Leadership and Change Management

Block

5

LEADERSHIP ASPECTS IN STRATEGIC CHANGES

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Our E-mail id: cwfeedback@icfaiuniversity.in

Centre for Distance and Online Education (CDOE)
The ICFAI Foundation for Higher Education
(Deemed-to-be-University Under Section 3 of UGC Act, 1956)
Donthanapally, Shankarapalli Road, Hyderabad- 501203

BLOCK 5: LEADERSHIP ASPECTS IN STRATEGIC CHANGES

Leadership plays a key *role* in bringing and implementing strategic *changes. Strategic organizational changes* encompass changes in technology, products and services, strategy, structure and culture. These changes impact all stakeholders and it is the leader who has to effectively manage them.

The Block 5 of the course on leadership and change management deals with strategic aspects in leadership. The block contains five units. The first unit deals with strategic management for transformation for achieving sustainable competitive advantage. The second unit deals with change process and explains how to overcome resistance to change. The third unit emphasizes on the emotional dimensions of change. The fourth unit deals with corporate strategies to create competitive advantage to companies over its rivals. The fifth unit discusses the importance of alternative strategies in enhancing business value and creating shareholder value.

Unit 16-*Strategic Management for Transformation:* Strategic change management is key to help employees understand what to expect and what is required of them. It reassures employees that the organization is committed to, planned change and prepares employees for transformation., This unit outlines how strategic planning and strategic management gradually evolved from business policy. It deals with strategic frameworks that analyze business enterprises such as SWOT analysis, PEST analysis and Michel Porter's five forces model. It also explains how strategy is formulated at corporate, business unit and functional levels. It also discusses how methods like business process reengineering, benchmarking, TQM and six sigma are used to achieve sustainable competitive advantage.

Unit 17-*Management of Strategic Change:* *Strategic organizational change* is the movement of a firm from its present state toward some desired future state to enhance its competitive advantage. Leaders have to effectively manage these changes so that the resistance to change minimizes. This unit starts with features and external and internal forces of organizational change. Then it explains the change process of Kurt Lewin. The reasons for resistance to change and how to overcome resistance to change are also discussed.

Unit 18-*Managing the Emotions in Change:* The impact of employees' *emotions on organizational changes is immense. It is the leader who has to build confidence among employees so that change processes are not weakened.* This unit deals with the emotional dimensions of employees and explains how to build confidence among employees at work. It also mentions William Bridge's 'Three Phase Model' which reflects the emotional impact of change over a period of time.

Unit 19-*Corporate Strategy:* The process of *changing* a *corporate strategy requires continuous improvement in organizational settings.* This unit deals with corporate strategies to create advantage to companies over its competitors. It also deals with the elements of corporate strategy like vision, mission, strategic objectives and goals. It concentrates on developing corporate strategy for making organizations cost effective and efficient, using various tools like EVA, business process reengineering, etc.

Unit 20-*Alternative Strategies:* Mergers and acquisitions, though beneficial to organizations in most cases, also create anxiety among employees about their future. Hence leaders have to strive for their success for organizational growth. This unit explains how these strategies are helpful in enhancing business value and creating shareholder value. It also explains how companies look for "strategic fit" for enhancing their worth through mergers, joint ventures and other financial models.

Unit 16

Strategic Management for Transformation

Structure

"The essence of strategy is choosing what not to do."

- Michael Porter

16.1 Introduction

The previous unit discusses how companies have become successful after adopting disruptive innovation. It also discusses the concept of disruptive innovation and the factors affecting disruptive innovation.

In this unit, the evolution of strategic management from the business policy is discussed first and later other details on strategic management are taken up for discussion.

16.2 Objectives

After reading this unit, you should be able to:

- Discuss the importance of strategic management in managing change
- Appreciate Porter's five forces model and apply his generic strategies
- Distinguish between corporate, business, and operational strategies
- Analyze and apply various quality tools like TQM, Six Sigma, etc. to business scenarios

16.3 Evolution from Business Policy to Strategic Management

Strategic management is the management of an organization's resources, to achieve its goals and objectives. It involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies. Business policy is closely connected to strategic management.

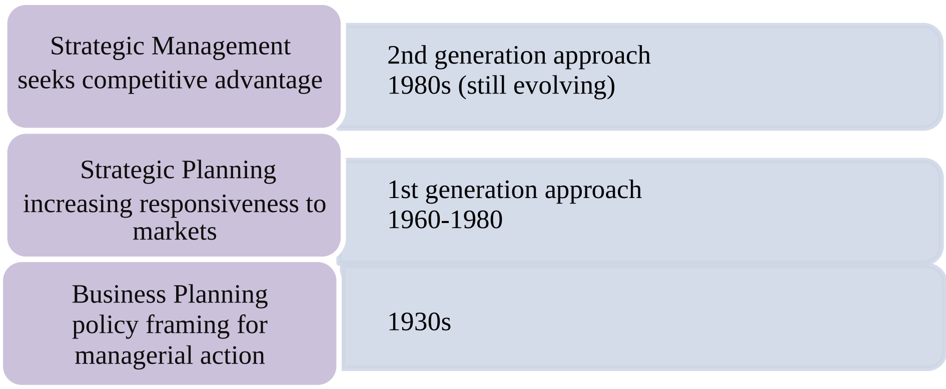
Business policy defines the scope or framework, within which the decision-making process is put into operation in an organization. It deals with various business decisions that an ongoing enterprise has to take, relating to its future.

Business policy outlines the resource demand, its acquisition and deployment of these resources to enable an organization to achieve its goals. It is the study of the roles and responsibilities of the managerial positions and the significant factors that affect organizational success.

During the 1930s, business operations were relatively simple and many companies had a single product and, hence, a simple business policy was adequate to address managerial issues.

As companies grew and expanded their business to multi-products and increased the geographical spread, the need for an integrated approach of functions was felt and hence strategic planning as a concept emerged during the 1980s. Post-1980s, it was not adequate to just compete with peers, but firms had to develop a sustainable competitive advantage (See Fig. 16.1). As a result, strategic management emerged as a dominant theme.

Figure 16.1: Evolution of Business Policy to Strategic Management



Source: ICFAI Research Center

16.3.1 Features of Business Policy

An effective business policy must have the following features:

i. **Simple -** A policy should be simple and easily understood by all, in the organization.

ii. **Specific -** Policy should be specific/ definite. There should be no ambiguity or uncertainty so that there are no difficulties in its implementation.

iii. **Clear -** Policy should be unambiguous and free of jargons and technical words. There should be no confusion in following the policy.

iv. **Reliable/Uniform -** Policy must be uniform and consistent in meaning so that it can be easily followed by the people in the organization.

v. **Appropriate -** Policy should be suitable and relevant to the current requirements of achieving the organizational goals.

vi. **Inclusive/Comprehensive -** In order to have a wide scope, a policy must be comprehensive.

vii. **Flexible -** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope, to ensure that the line managers use them in repetitive/routine scenarios.

viii. **Stable -** Policy should be stable, else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

Example

- Microsoft’s business policy speaks of its competitive advantages that protect it from rivals and enable large profits.
- Microsoft's intellectual property—specifically, its patents and proprietary software code—contribute to the depth of its moat.
- As a household name, Microsoft's brand name is a significant part of its moat which helps in maintaining its competitive advantage

Source: https://www.investopedia.com/articles/insights/072516/microsofts-competitive-advantage-inside-look.asp June 01, 2021 Accessed on 08.03.2022

Activity 16.1

Identify the business policy of the organization where you are working /have worked. Rate it against the following eight features as high / medium / low and arrive at the overall rating

16.4 What is Strategic Management?

The Wisdom of Choice:

“To try and fail is at least to learn; to fail to try is to suffer the inestimable loss of what might have been.”

- Chester Barnard, The Functions of the Executive

The main objective of strategic management is to create a sustainable competitive advantage in its favor by a firm when it implements a value-creating strategy. Such a strategy is unique and the competitors fail to duplicate the benefits or find it too expensive to adopt the strategy.

An important factor for sustainable competitive advantage is the development of resources and capabilities by the firm. Strategic management focuses on core competencies, which refer to resources and capabilities, often related to functional-level skills.

Strategic management, thus, deals with the understanding of how firms -

- Create, capture, and sustain competitive advantage.
- Analyze strategic business situations and formulate strategic plans.
- Implement specific strategy and organize the firm, for creating sustainable advantage.

Figure 16.2 gives the basic framework of strategy, linking the firm with the environment.

Figure 16.2: Strategy - Basic Framework - Linkage of the Firm to its Environment

Source: ICFAI Research Center

16.4.1 Concept of Strategic Analysis

Strategic analysis refers to the process of conducting research on a company and its operating environment to formulate a strategy. Thus, the strategic analysis provides a theoretical framework of the environment, in which the organization is operating. It is related to the organization's interaction with its environment, with the objective of deploying its resources and capabilities in an optimal fashion that ensures effectiveness as an organization.

While the definitions of strategic analysis are varied, the most common features are:

i. Identification, analysis, and evaluation of data relevant to strategy formulation.
ii. Define the scope of the external and internal environment to be analyzed.
iii. Listing of analytical methods that can be employed in the analysis.

Strategic frameworks analyze both the firm and the environment. These should be conducted, as a part of market research before selecting an industry. They are a part of the ongoing strategic planning of the business entity.

