work more effectively on a wider range of patients with fewer harmful side effects. Another important aspect is AI is able to produce new drugs in months at a minimal cost. Luminar's technology could convert existing automobiles into self-driving cars for approximately $500.

Contd….

On December 1, 2020, regulators in Singapore approved the sale of “cultured meat,” or meat grown in a bioreactor from the cells of a living animal which in course of time may affect the agri business. ICON has quietly created the world's first community of 3D-printed houses which can reduce the time it takes to build a house as well as its price in half. Synthetic biology, in the near future, could be used to sustainably manufacture everything from foods and fuels to plastics and pharmaceuticals.

Uldrich says, besides these five, 5G, blockchain, quantum computing, robotics, battery technology, renewable energy, stem cell research, the Internet of Things and advances in material science, will all affect the market in 2022.

Source: https://www.forbes.com › sites › 2021/01/11 › five-disr... Accessed on 28.02.2022

When two products offer the same technology and match the customers' requirements, higher performance ceases to be the criterion on which the customer bases his/her decision to buy.

The prime criterion then becomes reliability. When both the products are reliable, then the basis of product choice is convenience (here disruptive innovation starts gaining ground). When convenience is no longer a differentiating factor, price becomes the most important criterion. Here the product with high technology is almost edged out of the competition since the combination of high technology and a lower price is not sustainable in the long run (because competitors will benchmark the market leader's processes, practices and nullify the advantages they enjoy.)

When the larger company can no longer offer a technologically superior product at a cheap price, through the economies of scale it derives, disruptive innovation is likely to replace the product. This is how disruptive innovations enter an established market.

Disruptive innovations occur in small new markets in which large companies are not interested. Large companies prefer to take a wait-and-see approach when a new market is evolving, but this could be a mistake.

A new market is often the ideal ground for disruptive innovators. And a disruptive innovator gains significant first mover advantages once it enters and establishes itself in the new market.

Even seasoned market researchers and business planners find it difficult to measure new markets created by disruptive innovations.

Evidence from industries such as the diskdrive, motorcycle, and microprocessor markets shows that forecasts made about the evolution of new markets are unreliable. Hence, companies that rely on the analysis of market sizes and financial returns before entering new markets are often wrong-footed when faced with disruptive innovations.

In new markets there is hardly any market data, and the revenues and costs cannot be reliably estimated.

Activity 15.1

HML Scooters Ltd. (HML Scooters) is a leading scooter company in India. The company is known for its innovative models. Of late the company noticed that an upcoming scooter company, VS Scooters Ltd. (VS Scooters) started manufacturing scooters for low-end customers that offered good mileage and was priced much lesser than majority of the scooter brands. The new company succeeded in attracting middle-class consumers since they could buy a scooter at an affordable price.

Moreover, the scooter offered good mileage. To combat competition, HML Scooters launched a scooter targeting the middle-class consumers. However, the company did not record much sales since the price of the scooter was a little higher than the scooters offered by VS Scooters.

In this instance, how did VS Scooters succeed in attracting the customers?

What criterion were the consumers looking for while buying the scooter?

Suggest how HML Scooters can succeed in the market.

Answer:

Check Your Progress - 1

1. What makes a successful disruptive innovation?
   a. When a new product replaces the old one
   b. When there is a demand for a new product
   c. When the growth options are ample
   d. When outstanding talent from established companies and venture capital are both available
2. Which of the following is **not** the criterion of disruptive innovation?
   a. Reliability
   b. Convenience
   c. Cost leadership
   d. Price

15.5 Factors that affect Disruptive Innovation

The general belief is that outcomes of innovation efforts are impossible to predict. But Clayton Christensen thinks that it is not so. According to him, even an undesirable outcome has a cause. Outcomes appear random because all the variables that affect successful innovation are not known. If these variables are understood and managed, innovation will be less risky.

Christensen classifies the variables into four sets: taking root in disruption, the necessary scope to succeed, leveraging the right capabilities, and disrupting competitors, not customers.