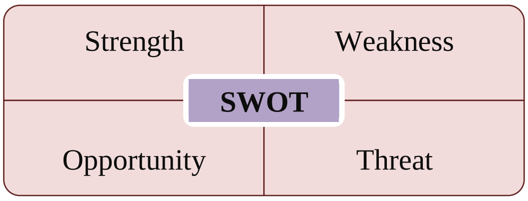
There may be some overlap among the frameworks, depending on the characteristics of the chosen industry and the sub-segment and the general environment. Most common analytical methods used in strategic analysis include:

16.4.2 SWOT Analysis

It provides a comprehensive view of the current business situation and plans the future strategy, to ensure survival and growth of the company in the uncertain and tough competition from business rivals. The Strengths (S) and Weaknesses (W) sections relate to the company's internal factors that either help or impede its performance. On the other hand, the Opportunities (O) and Threats (T) sections analyze the possibilities, potential, and challenges that need to be faced going forward.

Each of these four sections (See Figure 16.3 and Table 16.1) helps to look at the company's capabilities and the overall analysis acts as a guide to devise and implement business strategy.

Figure 16.3: SWOT Framework



Source: ICFAI Research Center

Table 16.1: SWOT Framework & the Matrix

Environmental Scan			
Internal		**External**	
Strength	**Weakness**	**Opportunity**	**Threat**

<u>Check Your Progress - 1</u>

1. What is the process of conducting research on a company and its operating environment to formulate a strategy called?
   a. Strategy formulation
   b. Strategy analysis
   c. Strategy implementation
   d. Strategy modification
   e. Strategy innovation

2. Identify from the following the important features of strategic management.
   a. Identification of strengths and weaknesses
   b. Conducting research on a firm
   c. Creating a sustainable competitive advantage
   d. Doing market research
   e. Not defining the scope of the internal environment
3. Which of the following is the main objective of SWOT analysis?
   a. Creating a sustainable competitive advantage
   b. Relating to external environment
   c. Relating to internal environment
   d. Acting as a guide to implement strategy
   e. Defining the scope of external environment

16.4.3 PEST Analysis

PEST is an acronym for Political, Economic, Social, and Technological factors (See Table 16.2), which are used to assess the market for an organizational unit.

Table 16.2: The PEST Framework

Political Factors	**Economic Factors**
• Tax policy • Employment laws • Environmental regulations • Trade restrictions and tariffs • Political stability	• Economic growth • Interest rates • Exchange rates • Inflation rate
Technological Factors	**Social Factors**
• R&D activity • Automation • Technology incentives • Rate of technological change	• Health Awareness • Population growth • Age distribution • Career aptitude • Safety consciousness

Check Your Progress - 2

4. Match the following:

i. Age distribution	a. Political factor
ii. Environmental regulations	b. Economic factor
iii. Exchange rates age distribution	c. Social factor
iv. Rate of technological change	d. Technological factor

5. What outcome can be seen when the linkage of the firm to its environment is through strategy?
   a. Competitive advantage
   b. Technological change
   c. Environmental regulations
   d. Automation
   e. Safety consciousness

Exhibit 16.1 details PEST analysis of the Indian automobile industry.

Exhibit 16.1: PEST Analysis – Indian Automobile Industry

Political Scenario

The Government of India is no more the controller of industries, but a facilitator. To attract investments, it endeavors to provide improved infrastructure, dynamic economic policies, and a conducive environment. The deregulated policies to establish manufacturing bases and thrust on "Make in India" indicate the Government's desire to woo foreign companies to tap the huge Indian markets.

There are other initiatives too, which make the Indian automobile sector an investors' hub. Easing of forex regulations, off-loading equities in MNCs, liberal bank credits, and import tariff liberalization are some of them.

Economic Scenario

GDP increased consistently for the last two years. This has increased the purchasing power of the consumers and contributed to a better quality of life. GDP growth entails more disposable income for the consumers. This, in turn, gives rise to more discretionary buys of luxury items, including automobiles. The trend of urbanization of villages has also favored the increase in demand for automobiles.

Social Scenario

Families are becoming more and more nuclear, resulting in more independent modes of travel. Discretionary spends are gaining momentum. Commute to workplace increased considerably. Availability of easy loans resulted in more automobile purchases.

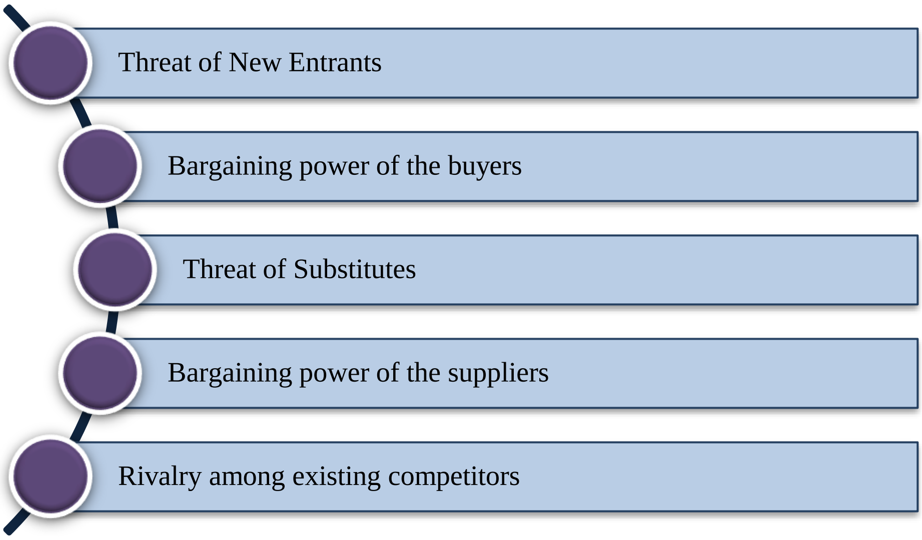
Contd….

Technology Scenario
Popularity of Gas as fuel sees the entry of fuel-efficient NexGen vehicles. Choice of cars to meet the specific needs of the consumers is available now. Technology makes the pricing competitive and customers get more value for money. Online portals make the buying and selling of cars hassle-free.
Coining of the term customer care in automobile industries makes the case for enhanced self-esteem for the customers

Source: https://www.academia.edu/4457128/Strategic_Management_PEST_Analysis_of_Indian_ Automobile_Industry Accessed on 27-12-21

Figure 16.4 explains the five forces model of Michael Porter.

Figure 16.4: Michael Porter's Five Forces Model



Source: http://www.mindtools.com/pages/article/newTMC_08.htm Accessed on 27-12-21

16.4.4 Porter's Five Forces Analysis

Michael Porter's framework (See Figure 16.4) of the industry as being influenced by five forces is most widely used in strategic analysis of a business enterprise. The strategic business vision, seeking to develop an advantage over its rivals, can use this model to better understand the industry context, in which the firm operates and develop appropriate strategies, to maximize shareholder wealth.

1. **Rival**

   Theoretically in Economics, firms in perfect competition lead to zero profits. However, in reality, neither the market is perfect nor profits are zero because without profits no firm operates in a market. Hence, firms strive for an advantage over their rivals and increase their profit share, through improved market share. The intensity of rivalry among firms varies across industries, and strategic analysis throws light on the differential factors.

The most common strategies pursued by firms for gaining competitive advantage are:

- Changing prices- prices sometimes are hiked or lowered, to gain an advantage over competitors
- Developing product differentiation- developing new features, processes, innovations, and cost-cutting in the manufacturing process and in the product itself
- Effective and creative use of channels of distribution to attract customers. For example, Timex used drug stores and other unorthodox channels, to sell its watches and thereby captured the mid-price watch market.

2. Threat of New Entrants

It is not only the existing rivals that pose a threat to firms in an industry, the possibility that new firms may enter the industry also affects competition. Theoretically, any firm can enter or exit in a free market, forcing the profits to be nominal. However, in reality, industries protect the high-profit levels of firms in the market, by imposing constraints on rivals from entering the market. These are known as barriers to entry.

3. Bargaining Power of the Buyers

The power of buyers has a direct impact that customers create on the firm. In general, when buyer power is strong, it is called monopsony in economics - The buyer dictates the price in a market condition, where there are many suppliers and one buyer. For example, large auto manufacturers can dictate terms to the ancillary tire industry.

4. Bargaining Power of the Suppliers

The producing industry requires raw material and labor, to produce goods. When suppliers become powerful, they can exert influence on the producing industry. For example, the raw material can be sold at a high price to capture some of the industry's profits. For example, the drugs and pharmaceutical industry exerts tremendous pressure on the hospital industry.

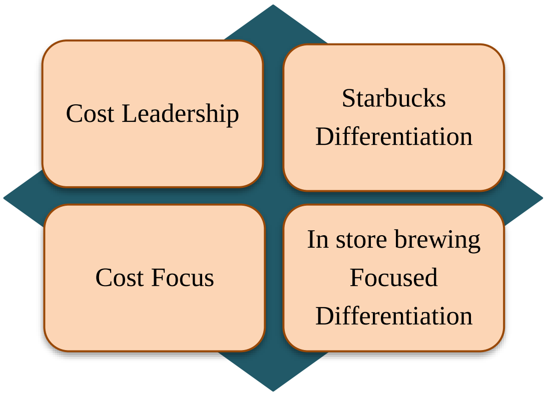
5. Threat of Substitutes

In Porter's model, substitute products refer to products in other industries. If the firm has competition from other firms operating in the same space, it implies that the product has substitutes. Hence, the product's price elasticity is affected by substitute products, as more substitutes are available.

The demand becomes more elastic since customers have more alternatives. For example, many firms operate in the soaps and detergents industry. Due to intense competition, the firms will not be able to raise the price of their products in an arbitrary manner.

Figure 16.5 explains the competitive strategy of Starbucks as per Michael Porter’s model.

Figure 16.5: Starbucks' Competitive Strategy as per Porter's Model



Source: file:///C:/Users/admin/Downloads/IM_2021_02_Lombardi%20(1).pdf 2021

16.4.5 Generic Strategies

According to Porter's five forces, the strategy is explained at three levels:

1. Corporate
2. Business unit
3. Functional or departmental

The business unit level is the primary context of industry rivalry. Michael Porter propounded three strategies of generic nature- *cost leadership*, *differentiation*, and *focus*, to adapt at the business unit level and to generate a competitive advantage to the firm over its rivals. The generic strategies will enable the firm to leverage its strengths to nullify the adverse effects of the five forces.

1. **Corporate-Level Strategy**: This strategy concerns the whole organization at the macro level. It deals with what type of industry or business should the organization get into. Corporate-level strategy issues may relate to geographical territory of operations, diversity of products or services, acquisitions / mergers of other businesses.

   The resource allocation amongst several business units is an important plank of the corporate level of strategy. For example, for News Corporation, diversifying into print journalism or television media is a corporate-level strategy.

2. **Business-Level Strategy**: It is a micro-level strategy and deals with how the individual businesses should compete in a specific industry/ market. The firm has to compete with peers in the same industry and, hence, the business-level strategy is often called 'competitive strategy'. These individual businesses are generally stand-alone businesses, within the ambit of a larger corporation.

   The business-level strategy typically deals with competitive strategies to outwit the competitors and garner larger market share, within the market itself. It is important to note that there should be a broad alignment between the business-level strategy and corporate-level strategy.

3. **Functional-Level Strategy**: Different components of an organization, through their operations need to deliver effectively the corporate- and business-level strategies.

   The resources, processes, and people must be optimally deployed to give maximum benefit to the organization.

It must be noted that operational level strategies are execution-oriented in nature and largely influence the success or failure of corporate and business strategies.

Operational decisions, therefore, need to be closely aligned and linked to the other two levels of strategy.

The linkage and integration of all three levels of strategies are critical for delivering the organizational goals.

Activity 16.2 Write briefly a corporate-level, business-level and functional-level strategy statement for your organization or an organization that you are familiar with.

Check Your Progress - 3

6. Which of the following is a common strategy pursued by firms for gaining competitive advantage?
   a. Threat of New entrants
   b. Developing product differentiation
   c. Bargaining Power of the Suppliers
   d. Alignment between the business-level strategy and corporate-level strategy.
   e. Threat of substitutes
7. Competitive advantage refers to
   a. How a firm can use technology to its advantage.
   b. Factors that distinguish the business entity from the competition.
   c. How firm conducts market research.
   d. Customer survey done by the company.
   e. How a firm adapts itself in deploying its resources.

16.4.6 Value Chain Analysis

Value chain facilitates the procurement of several inputs that are required to produce a product or service. The objective is to ensure that resources are employed in an optimal manner and the production process is integrated and streamlined.

All the vendors, transporters, and buyers constitute the entire value chain and each of them benefits from the chain. Value chain recognizes that organizations are not a mere random collection of machines, people, and other resources.

Individually, these resources have no value, unless they are integrated into one single process and they deliver the goods/ services to the end customer. Analysis enables the addition or removal of activities, depending on whether they add value to the product or not.

Strategy Planning and Formulation of Strategy: In this stage, long-range plans are developed for managing environmental opportunities in effective ways. Corporate mission, achievable objectives, strategies, and policy guidelines are clearly defined and developed in this stage.

Value chain analysis relies on the basic economic principle of advantage-companies are best served by operating in sectors, where they have a relative productive advantage, compared to their competitors. Simultaneously, companies should ask themselves, where they can deliver the best value to their customers.

Harvard Business School's Michael E. Porter was the first to introduce the concept of a value chain. Porter also developed the Five Forces Model that many businesses and companies use to figure out, how well they can compete in the current marketplace.

"Competitive advantage cannot be understood by looking at a firm as a whole," Porter wrote. "It stems from the many discrete activities a firm performs, in designing, producing, marketing, delivering, and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation."

Exhibit 16.2 demonstrates how value chain analysis helped Starbucks in the dynamic business market.

Exhibit 16.2: Value Chain Analysis

Starbucks (SBUX), an international coffee and coffee house chain established in Seattle, demonstrates how value chain analysis helped them to be competitive in the dynamic business market.

Starbucks procures unroasted beans from the farmers directly which goes further for roasting and packaging. It does not outsource its procurement function and thus makes sure that high quality is maintained from the point of coffee beans selection.

Contd….

Starbucks sells its products mostly through its own or in licensed stores. Intermediaries are less/no presence for some of its products in the sales process. Though Starbucks operates in more than 75 markets, with about 24000 stores present internationally, it generates more of its revenue from its company-operated stores and comparatively less from the licensed stores.

It believes in gaining customer loyalty by offering best services and attracting customers by giving a unique Starbucks Experience and not by aggressive marketing. Thus Starbucks found the areas where it can reduce the unnecessary costs by managing on its own and invested more in offering high and superior quality of products to give each customer a unique experience.

Source: https://www.investopedia.com/articles/investing/103114/starbucks-example-value-chain-model.asp February 14, 2022 Accessed on 04.03.2022

16.5 Strategy Implementation and Control

Implementation of the strategy includes integrating people, structures, processes, and resources, which are designed and managed to realize organizational objectives. Implementation of strategy has a profound impact on the entire organization, as it affects all the functional and divisional areas of business.

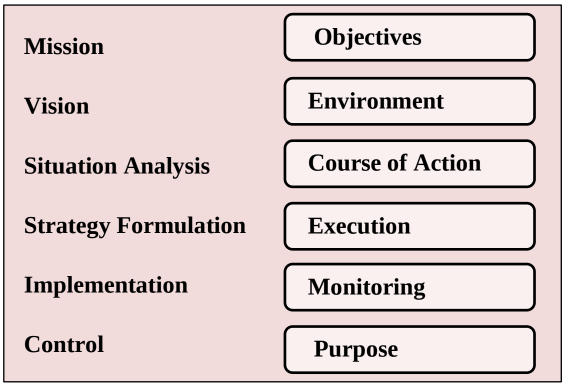
Example

The My Strategic Plan website, for example, offers a step-by-step plan for implementation that helps in assessing necessary personnel, aligning the budget and producing various versions of the plan for individual groups. These sample strategic plan documents help in tracking the plan and managing the system with rewards. In fact, the plan is presented to the entire organization with all required details for implementation.

Source: https://smallbusiness.chron.com/strategic-implementation-5044.html June 30, 2018 Accessed on 08.03.2022

Fostering an organizational climate of trust and developing suitable operating plans with an appropriate organizational structure, and continuous monitoring and review are very critical for the success of strategy implementation and effective control (Refer to Figure 16.6).

Figure 16.6: Overview of Strategic Planning Process



Source: ICFAI Research Center

16.6 Reaching Strategic Edge

This means reviewing with intensified commitment. Strategic management essentially deals with the basic shift of business ideology from diversification to core competencies. The changes in strategic ideology are dynamic, because business dynamics themselves are in a state of constant flux.

Some of the core issues are - Non-compromising attitude in quality of products/services, and customer satisfaction is primary business motive and ethical standards are the strategic priorities of any business.

To achieve these objectives, quality tools like business process reengineering, benchmark, total quality management, and six sigma are employed. Strategic edge covers some of the recent and evolving tools and techniques that are contemporary issues in strategic management.

Refer Exhibit 16.3 for the qualities of a strategic thinker.

Exhibit 16.3: Eight Attributes of Strategic Thinkers

Following are the eight attributes of strategic thinkers:

- Strategic thinkers embrace the future and new possibilities.
- They take risks.
- They are creative.
- They do not accept the status quo.
- They are voracious learners.
- They are willing to adapt.
- They understand delayed gratification.
- They work effectively.

Source: https://pmctraining.com/site/resources-2/8-attributes-strategic-thinkers/Accessed on 27-12-21

16.6.1 Business Process Reengineering

A radical redesign of core business processes and workflow, with the objective of dramatic improvements in productivity and quality enhancement, is known as ‘Business Process Reengineering (BPR)’. The most important consideration for BPR is delivering more value to the customer.

Typically, companies cut down organizational layers and focus on removing unproductive activities, in two important areas.

- First, they redesign and replace vertical functional units, into cross-functional teams.
- Second, they harness technology, to improve data dissemination and the process of decision-making.

The essence of BPR is radical change initiative with customer-centric orientation. The major steps involved are:

- Realign and refocus company values to customer needs.
- Redesign core processes and workflows, through information technology.
- Reorganize organizational hierarchy and focus on cross-functional teams with end-to-end accountability for work processes.
- Rethink basic organizational structure and people-related issues.

Exhibit 16.4 illustrates a successful example of BPR at Airbnb.

Exhibit 16.4: Successful Business Process Reengineering – A Case Study of Airbnb

Airbnb, an American home rental platform, redefined the hotel industry with its disruptive innovations. Innovation was a result of necessity at Airbnb.