15.5.1 Taking Root in Disruption

Many previously successful companies that fall from their dominant position in a market are not badly managed. In fact, they are well managed. These companies listen to their best customers. They help them meet their needs. But they also commit themselves, willingly or unwillingly, to strategies that constrain their ability to unleash disruptive innovations: they concentrate on the most profitable segments of the market, and make significant investments in them.

By sticking to the principles of good management, leading firms create sustaining innovations that bring better products to established markets. These market leaders are the best in their industries at adopting sustaining innovations. However, these firms face a threat from firms that create disruptive innovations.

Some new companies employ strategies to create sustaining innovations. They create better products than those offered by incumbents in the market, and sell these to the customers of the incumbent firms. But Christensen's research indicates that, this type of company is likely to succeed in only about 6 out of 100 cases.

If a company creates a product meant for ignored customers, even when it is inferior in quality compared to the existing products in the market, the company is likely to be successful 33 out of 100 times. This disparity can be understood by looking at the motivation and position of leading firms. The leading firms have more resources than entrants.

When new entrants try to attract their customers, incumbent firms overwhelm them with their financial muscle or other resources. When new entrants are targeting ignored customers or customers who are unattractive for leading firms, they are relatively safe. In this segment, money power and proprietary technology do not matter. Hence it is better for new entrants to take root in disruptive innovation rather than in sustaining innovation.

15.5.2 Degree of Integration

The degree of integration of the company's production process determines the nature, scope, and success of innovation. Highly integrated companies manufacture and sell proprietary components or products. They have a wide range of product lines and are into different businesses. When the product functionality is less than the customer's expectation of it, companies compete by producing better products. In such a scenario, engineers try to fix the pieces of their systems together in as efficient a way as possible. This is to ensure the best performance with the available technology. At this stage technology is the barrier. Innovations at this point are aimed at pushing back the technological barriers. Integrated firms are better placed to address this task; they do not need to convince or force the suppliers of components to innovate as in the case of non-integrated firms.

For example, it was only when IBM, Apple Computers, RCA, Xerox, and AT&T became fully integrated companies, that they were able to address technological challenges systematically.

When the product's functionality is higher than the customer's expectation of it, standardization of interfaces occurs in the industry. Components and subsystems of the products are clearly specified. This leaves less scope for innovation in overall design. At this stage, disruptive innovations come in, in the form of different ways to reach market quickly, and changes that bring simplicity and convenience to the customer, and allow for customization of the product (for small market niches).

Companies respond to individual customer needs by creating customized products. In these customized products, there is upgradation of a few individual systems or components. Upgradation is not brought in across the board for all the components or all the items produced. In the case of integrated firms, when disruptive innovation occurs, all the components are upgraded to ensure the best performance.

Hence, at the point when customer needs can be easily met by the available technology, firms that outsource components have an advantage over integrated firms. Outsourcing majors, like Dell & Cisco Systems, are fast, flexible, and responsive to the needs of the customer, at this stage of the market's development.

Leveraging the Right Capabilities

Disruptive innovations fail to materialize when the organization fails to create the right environment for them. Disruptive innovations fail under three circumstances:

1. When the organization has limited resources to support them. Inadequate resources might disallow innovations.
2. Organizations are limited by their processes. Unsuitable processes can restrain innovations from becoming effective.
3. The organization's values could also be hostile to disruptive innovation.

1. **Inadequate resources:** Managers and money play key roles in the success of disruptive innovation. Very often managers who are successful in mainstream business are appointed to look after the disruptive innovation process.

   This could be dangerous, as the skills needed and the challenges faced by these managers in their previous careers are entirely different from the challenges they face and the skills necessary to promote disruptive innovation.

   They make wrong assumptions about customer needs, and the strategies necessary to address these needs. They often employ the strategies which proved useful in mature and stable markets.

   Disruptive innovations create new markets and new opportunities. But these managers are ill-equipped to operate successfully in such markets.