Innovation and product development was taking a back step due to the silo functioning of researchers, designers and developers involved in the produce development process who were geographically also dispersed and placed at different places.

To visualize a concept on the computer, engineers had to first compose program code, then researchers had to approve the product ideas and only if approved, designers had to start working on the approved ideas.

Each stage had some waiting time and rejection at any stage resulted in a process failure. Thus when Airbnb was struggling hard to sustain in the business, it came up with innovative solutions.

- A unique single digital environment where all of them could collaborate and work together.
- New model allows the team to access real data with timely updates on a single system.
- This shared platform enabled different teams to work together and foster innovation and product development.
- Resources which were geographically isolated were centralized and teams started participating in all stages of the product development process.

Source: https://medium.com/minit-process-mining/3-business-process-reengineering-examples-airbnb-t-mobile-ford-motor-company-success-stories-8d3132df1c75, Mar 24, 2020, accessed on 26/10/2021.

Check Your Progress - 4

8. Say whether the given statement is True or False.

   Radical redesign of core business processes and workflow with the objective of dramatic improvements in productivity and the quality enhancement is known as Business Process Reengineering (BPR).

16.6.2 Total Quality Management (TQM)

A management system that focuses on continuous improvement of all dimensions of products/ services/ processes of organizations, aims to ensure consistent customer satisfaction at a continually lower real cost. Thus:

- **Total:** It refers to the entire organization, supply chain, and product life cycle.
- **Quality:** Providing output (goods or services) as per standard specifications or without fault.
- **Management:** Management is a process that deals with planning, organizing, staffing, directing, and controlling.

TQM is an organization-level strategy and there is a sustained commitment to quality, by everyone at every level. Each individual is involved in the quality commitment process in the organization.

- It is a systems approach and not an isolated program.
- It works horizontally across functions and departments.
- It involves people organization-wide and embracing both backward and forward chains of suppliers and customers.

TQM believes in continual change for organizational success through learning and development.

Refer Exhibit 16.5 for the companies that use TQM and the principles they adapt.

Exhibit 16.5: Five Principles of TQM

Companies like that of Ford Motor Company, SGL Carbon, and Toyota Motor Company incorporate TQM practices and processes into their production lines, companies such as Motorola, ExxonMobil, and Xerox also use it to support the continuous improvement of the quality of their products.

#1: Focus on the customer

#2: Encourage total employee commitment

#3: Focus on the process

#4: Continuously look for improvements

#5: Make fact-based decisions

Source: https://www.process.st/total-quality-management-tqm/ June 15, 2020 Accessed on 04.03.2022

<u>Check Your Progress - 5</u>

9. TQM believes that learning and adaptation as keys to organizational success through continuous change. True/False.

16.6.3 Benchmarking

Benchmarking provides pre-determined standards, against which performances can be measured. The approach in benchmarking is that of setting goals and measuring productivity, based on the best industry practices.

The important point to note is that in benchmarking, the scope for improving performance is greatly enhanced, through learning from best practices in the related industry. It involves identifying gaps and finding measures to minimize the gaps. Sometimes, it is possible that new learning can accrue from the gaps that can be used to improve better ways of doing things.

Thus, benchmarking helps in the process of continuous improvement, to gain a competitive advantage. It evaluates all the products, services, and practices of the firm, against its competitors, it could be - intra, firm or intra, or industry.

Example

According to World's Best Employers rankings 2021 published by Forbes, Reliance Industries Limited (RIL) is ranked as one of the top four Indian companies to work for. Mukesh Ambani-owned RIL was placed at the 52nd position in the overall ranking of 750 global corporates. Employees were asked to rate their employers on the company image, economic footprint, talent development, gender equality and social responsibility. Great Place to Work institute, a global authority on workplace culture recognized Reliance as 'India's Best Employers among Nation Builders 2021'. All this shows how companies are benchmarked on certain pre-determined parameters.

Source: https://www.hindustantimes.com/business/reliance-tops-indian-firms-in-forbes-world-s-top-100-best-employers-list-check-other-names-101634213855752.html Oct 14, 2021 Accessed on 04.03.2022

Check Your Progress - 6

10. On what basis is productivity measured in benchmarking?
    a. Output
    b. Identifying gaps
    c. Best industry practices
    d. Minimizing gaps
    e. Evaluating products

16.6.4 Six Sigma

This quality tool is driven by data and statistical analysis, to measure and improve productivity in manufacturing and related service processes. Through qualitative data analysis, it evaluates the manufacturing process and identifies and eliminates "defects". Six Sigma stipulates a maximum of 3.4 defects per million parts and in percentage terms, defect-free products should be 99.99966%.

Understanding customer needs, qualitative use of facts, and probability and normal distribution analysis, are employed to improve and reinvent business processes.

Six Sigma efforts focus mainly on-

- Enhancing customer satisfaction
- Reducing process cycle time, through the elimination of unnecessary process steps
- Reducing/ minimizing defect

Check Your Progress - 7

11. How many defects per million parts are stipulated by Six sigma?
    a. 3.0
    b. 3.2
    c. 3.4
    d. 3.6
    e. 3.8

16.7 Summary

- Business policy outlines the resource demand, its acquisition and deployment of these resources, to enable an organization to achieve its goals.
- Strategic planning and strategic management gradually evolved from the business policy.
- The main objective of strategic management is to create a sustainable competitive advantage in its favor by a firm when it implements a value-creating strategy.
- Strategic analysis is the process of conducting research on the business environment, within which an organization operates and on the organization itself, to formulate a strategy.
- Strategic frameworks analyze both the firm and the environment. SWOT and PEST analyses are the most commonly used frameworks.
- Michael Porter's framework of the industry as being influenced by five forces is most widely used in strategic analysis of a business enterprise.
- For nullifying the five forces, the strategy is formulated at three levels, viz. corporate, business unit, and functional or departmental levels.

- Fostering an organizational climate of trust and developing suitable operating plans, with an appropriate organizational structure and continuous monitoring and review are very critical for the success of strategy implementation and effective control.
- To achieve a sustainable competitive advantage, business firms employ quality tools like business process reengineering, benchmark, total quality management, and six sigma.

16.8 Glossary

Competitive strategies: They are the methods, by which a firm achieves a competitive advantage in the market. There are typically three types of competitive strategies- cost leadership, differentiation, and a focus strategy.

Functional manager: He is the person, who has management authority over an organizational unit, within a company.

Low price strategy: A pricing strategy, in which a company offers a relatively low price, to stimulate demand and gain market share.

Market share: It is the portion of a market, controlled by a particular company or product.

Shareholder value: Shareholder value is the sum of all strategic decisions that affect the firm's ability, to efficiently increase the amount of reserve that is ultimately distributed to shareholders.

Sustainable competitive advantages: These advantages are not easily copied by rivals and, thus, can be maintained over a long period.

Value chain: Creating the maximum possible value for the customers.

16.9 Self-Assessment Test

1. Explain how strategic planning and strategic management evolved from the Business policy.
2. Briefly explain the concept of strategic analysis in organizations.
3. Analyze briefly Porter’s Five Forces Model.
4. Explain Michael Porter’s three generic strategies.
5. Write a note on six sigma

16.10 Suggested Readings/Reference Material

1. Alfranch Nahavandi, The Art and Science of Leadership, Pearson, 7e, 2018
2. Arora H.N and Rajan Sinha, Alchemy of Change - Managing Transition through Value-based Leadership, SAGE Publications, 2020
3. Daphne Halkias, Joseph C. Santora, Nicholas Harkiolakis (Editors), Leadership and Change Management: A Cross-Cultural Perspective Hardcover, Routledge, 2017

4. Gary A Yukl; William L Gardner, Leadership in organizations. 9th ed. Boston Pearson Education, Inc 2020
5. Gillian Watson, Stefanie C. Reissner, Developing Skills for Business Leadership 3rd Edition. London: Kogan Page, 2020
6. Nishant Uppal, Narcissus or Machiavelli? Learning Leading from Indian Prime Ministers, Routledge, 2021
7. Panduranga Bhatta C. and Pragyan Path, The Art of Leading in a Borderless World, Bloomsbury Publishing, 2020
8. Peter G. Northouse Leadership: International student edition, Theory and Practice, 9th Edition SAGE Publications Inc, 2021
9. Rajashi Ghosh, Indian Women in Leadership, Springer Nature, 2018
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

16.10 Answers to Check Your Progress Questions

1. (b) Strategy analysis

The process of conducting research on a company and its operating environment to formulate a strategy is called Strategy analysis.

2. (c) Creating a sustainable competitive advantage

Creating a sustainable competitive advantage is an important feature of strategic management.

3. (d) Acting as a guide to implement the strategy

The main objective of SWOT analysis is to act as a guide to implement the strategy.

4. Match the following:

i. Age distribution	a. Social
ii. Environmental regulations	b. Political
iii. Exchange rates	c. Economic
iv. Rate of technological change	d. Technological

5. (a) Competitive advantage

The linkage of the firm to its environment is through strategy leading to competitive advantage.

6. (b) **Developing product differentiation**

Developing product differentiation is a common strategy pursued by firms for gaining competitive advantage.

7. (a) **How a firm can use technology to its advantage**

Competitive advantage refers to how a firm can use technology to its advantage

8. **True**

A radical redesign of core business processes and workflow, with the objective of dramatic improvements in productivity and the quality enhancement is known as Business Process Reengineering (BPR).

9. (a) **True**

TQM believes that learning and adaptation are keys to organizational success, through continuous change.

10. (c) **Best industry practices.**

Benchmarking measures productivity based on the best industry practices.

11. (c) **3.4**

Six Sigma stipulates a maximum of **3.4** defects per million parts.

Unit 17

Management of Strategic Change

Structure

"It is not the strongest of the species that survives, nor the most intelligent; it is the one most adaptable to change."

- Charles Darwin

17.1 Introduction

As rightly said by Spencer S Johnson, in his book "Who Moved My Cheese?", "Those who are not able to cope up with the change will be extinct" and it applies to everybody at every level, at every stage, from micro to macro, from individuals to institutions, from nations to world, and from one man organization to big corporates. Those who learn to change shall flourish and the rest fail.

The previous unit discussed on the evolution of strategic management from the business policy first and later other details on strategic management and strategy implementation and control are taken up for discussion.

The present unit talks about management of strategic change, forces of change, force field analysis and how to overcome resistance to change.

17.2 Objectives

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

- Explain the nature of change
- Identify the internal and external forces creating change, on the part of organizations.
- Explain why people resist change
- Discuss the guidelines, for overcoming resistance to change
- Illustrate the change management process and strategy

17.3 Features of Change

In the current era, the word "change" is used so much that its meaning has been confused and its impact diminished.

Anything new and novel that appears on the horizon is labeled change. At its most basic level, change is a movement out of a current state (how things are today), through a transition state, and to a future state (how things will be done).

Change is inevitable. Change always defies our comfort zone and tests us mentally and physically to get through it. It is continuous, inevitable and present everywhere in our work lives, societies and home. Changes can be internally motivated or externally forced.

Example

"JRD's Air India in 1940s had set its benchmark in the aviation sector and many five-star airlines operating these days want to replicate those quality services. With Tata now in the cockpit, a lot will change and efforts will be on to attain the same royal glory that JRD Tata had planned for Air India."

The next few years will be crucial during the transition. A lot of unlearning and re-learning will be required. To earn passenger loyalty, there would be a need to improve onboard and airport services, besides connectivity to secondary cities and improvement in customer services.

Source: https://www.tribuneindia.com/news/amritsar/amritsar-flyers-expect-revolutionary-changes-as-air-india-goes-into-right-hands-365976 January 31, 2022 Accessed on 08.03.2022

Changes can be anticipated or unexpected. A lot depends on our situations and perspectives, whether the change is for the good or bad. It takes its own time, based on its intensity and individual capacity.

Moving from one state to another is often uncomfortable. As the outcome may not be in our control, moving through the change requires a lot of maturity, and the ability to assess the situation. Further, it calls for making necessary tunings, with the process of commitment, consistency, and flexibility from time-to-time, as required.

People facilitating the change process can make the transition quite comfortable, with their ability to take everybody along the process, by addressing their inhibitions and apprehensions, and assessing the prospective challenges in advance.

The dynamic nature of the world, the growing demands/expectations of the consumers, and competition always keep the organization on its toes. Today's practices are not going to last forever. Hence, those who assess in advance and take a proactive action would perform, while others perish. Thus, to remain competitive and sustainable, it is essential for the organization to learn the art of coping with the change.

The following are the key features of change:

- Change is a natural phenomenon.
- Change results from the pressure of both internal & external forces in the organization.
- It can be exciting and can bring about the best work of a life-time.
- Change may affect people, structure, and technology.
- It may be reactive or proactive
- It's a continuous process rather than series of disjointed activities.
- The pace, intensity and complexity of change continuously rise.
- Change does not happen in isolation.
- It's an accelerating constant universally.
- Change generates other changes.

Check Your Progress - 1

1. Which of the following statements is false?
   a. Pressures for organizational change will reduce in the future.
   b. Organizational change means moving from the present state to a desired future state.
   c. Managers need to know how to manage change and how to deliberately change an organization.
   d. People and organizations often resist change.
   e. Communication is essential during change management.

17.4 Forces of Change, Factors affecting Change, Need for Change

Here we will understand forces of change, factors affecting change and the need for change one after the other.

17.4.1 Forces of Change

The important forces of change are external environment, customers, and competition.

External Forces / Environment

These are factors that occur outside the company that cause change inside organizations and are mostly beyond the control of the company. Even though the external environment occurs outside an organization, it can have a significant influence on its current operations, growth, and long-term sustainability.

Ignoring external forces can be detrimental to the organization. After liberalization of the Indian economy, some IT companies did not keep pace with change and eventually perished.

Example
Many companies that manufacture GPS devices for personal cars have experienced a decline in their business because of the integration of GPS on mobile devices.

Source: https://www.indeed.com/career-advice/career-development/external-environment-factors October 2021 Accessed on 04.03.2022

Check Your Progress - 2

2. Which of the following statement pairs does not match with respect to forces for and against change?
   a. Internal force, groups
   b. External force, threat of takeover
   c. External force, slow decision-making
   d. Internal force, conflict
   e. Internal force, job threat

Customers

Customers are a big source of input providers to bring in a change in the organization if they are not happy with the quality and quantity of the products and services or with the policies of the organization.

They will raise their concerns, give feedback, or withdraw from the organization buying their products and services. Many organizations have a very formal system of collecting customers' feedback, based on which they take certain decisions.

For example, Lloyds TSB bank reduced all overdraft charges, in response to numerous customer complaints.

Exhibit 17.1 explains how Uber retains its customers.

Exhibit 17.1: Retention of Customers in Uber

Uber is able to retain its customers although their revenue from the riding segment went down by 24%, and the revenue for Uber Eats went up 200% in 2020. Riding segment of Uber helped in customer acquisition but it is mostly Uber Eats that attracted and retained its customers.

Source: https://userguiding.com/blog/customer-retention-examples/ December 2021 Accessed on 04.03.2022

Competition

Competition has always been a key reason for the change in organizations. In order to gain competitive advantage, organizations at large continuously endeavor to develop better / new products and services, by the way of introducing new technologies, improving work processes and practices, developing people, acquiring new firms, merging with other organizations, enhancing research and development capacity, reducing cost, etc.

The highly competitive business environment may upset organization's strategy and operations, hence, it is very important for organizations to stay alert and active and keep a close eye on their competitors' strategies and actions for taking appropriate and timely actions to combat their strategies.

The organizations that have always been ahead of their competitors have continuously developed their internal competence, through an effective change management process. The organizations, who could not keep themselves ahead of their competitors, were wiped out mercilessly by the competitors.

For example, Nokia was outperformed by Samsung, in the mobile industry.

17.4.2 Factors affecting Change

The factors affecting change include economic environment, political environment, technology, social conditions and globalization.

Economic Environment

The economic environment plays a very important role in business decisions, rate of interest, government policies, GDP, per capita income, and international trade, which contribute a lot to business decision-making.

Example

Airports Economic Regulatory Authority (AERA) is empowered to safeguard the consumer interests since the beginning of the pandemic and it can reject the demands of operators of major airports to increase the tariffs.

Source: https://economictimes.indiatimes.com/markets/stocks/news/india-high-cost-environment-for-airlines-critical-to-empower-aera-iata/articleshow/87234479.cms Oct 24, 2021 Accessed on 04.03.2022

Political Environment

The political environment plays a key role in business decision-making. The countries and states, which have a stable political environment and government, give a lot of confidence to business enterprises resulting in better growth of both the organization and the country.

Example

Research studies on Nike, the popular footwear company, show that Nike has earned high profits from the growth orientated policies of US government such as low-interest rates, transparency in the global value chain, and currency exchange stability and internationally competitive tax arrangements.

Source: https://www.ipl.org/essay/Nike-How-Political-Factors-Affect-Nike-F3AT5ENPJ48R Accessed on 28-12-21

Technology

Technology has helped organizations improve their business process, products, services and the approach to business.

Past decades have seen tremendous growth in information technology and communication, and most of the organizations have adopted technology to improve their efficiency and effectiveness.

However, since introducing technological changes needs training & development and forcing people to adopt changes, it also brings resistance in the organization.

Example

When automation was introduced, most of the bank employees resisted the introduction of computers in the organization as they thought that the automated processes would make their jobs redundant. They also thought they would be needed to learn computers which they felt would be difficult. A well-planned change management process gradually removed their apprehensions and now the entire banking industry has seen a great metamorphosis in terms of doing business.

Activity 17.1

Identify three major areas of work in your organization. Compare the difference when it is performed with and without the use of technology.

Exhibit 17.2 illustrates how technology has helped in reaching new normal after COVID-19.

Exhibit 17.2: Technology helped Improved Communications

The COVID-19 crisis has sped up the transition in areas such as AI and digitization by several years, and even faster in Asia. A McKinsey survey published in October 2020 found that companies are three times likelier than they were before the crisis to conduct at least 80 percent of their customer interactions digitally.

Source: https://www.mckinsey.com/featured-insights/leadership/the-next-normal-arrives-trends-that-will-define-2021-and-beyond January 2021 Accessed on 04.03.2022

Social Conditions

It is very important to keep track of changing social environment, while doing business, as the needs, demands, and priorities of people and societies keep on changing.

Accordingly, organizations need to change their products, services, and philosophies, sometimes.

Globalization

Organizations going global must develop sensitivity towards understanding of the environment, culture, practices, rituals, and value systems of the nation, in which they are doing business.