   While managing the other resource – money, managers must avoid two misconceptions: One relates to the size of the company's reserves. The other to making losses.

   It is a general belief that having large reserves is an advantage for the growth of new businesses. This is not always so.

   Large reserves available for a new venture might result in managers sticking to the wrong strategy for too long. Instead, when there is less money, managers will naturally be more responsive to customer needs, and fulfilling them would generate revenues. As a result, a viable strategy emerges quickly.

   It is also often believed that when there are disruptive innovations, losses have to be borne for a long period before profits begin to arise. And so, being patient is a virtue.

   But according to Christensen, innovators should be patient about the size of the business and not about profits. When profit is the driving force, a valid strategy emerges. But if the venture is concerned about its size from the very beginning, it may gamble on over-expansion which may lead to failure of the new venture.

2. **Inflexible processes:** While resources such as technology, cash, and technical talent are flexible and can be used for different purposes, processes are not.

   Processes are more inflexible than resources. Processes are usually not adaptable but are meant to do same job reliably, and repetitively. Hence, if a process works well for a particular task, this does not mean it will work well for other tasks as well.

   Failure can occur when disruptive innovation is attempted, keeping existing processes in place.

For example, Sony brought out 12 disruptive innovations (in radios, TVs, VCRs, and Walkmans, to name a few) between 1950 and 1980. These innovations created new markets, and brought down industry leaders. However, between 1980 and 1997, the company was not able to bring out a single disruptive innovation.

Sony relied increasingly on sustaining innovations. Though the PlayStation and the Vaio Notebooks were dramatic products, they were introduced late, and in established markets. What brought about this change in the company's capacity for disruptive innovation?

Before 1980, Akio Morita and his team used to decide on new product launches. No market research was done. The process of decision-making was based entirely on intuition.

When Akio Morita retired from active management in the 1980s, decision-making was left to newly recruited marketing and product planning professionals. These professionals institutionalized data-intensive, analytical processes for market research.

These processes identified segments in existing markets where customer needs were unmet, but the personal intuition required for disruptive innovations was missing.

3. **Organizational values that are hostile to disruptive innovation:** If there are rigid values in force in an organization, a separate independent unit or venture should be created to deal with innovations.

   Values play a crucial role in decision-making in the organization. They are often more inflexible than resources. They are ingrained in the minds of top executives, other managers, and employees. Even the suppliers and distributors associated with a particular firm hold certain fixed values.

   A new venture may be more successful than an existing one in targeting orders to attract better resources and utilize new opportunities. When new sales people, distributors, and retailing channels embodying new values and ideas are employed, the chances of disruptive innovations breaking through are improved.

Check Your Progress - 2

3. Which of the following is **not** a variable of disruptive innovation as classified by Christensen?
   a. Taking root in disruption
   b. Making forecasts about evolution of new markets
   c. Disrupting competitors, not customers
   d. Necessary scope to succeed

15.5.3 Bringing Simplicity and Convenience to Customers

A disruptive innovation succeeds when it brings simplicity and convenience into what the customer is doing. It must minimize the need for customers to change their lives in ways they are not inclined to do. An innovation should aim at disrupting the competitors and not the customers. In order to find what the customer is doing, observation is necessary. A popular method to know what the customer is doing is to conduct market research. But market research can mislead organizations. Customers do not always tell surveyors about what they do. It is necessary for organizations to watch the customers to know what they are doing.

Many times, innovations do not materialize due to the incompatibility of resources, processes, and values. The success of a few companies often inspires other companies to attempt innovation. But these successful companies operated under different circumstances and with different independent variables, from the organization in which disruptive innovation is being attempted. It is only the organizations that identify the variables in their unique situation, and manage them well, that can succeed in disruptive innovation.

Exhibit 15.2 explains how Stripe's sorted out their problem during pandemic.

Exhibit 15.2: Stripe's Disruptive Innovation

During the COVID-19 pandemic, Stripe, an Irish-American financial services and software as a service company contributed in keeping the U.S. economy stable. The digital payment platform company was started in 2010 by Brothers John and Patrick Collison to make digital payments easier.