Organizations have to change their products and services based on the requirements of their customers and their tastes. For example, McDonald's introduced Aloo-Tikki burgers in India.

Capturing new global markets requires product, cultural, and communicative adaptability. Catering to new demographics and identifying opportunities and threats as they appear in the global market are integral to adapting for optimal value. What happens in the global market affects every business. The global crisis is a classic example of how the whole world can be held to ransom.

17.4.3 Need for Change

Internal Forces/ Environment

The leadership style, culture, processes, organization structure, mission and vision refer to the internal factors / environment and they are largely in control of the organization.

To keep pace with the changing environment, the internal alignment with the external world is also important. To align, it requires bringing in changes in the processes, people and structure, and leadership styles.

Declining Effectiveness is a Pressure to Change

Declining effectiveness may be due to several changes in the micro and macro environment, viz. technology, better competitive products, changed buying behavior, or employee expectations.

Different companies react to such situations in different ways. Some may go for cutting cost of operations, by way of implementing cost-effective tools like six sigma or TQM, others may reflect upon the behavioral orientation of employees, to make them more effective, by addressing their underlying problems.

Development of New Strategic Business Units, New Product Lines or Global Expansion

Organizations may be required to change their existing structure to come out with new business units, product lines or may even choose to become international. In any of the given situations, it becomes relevant to address the changed technical/ behavioral skills of the employees, by way of providing appropriate training.

There might also be fear, confusion and apprehensions in the minds of employees regarding the same. It is important to address the same, through a proper change management process.

Crisis situation

There may be crisis situations like strikes due to wage issues, issues related to the nature of employment.

Example
In crisis situations, organizations have to bring some drastic changes in the process, policy, and people. Sometimes, social / political pressure also forces an organization to take such decisions, like Tata Nano plant shifting its plant from West Bengal to Gujarat.

New Business Idea

Companies, like Wipro, which sensed the opportunity of information technology in India, had to change themselves completely, to capitalize on the same.

They allocated new resources, hired new talent and rebranded themselves in a different manner, to integrate with the new idea. That was the massive change process, through which the organization had to go.

Changes in Employee Expectations

Employee expectations do change with the change in demographic mix in the organization. Different generations in the organization have different expectations from the employers.

The workforce nowadays is more educated and well connected to the world through technology. The young have higher career aspirations, want to grow faster, and demand more.

The changing environment has also led to dual-career families, wherein they look for work-life balance and various other facilities like daycare, flexible working hours, etc. The change in the nature of workforce has also changed the expectations from the employers.

Changes in the Work Climate at an Organization

The change in the organization's work climate also is an important factor that needs to be well watched. The employees' reaction to the work climate, which is either positive or negative, needs to be addressed carefully.

The transition from one state to another may lead to increased commitment to the exploration of betterment in the job performance or may also lead to resistance and denial of work.

Activity 17.2

Take the work climate of any organization which you are familiar with. Suggest three areas where there is scope of improvement and how improvement can be brought about.

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

3. Stress, opposition, cultures, and contractual obligations can all contribute to which of the following attributes?
   a. Triggers for change
   b. Resistance to change
   c. Sudden change
   d. Chaos
   e. Facilitator to change

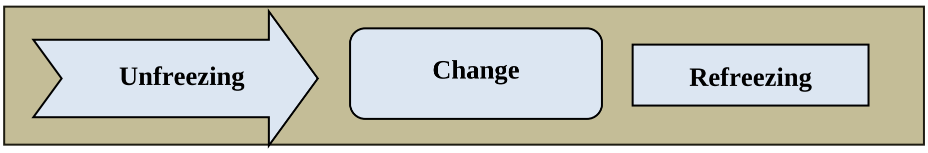
17.5 Process of Change

As shown in figure 17.1, Kurt Lewin described the three stages of the change process; unfreezing, movement to change, and refreezing.

Any organization which goes for a planned change process has to plan these three stages very carefully, to achieve a smooth and productive change process.

Figure 17.1 exhibits Kurt Lewin's change process.

Figure 17.1: Kurt Lewin's Change Process



Source: www.mindtools.com › Project Management

1. Unfreeze

In the unfreezing state, the organization has to get ready for the change, by way of creating an understanding as to how the changed state will bring in better prospects for the organization and employees.

It is a state, wherein employees are told that the change is for the better and they have to get out of their comfort zone, to bring out the desired change by breaking the status quo.

It is a difficult and challenging process as it talks about a future state of the organization, which is not seen but felt and imagined. It needs to be tackled well, as it requires handling people who exhibit inertia, apprehensions, fear, anxiety, and protest as change challenges the status quo.

There will be several questions in the minds of people, which need to be addressed by way of explaining the rationality, necessity, and urgency of the change.

It requires changing the mindset of the people to overcome the inertia. Their attitude, beliefs, values, and behaviors need to be challenged, to start with.

They need to be communicated the pros and cons of going / not going for the change. They need to be told how organization and peoples' lives and prospects will positively change, once the changed state is achieved and how not opting for change may be detrimental for both.

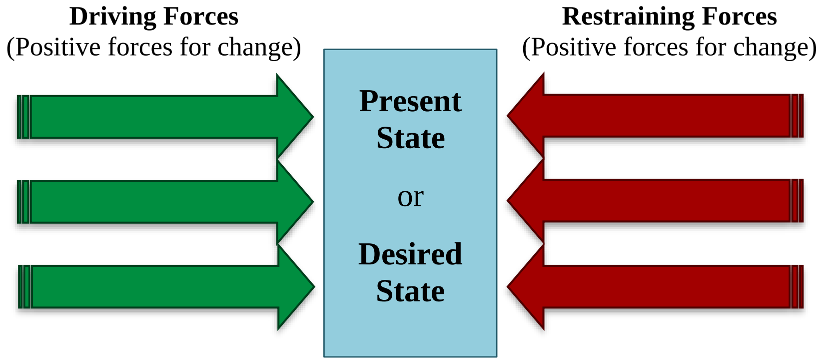
The decision to choose to go for the change can be arrived at by performing the Force Field analysis given by Kurt Lewin (Refer Fig. 17.2).

It explains that there are two types of forces that apply on the organization, the forces which drive for the change called the driving forces, which are positive forces and the forces which restrict the change, called the restraining forces or obstacles for the change.

When these two forces are of equal intensity, there remains the balance or status quo. When the driving forces of change outweigh the restraining forces against the change, the organization has to go for the change.

Figure 17.2: Force Field Analysis

FORCE FIELD ANALYSIS – KURT LEWIN



Source: http://www.change-management-coach.com

The key to successfully sail through the unfreezing state is choosing the right people to act as change agents, convincing people through co-operation, and establish an environment of trust and transparency.

2. **Change or Transition**

The second stage is about executing the change. This is the stage when the proposed changes in the technology, structure, processes, and procedure and culture are implemented. It may be a long and enduring phase that depends on the intensity and order of the change.

According to the Kurt Lewin, the movement to change is not an event, rather it is a process called transition and it does not happen in a day or two.

Transition is very tough and hard, people try to leave their old practices, behavior and beliefs, and try to adopt new ways to bring in change, for which is seen, they are not yet clear about what they have to adapt and how far have they reached.

Sometimes it may be too tough to move and people may want to go to the old state. This may cause panic, fear, and anxiety.

Further, they need to be continuously counseled and updated about the development and direction.

Communication is the key at this point, as lack of information and communication might lead to rumors and restlessness amongst people.

The role of the leader/manager/change agent becomes very important. He has to continuously communicate with the people and provide them the direction and feedback.

3. **Refreezing**

The third step suggested by Kurt Levin refers to the establishment of stability, once the change has been achieved. It is about reinforcing the fact that the proposal made, to change the process, structure, policies, practices, or beliefs, has brought the expected change.

It is about making one believe and appreciate that the organization's efforts to bring in change were for the betterment of the organization and the people and that the changed state may now be locked, as it has brought the desired outcome. Communication is again the key in this process, the organization and the leaders have to exhibit the outcomes and benefits achieved from the change.

In summary,

- Unfreeze: 1st stage - is the state, wherein employees are told that the change is for the better.
- Transition: 2nd stage - is about executing the change; changes in the technology, structure, processes, and culture are implemented.
- Refreeze: 3rd stage - is to do with stability, once the change has been achieved.

Exhibit 17.3 relates the example of online mode of teaching with Lewin's model of change.

Exhibit 17.3: Lewin's Change Management Model Example in 2021

Many educational institutes have shut down due to the COVID-19 pandemic. They have decided to conduct virtual or online classes to see that students did not miss the knowledge transfer. They used online video meeting platforms, such as Zoom, Google Meet, to conduct virtual classes and organizational meetings. It was a new experience for faculty and students.

Educational institutes compelled the faculty as well as students to accept the change. With all the hiccups and scepticism among faculty and learners, the change model is continuing with much ease, reaching the second stage of Lewin's model. If this change model is accepted after COVID-19 too, we may say we have reached the refreezing stage. Time alone tells whether the change model refreezes or not.

Source: https://newsmoor.com/lewins-change-model-3-steps-management-change-and-communication/ Feb 2021 Accessed on 04.03.2022

Check Your Progress - 4

4. What is Lewin's three-step model?
   a. Planning, movement, and metamorphosis
   b. Consulting, team formation, and change
   c. Unfreezing, movement to change, and freezing
   d. Movement to change, change, and unfreeze
   e. Learning, unlearning, and relearning
5. In which stage of Kurt Lewin's Force Field Analysis does reinforcement of change process take place?
   a. Unfreezing
   b. Movement to change
   c. Refreezing
   d. Metamorphosis
   e. Relearning

17.6 Resistance to Change

Any change proposed in the organization has the potential to attract resistance, which may become a big problem. It may be due to the reason that individuals and groups perceive the change as a threat.

17.6.1 Reasons why People Resist Change

There are several reasons for resistance to change:

1. **Poor Communication**

   The decision to change is taken by the key stakeholders. They need to communicate the details to team members and ensure that all questions, complaints, fear, and apprehensions are addressed before the change is implemented.

   It happens sometimes that the news of change spreads but without passing on much of the details and that leads to inaccurate information, rumors, and resistance. Poor communication is a major obstacle to the change process.

2. **Loss of Control**

   People may feel that change might result in a loss of control over the resources or authority, the changed state may be a threat to their position or power and that causes resistance. The feeling may be real or imaginary too but it gives them worries.

   The leader must involve people in the planning process, by giving them ownership of the same. Once they are involved and given importance, their apprehension also subsides.

3. **Overload of Current Tasks, Pressures of Daily Activities, and Limited Resources**

   Bringing in change may require managers to mobilize resources and focus attention towards the process, along with performing their daily tasks and activities and achieve performance.

   It may be further challenging when the resources are limited and pressure to perform is high. The managers might be, in the given situation, unwilling and reluctant to change and may resist or procrastinate it.

4. **Fear of the Unknown**

   Fear of the unknown is a potential resistance to change, as it challenges the status quo and the new state after a change is uncertain to people. The uncertainty might lead to the development of the feeling of losing what they have.

5. **Job Security**

   Since the changed state may require the upgradation of knowledge and skills, people might feel a threat to job security. This happened when computerization was introduced in organizations and people thought that the technology might replace people and leading to layoffs.

6. **Lack of Understanding Around the Vision and Need for Change**

   Sometimes, the reason for employee resistance is that they do not understand the vision of the organization and are unable to understand the reasons for the change, which has strategic importance. They do not clearly understand why the change is happening, nor do they have sufficient information regarding the change.

   Changes within an organization start with key decision-makers. It is up to them to pass along the details to team members and ensure all questions and complaints are handled before changes go into effect. Unfortunately, as news of a change spreads through the hierarchy, details are sometimes skewed and members end up receiving inaccurate, second-hand information.

   Poor communication can, therefore, cause resistance to change. Employees do not have the answer to the question, "What's in it for them?". This could include, "Will they have a job?", "How will it impact their daily work?", and "How will they benefit from the change?".

7. **Concerns about Competence**

   Change is resisted when it makes people think that they do not have the necessary competence to upgrade themselves. They may feel that they would not be able to develop the required competence and, hence, may become obsolete for the organization.

   Leaders should ensure that people are provided confidence, support, training, counseling, and mentoring, to overcome such concerns.

8. **Low Trust**

   Trust plays a big role in running a successful organization. When organizational members have low trust in management, people find it difficult to accept change.

9. **Non-reinforcing Reward Systems**

   Rewards not linked to performance may lead to loss of motivation, to support change. It is important to convince people, how moving towards the change would be rewarding. An ill-defined reward system may be detrimental.

17.6.2 Overcoming Resistance to Change

The following activities help in overcoming resistance to change:

1. **Communicate Frequently and Credibly**

   Communication is the key to overcoming resistance. Organizations should not leave people guessing on their own, about the facts and information related to change that may lead to rumors.

Bosses and supervisors must communicate frequently, both formally and informally. Employees need to be told about specific changes required, the reasons for it, and the impact of change on both organization and employees.

2. **Ensure Participation and Involvement**

   Employees, who participate in planning and implementing a change, are more likely to support it.

   Before making a change, management must invite the people opposing, to present their views and opinions about the same, along with the possible problems and suggestions.

   Involving employees may reduce resistance and lead to their commitment. Their suggestion may also help in enhancing the quality of the change decision.

3. **Address Personal Issues First**

   The change is justified by the fact that it not only benefits the organization but also benefits the employees. Their concerns need to be addressed by informing them, how it is going to change their role positively, how will they benefit, in terms of quality of work-life and personal goals.

4. **Facilitate and Support**

   The potential resistance can be handled well by providing necessary support to the employees, during the transition. Their fears and apprehensions need to be removed. They should be provided the right support, by way of training, mentoring, and counseling.

5. **Build Confidence**

   Cite examples of how the organization had overcome other difficult times and provide concrete evidence that supports the slow but incremental progress being made by the organization.

   When people see how in the past employees and organizations have benefitted from change, they will show more confidence and commitment.

6. **Provide Adequate Training**

   Provide training in new technology, values, skills, and behaviors. Good quality training is a must to ensure that employees respond to the change process well.

7. **Create a Transition Management Team**

   It is important that a carefully selected team is formed, to implement the change. The team should have expertise and experience, in dealing with the change process.

8. **Reward People**

   People are the essential ingredient in every successful change. So timely rewards can motivate people, to embrace change successfully.

17.7 Types of Changes

Remedial change is to improve the current processes and practices, which may be causing ineffectiveness.

> **Example**
>
> A newly launched product may not be getting the required response from the market; the production output is not as per the expectation, due to wrong planning or process flow.

Remedial changes are more focused and are dealt with urgency.

1. Developmental Change

Developmental changes are those, which are made to improve current business procedures. Such changes are intended to enhance or correct the present systems and practices, by way of focusing on skill development or technology upgradation.

The development changes may cause some low level of stress, as the employees have to learn some more improved dimensions of the existing processes.

> **Example**
>
> Upgrading computing skills, or improving the current reporting process, updating the exam management system, etc. Such changes are incremental in nature.

2. Unplanned Change

The unplanned changes occur due to some major unexpected and sudden events that require urgent and immediate action.

The 2008 recession is a classic example, wherein organizations had to change their strategies and processes suddenly, to reduce cost to survive.

Such unplanned changes also occur, when suddenly some very important person in a leadership position quits the organization or dies.

It also happens, when a product performs poorly or experiences loss of customers, due to certain reasons.

> **Example**
>
> Coke faced such a problem when Baba Ramdev compared the same with toilet cleaner. This affected the sales volumes and the company had to sign a campaign contract with Amir Khan to regain the customer’s confidence.

3. Planned Change

Planned change is a well thought out process, wherein an organization, proactively sensing the environmental challenges or opportunities, decides to bring in changes.

Planned changes are normally in the direction of strategy, organizational restructuring, or a higher degree of technological reforms.

Example

When GE decided to move from analog to digital technology, it brought in major changes in the entire organizational processes.

Exhibit 17.4 details how Procter & Gamble brought in changes suddenly in the whole of the organization.

Exhibit 17.4: Organizational Change at The Procter & Gamble

The Procter & Gamble Company (P&G) has announced its plans to simplify its organizational structure in order to "increase focus, agility and accountability."

Starting July 1, 2019, P&G will implement a "new, simpler management structure to provide greater clarity on responsibilities. New reporting lines will strengthen leadership accountability and enable P&G people to accelerate growth and value creation."

P&G would operate through six industry-based Sector Business Units (SBUs). The six SBUs will have direct sales, profit, cash and value creation responsibility for its largest markets—U.S., Canada, China, Japan, U.K., Germany, France, Spain, Italy, Russia and smaller adjacent countries which account for 80% of company sales and 90% of after-tax profit.

P&G aims to reduce the level of corporate resources, with about 60% of corporate work shifting to the business units and markets. By this change, P&G will have a more engaged, agile and accountable organization focused on winning with consumers.

Source: https://www.gcimagazine.com/business/marketers/announcements/PG-Announces-the-Most-Significant-Organization-Change-in-20-years-500102301.html 2018 Accessed on 04.03.2022

Incremental or First Order Change

Incremental change is a method of introducing many small, gradual (and often un-planned) changes to a project, instead of a few large, rapid (and extensively planned) changes.

The first order changes are according to the existing norms and practices and require the existing knowledge and skills to implement them. This change may be related to increasing the productivity or decreasing the operational cost by a certain percentage, over a period on an incremental basis.

Transitional Change

Replacing the current processes and practices with a new one is an example of transitional change. It is very challenging and causes discomfort as it needs to break the status quo.

Mergers and acquisitions, organizational restructuring, introducing a new product / service line, venturing into a new business, or implementing new technology are transitional changes.

Transformational or Strategic or Second Order Change

Exhibit 17.5 describes how Lincoln Financial brought in transformational changes to cope with the pandemic induced situation.

Exhibit 17.5: Transformational Change in Lincoln Financial Corporation

Lincoln Financials is a US-based multiple insurance and investment company. It is a technology-enabled firm. However, when the COVID-19 pandemic brought in a slew of challenges and the business houses were scrambling to acquire new technology to suit massive remote work requirements, Lincoln Financials too had to follow suit.

The company adopted a two-pronged approach in technology upgradation. To simplify the employees' tasks and provide better satisfaction to the customers. For instance, digitalization of application and authentication of its life insurance policies enabled the agents to avoid personal interaction with the customers. Alongside, the time required to process the application has been reduced to 24 hours from over a month. Optimizing the use of technology along with the empathy with the staff enabled the firm to be crisis ready.

The transformation was a planned process. Discussions were held with outside experts and peers, employees were taken into confidence, customers were intimated about the new process. Care was taken to adopt technologies to improve workers' emotional wellbeing.