They saw some challenges in the digital payment platforms already existing and found that the major challenges were in coding and designing issues. They sorted out the problem and created a developer-focused instant payment setup platform which companies can easily adopt and utilize.

When the pandemic broke out, major giants like Amazon, Glossier, Slack, Under Armour and so many other companies started using the secured payment tools offered by Stripe. It earned money by charging around 2.9% as a swipe fee and additionally, 30 cents for every transaction processed thereby. Eventually the company valuation raised to $250 million (additional to some new funding). To tap the new opportunity in the market, Stripe also initiated Stripe Capital, a business unit that lends money to small businesses. The idea behind was to overcome the deficiencies prevailing in the traditional bank financing procedures like strict lending standards and time consuming processes. Stripe would provide finances to small business within a few days and with minimum documentation. A fixed percentage of amount has to be paid by the business daily till the loan is repaid. Thus Stripe evolved from the pandemic as the next generation of billion-dollar businesses.

Source: https://www.cnbc.com/2020/06/16/meet-the-2020-cnbc-disruptor-50-companies.html, May 7, 2021, Accessed on 22/10/21.

Check Your Progress - 3

4. What do leading firms create by sticking to the principles of good management, that bring better products to established markets?
    a. Sustainability
    b. Blue ocean
    c. Sustainable innovations
    d. Resources
5. What determines the nature, scope, and success of innovation?
    a. The degree of integration of the company's production process
    b. The degree of disruption
    c. New entrants attracting their customers
    d. When technological barriers are pushed back
6. Disruptive innovation aims to create a better product when:
    a. The scope for innovation is less
    b. A product's functionality is lower than the customer's expectation
    c. The demand for product increases
    d. The product functionality is higher than the customer's expectation
7. Which of the following play a crucial role in decision-making in the organization?
    a. Ethics and morals
    b. Vision
    c. Disruptive innovation
    d. Values

15.6 Creating the Capabilities to Cope with Disruptive Innovation

Disruptive innovations require a set of new capabilities in a firm: new resources, new processes, and new values. This does not occur by accident but by design. New organizational space has to be created to develop these capabilities.

There are three ways in which the new capabilities can be created:

- First, one can create a new organizational structure (to develop new processes) inside the existing corporate boundaries.
- The second option is to spin out a new organization where new processes and values are nurtured.
- Thirdly, the firm can acquire an organization that already has the desired resources, processes, and values.

Check Your Progress - 4

8. Which of the following set of capabilities are not required for disruptive innovation in a firm?
   a. New resources
   b. New values
   c. New processes
   d. New workforce

15.6.1 Building a New Structure in an Existing Organization

New processes are formed when different people or groups interact differently and at a different pace than they used to do. In order to create new processes, these people have to be brought together and kept separate from others in the organization. A boundary needs to be created around the new group. The boundary separates the old processes and people from the new. New team boundaries help establish new patterns of working together, which ultimately develop into new processes.

Such teams are referred to as "heavyweight teams." These new teams have new challenges. They are physically close together at the workplace.

The members of these teams take personal responsibility for the success of the project. IBM used teams like this to design disk drives. Thus heavyweight teams work as vehicles to create new processes that can develop improved products within a relatively short span of time.

Example

WhatsApp was a disruptive innovation with its free-to-all messaging service, encryption-driven security and the ability to have voice and visual elements. Its mass adoption was not a surprise. It effectively ousted or weakened snail mail, email, the telephone, mobile services and even Skype.

Source: https://www.thehindubusinessline.com/opinion/disruptive-innovation-as-marketing-strategy/article34152081.ece March 2021 Accessed on 28.02.2022

15.6.2 Creating a Spin-off

If the values of the mainstream organization are blocking resources meant for an innovation project, a spin-off may be necessary to meet the challenges of disruptive innovation. Often, large organizations do not allot critical financial and human resources meant for mainstream business to innovative projects. Assigning such resources to mainstream business is more important to them than trying to create a strong position in small and emerging markets. The cost-structure of these organizations is tuned to high-end markets and does not work for low-end markets. Hence, a new venture is more of a compulsion than a choice.

When the project is relocated, there is no longer competition between the project developing a disruptive innovation, and those that are supporting the mainstream business.

Creating and nurturing such a new project is often difficult for the top management of a running concern. They perceive the development of the disruptive new operation as bringing about the death of old operations that are still doing well and are profitable. They hate doing this.

The managers at the top have to learn to be comfortable with two businesses, in cases like this. The CEO of the organization has to take particular care to allot the necessary resources, and ensure the freedom necessary to create new processes and values. Then only can the spin-off meet its intended purpose and address new challenges.

15.6.3 Acquiring an Organization

An organization thinking of creating capabilities through acquisition must first conduct a thorough assessment of its own capabilities, disabilities, resources, processes, and values. Then only will it know what to look for in the company it seeks to acquire.

When the organization is acquiring a particular company for its processes and values, then the organization must not try to integrate the acquired company with its own company. Rather, it should allow that company to exist as a separate unit and support that company's processes and values with its resources.

Then only can the acquired company try to meet the challenge of disruptive innovation. But most often, the acquired company is slowly integrated with the acquiring company. This can defeat the purpose for which the company was acquired.

On the other hand, Cisco Systems (Cisco) was quite successful in its acquisition process that lasted between 1993 and 1997. Most often, it acquired small companies which were less than two years old.

The prime motivation for the acquisition was the resources these companies had. The resources were the engineers working in these companies, and the products these companies were selling.

Cisco took all these resources and bolstered their logistics, manufacturing, and marketing processes, while ignoring the nascent processes and values of these companies.

This was possible because these companies were very young and their processes and values were not strong enough to create any disruptions in Cisco itself.

When it acquired StrataCom, a mature company, it let it continue as a separate entity. Cisco inducted its resources into the company and helped it grow as an individual company. Thus, managers need to be clear about what their organization needs. This is of utmost importance.

Check Your Progress - 5

9. Which of the following is a way in which the new capabilities can be created?
   a. Acquiring an organization
   b. Turning around an organization
   c. Conducting induction
   d. Recruiting employees

15.7 Target Markets for Disruptive Innovation

Developing countries are ideal locations for disruptive innovations to take place for two reasons.

- First, disruptive innovators compete against non-consumption. The product or service that emerges out of disruptive innovation serves people who were either not served earlier or were used to poor service. So the customers welcome disruptive innovation that offers a simple and modest version of the product in the high-end market. Also, new businesses do not have to compete with established players when they enter comparatively unserved markets (developing countries).
- The second reason why developing markets are a good location for disruptive innovations is that business models designed for low-income markets can be successfully employed in other markets, but business models developed for high-income markets cannot be applied to low-income markets.

Activity 15.2

ABC Appliances Ltd. (ABC Appliances) is a leading vacuum cleaner company in Japan. The company sold simple and affordable vacuum cleaners for middle class consumers in Japan. The company's business model is to sell at low prices, and yet make profits by squeezing costs as much as possible. In a bid to expand its business, the company entered the US market with its ABC 1346 vacuum cleaner. The product immediately captured a particular segment of the market. The product was simple and low-priced. Americans who could not afford an expensive vacuum cleaner were happy to buy an ABC 1346 instead. ABC Appliances' experience in Japan offered it a huge competitive advantage, when it disrupted the US vacuum cleaner market. The US vacuum cleaner manufacturers were unwilling to offer their vacuum cleaners at the price at which ABC Appliances was selling. Thus ABC Appliances' business model which was successful in Japan was also successfully employed in the high-income US market.

What do you think are the major reasons for the success of ABC Appliances in the US vacuum cleaner market? Discuss.

Answer:

Check Your Progress - 6

10. What are the factors that can be overlooked by the organization while creating capabilities through acquisition?
    a. Resources
    b. Processes
    c. Values
    d. Attitudes of employees

15.8 Summary

- When the best products in the market are offering technology that is far beyond what the customer needs, disruptive innovation involves introducing products that are not as good as those in use in established markets.
- The factors affecting disruptive innovation include: taking root in disruption, the necessary scope to succeed, leveraging the right capabilities, and disrupting competitors, not customers.
- There are three ways in which the new capabilities can be created. First, one can create a new organizational structure (to develop new processes) inside the existing corporate boundaries. The second option is to spin out a new organization where new processes and values are nurtured. Thirdly, the firm can acquire an organization that already has the desired resources, processes and values.
- Developing countries are ideal locations for disruptive innovations to take place for two reasons.
- First, disruptive innovators compete against non-consumption.
- The second reason why developing markets are a good location for disruptive innovations is that business models designed for low-income markets can be successfully employed in other markets, but business models developed for high-income markets cannot be applied to low-income markets.

15.9 Glossary

Disruptive innovation: Disruptive innovation refers to introducing products that are not as good as those in use in established markets.

15.10 Self-Assessment Exercises

1. What is disruptive innovation? Brief about the need for disruptive innovation by citing examples of companies that benefitted through it.
2. Explain the key factors affecting disruptive innovation.
3. Describe the ways in which the new capabilities can be created to cope with disruptive innovation.
4. State the reasons why developing countries are ideal locations for disruptive innovations to take place.

15.11 Suggested Readings/Reference Material

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11. Ruchira Chaudhary, Coaching - The Secret Code to Uncommon Leadership, Penguin Random House India, 2021
12. Sajjad Nawaz Khan, Leadership and Followership in an Organizational Change Context, IGI Global, 2021

15.12 Answers to Check Your Progress Questions

1. (d) When outstanding talent from established companies and venture capital are both available

Successful disruptive innovations take place when outstanding talent from established companies and venture capital are both available.

2. (c) **Cost leadership**

When two products offer the same technology and match the customers' requirements, higher performance ceases to be the criterion on which the customer bases his decision to buy. The prime criterion then becomes reliability. When both the products are reliable, then the basis of product choice is convenience (here disruptive innovation starts gaining ground). When convenience is no longer a differentiating factor, price becomes the most important criterion. Hence cost leadership is **not** a criterion of disruptive innovation.

3. (b) **Making forecasts about evolution of new markets**

According to Christensen, even an undesirable outcome has a cause. Outcomes appear random because all the variables that affect successful innovation are not known. If these variables are understood and managed, innovation will be less risky. He classifies the variables into four sets: taking root in disruption, the necessary scope to succeed, leveraging the right capabilities, and disrupting competitors, not customers. Hence making forecasts about evolution of new markets is **not** a variable of disruptive innovation as classified by Christensen.

4. (c) **Sustainable innovations**

By sticking to the principles of good management, leading firms create sustaining innovations that bring better products to established markets.

5. (a) **The degree of integration of the company's production process**

The degree of integration of the company's production process determines the nature, scope and success of innovation.

6. (b) **When the product functionality is lower than the customer's expectation**

When a product's functionality is lower than the customer's expectation of it, disruptive innovation aims to create a better product.

7. (d) **Values**

Values play a crucial role in decision-making in the organization. Values are often more inflexible than resources. They are ingrained in the minds of top executives, other managers and employees.

8. (d) **New workforce**

Disruptive innovations require a set of new capabilities in a firm: new resources, new processes and new values. Employing new workforce is not necessary.

9. (a) Acquiring an organization

There are three ways in which the new capabilities can be created. They include building a new structure in an existing organization, creating a spin-off, and acquiring an organization.

10. (d) Attitudes of employees

An organization thinking of creating capabilities through acquisition must first conduct a thorough assessment of its own capabilities, disabilities, resources, processes, and values Attitudes of employees can be overlooked.

Leadership and Change Management

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