Source: https://hrexecutive.com/inside-lincoln-financials-digital-journey-and-how-it-changed-again-after-covid-19/ October 30, 2020 Accessed on 04.03.2022

Robotics in manufacturing plants, scanning machines at billing counters, and integration of IT in the HR process are examples of process-oriented changes.

These changes are brought to make processes more effective and efficient by way of reducing process time.

Recently, a pizza delivery company planned to deliver pizzas through drones and this is one remarkable example of process-oriented change.

Process improvement, sometimes, also needs to redesign the organizational structure, by way of reducing unnecessary layers in the organization structure or designing it, to break the silos and bring in more collaboration.

Lincoln Financial Corporation, Hewlett Packard, Cisco completely changed their organizational structures, to make the process more efficient, while technology played an important role.

Introduction of technology not only eases the process but also makes it cost-effective. Internet technology helped organizations to reduce their cost of communication and made products and services very wide and accessible. E-commerce has been a good example of the same.

In addition, nowadays, internet-based retailing and other services have completely changed the way organizations do business. Bringing such changes also requires changing attitudes, behaviors, skills, and performances of employees.

People-centered change intends to bring such changes into the people, by way of modifying their behaviors in individuals and groups, working in the organizations. Certain skills like problem-solving, team-building, interpersonal relationships, etc. are inculcated into people, to bring the desired results.

Check Your Progress - 5

6. Which of the following is an internal force of change?
   a. Technology
   b. Competition
   c. Workforce
   d. Political environment
   e. Legal environment
7. Which of the following is true with respect to organizational change?
   a. Many organizations have become taller.
   b. Technology has not been utilized to increase employee productivity.
   c. Employee training has not helped employees to adapt to new work environments.
   d. Management has decentralized decision-making and planning, giving non-managerial employees more power in the workplace.
   e. Leadership does not play the role of a change agent.

8. Example(s) of external change forces is (are):
   a. Inadequate communication
   b. Economic environment
   c. Group dynamics
   d. Structural inertia
   e. Socio-cultural environment

17.8 Change Management vs. Change Leadership

A systematic approach to deal with the change is called change management. The change management process includes both individual and organizational perspectives. It is a process of transition of teams, individuals, and organizations, from the current state to the future desired state.

The change management process ensures that the change is implemented smoothly and achieves the desired benefits. The objective of the change management process is to gain a competitive advantage, to meet customers' and market needs, in a faster and efficient manner.

Change Management Strategy

To manage change, it is important to be aware of the situation that includes understanding the characteristics of that change. Certain important aspects need to be assessed like the scope of the change, its impact on people, their perception about the change, the time frame, and where the change is being introduced - meaning the process, the job roles, or the systems.

- Managing change starts with *situational awareness,* wherein organizational traits and the groups, who will be affected by the change, need to be analyzed. Change agents have to address employees, regarding the following areas: How did the organization manage change in the past? What did employees and managers perceive about the change? How did they face change? Did the organization have a shared vision? Who were impacted by the change? In addition, in what ways change affected them?
- The next stage in the change management process is to assess the *supporting structure* that involves the identification and constitution of the members and teams, who will manage the change. That change management team can be formed, involving internal resources or it can be an external consultant, who collaborates with the internal team, to manage the change. The key to having an effective change management process is a well-planned change strategy, with clear cut defined duties, responsibilities, and roles of the resources involved. The responsibility needs to be defined and allocated, identifying the key member / leader that shall be leading the change and authorized to take decisions. Each member of the team has the responsibility to build support and communicate the change, to his/her respective people.

- The next step is to analyze the change *management strategy* that involves estimation of risk, the changes that affect the organization in a larger way affecting large groups, and hierarchies. Moreover, organizations, which have a tradition and culture of resistance, also have a higher change management risk. It is suggested that such an estimation needs to be made while drawing the strategy. It is important that a thorough assessment is made about the resistance that the change will face. The change management strategists have to assess how, in what ways and with what intensity, the different groups, divisions, and regions will respond to the change.
- Finally, it's suggested to see if any special plan is needed to implement the change. In the entire change management process, all the plans and tactics need to be reviewed in a timely manner, to see if the plans are going as per the design or some midway correction is required.

Factors Common to Successful Change Management

- **Planning -** Developing and documenting the objectives to be achieved by the change and the means to achieve it.
- **Defined Governance -** Defining roles, responsibilities, duties, and structure of the members involved in the change management process.
- **Committed Leadership -** For any change to happen, top bosses/leaders must involve and support. Committed leadership is essential for success.
- **Informed Stakeholders -** All the organization stakeholders need to be informed about the change, its need, benefits, and impact.
- **Workforce Alignment -** Identify the impact of change on people, accordingly, their skills and competencies need to be aligned, to bring in desired support.

Example

When the Covid-19 pandemic hit, there is a need to re-examine and recalibrate the intentions. This requires assessing the risks, and turn them into opportunities. LexisNexis Risk Solutions has initiated changes in healthcare business. They have done so by four acquisitions over four years. The employees practice both flexibility and structure to enable organizational change. In the months ahead, they plan to bring about change proactively.

Source: https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2021/03/17/leading-through-change/?sh=6dbb55e71b9f Accessed on 08.03.2022

17.9 Change Management Process (Kotter's 8-Step Change Model)

Change management process, according to Kotter, is an eight-step process grouped into three categories.

- **Creating a Climate for Change**
  - Creating Sense of Urgency
  - Form the Strong Team

- **Developing a Vision and Strategy**
  - Engaging and Enabling the Organization
  - Communicating the Change Vision
  - Empowering Others to Act on the Vision
  - Generating Quick Wins
- **Implementing and Sustaining Change**
  - Let the Change Get Mature
  - Anchor the Changes in Corporate Culture

Change Management vs. Change Leadership

Change Management is the process of bringing the desired change in the organization, ensuring that there are minimum deviations and distractions in the change process. The objective of the same is to minimize problems, keep things in control, and ensure step-wise progress.

Change Leadership is the vision and motivation provided, to ensure that the change process happens. (Refer Figure 17.5)

Figure 17.5: Change Management vs. Change Leadership

Source: ICFAI Research Center

Leadership Vision for Change - 7 Steps

1. It should be positive. A vision should focus more on how the future will be better, and why.
2. It should be inspirational. People don't make decisions by facts - they are swayed by their emotions. A vision needs to appeal to the emotions of those involved, to be inspirational, and then supported with logic.
3. It should be bold. Overcoming seemingly impossible odds are truly inspiring.
4. It should be inclusive. Involving others will not only create ownership and buy-in for the vision; it will most likely result in a better vision. Involve people in the implementation planning.
5. It should be measurable and attainable. Measurement metrics are important, as they quantify vision.
6. It should connect to the greater good. The vision should be inclusive in nature. Employees want to feel like they are making a difference and a contribution to making the world a better place. They crave a sense of purpose.
7. It needs to be communicated. Visions should not be well-guarded secrets. Leaders need to get out and talk to their employees about the vision. Communicating a vision is an ongoing process.

Example

A recycling company can have the vision of re-using old electronics disposed of at dumps. This vision can help the company gain support from many environmentally committed people.

Source: https://www.indeed.com/career-advice/career-development/leadership-vision-statements March 25, 2021 Accessed on 08.03.2022

Check Your Progress - 6

9. Which of the following options truly reflects change?
   a. Continuous process
   b. Punctuated event
   c. Series of unrelated activities
   d. Process initiated by non-managers
   e. Non-transition activity
10. Identify the fifth step in the change management process propounded by Kotter.
    a. Engaging and Enabling the Organization
    b. Communicating the Change Vision
    c. Empowering Others to Act on the Vision
    d. Generating Quick Wins
    e. Creating Sense of Urgency

17.10 Summary

- Change is a movement out of a current state (how things are today), through a transition state, and to a future state (how things will be done).
- Change is inevitable. Change always defies our comfort zone and tests us mentally and physically to get through it.
- It is continuous, inevitable, and present everywhere in our work lives, societies, and home.
- Changes can be internally motivated or externally forced. Changes can be anticipated or unexpected.
- A lot depends on us, our situations, and perspectives, whether a change is for the good or bad. It takes its own time, based on its intensity and individual capacity.
- External and internal forces impact change.
- There are different types of changes. They are: Radical and Developmental; Planned and Unplanned; and Transactional and Transformational changes.
- Kurt Lewin’s change process is explained in three stages - Unfreezing, Movement to Change, and Refreezing.
- Change Management is a process of bringing the desired change in the organization, ensuring that there are minimum deviations and distractions in the change process, the objective of the same being to minimize the problems, keep things in control, and ensure the step-wise progress.

17.11 Glossary

As-is state: This is the current situation in the organization, i.e. the pre-change people, processes, technology, structure, strategy, culture, etc.

Baseline: The level of performance, which is used for comparison, after the change. This may just be a past performance, but where other changes are going on, this needs to be adjusted to take into account their impact.

Champion: Person taking individual responsibility, for enacting successful change.

Change agent: Change agent is a person, from inside or outside the organization, who helps an organization transform itself, by focusing on such matters as organizational effectiveness, improvement, and development.

Change initiative: An organized, concerted effort, to alter a part of or all of an organization.

Change management: Change management is an approach to moving organizations and their stakeholders, in an organized manner, from their current state to a desired future state.

Communication channels: Communication channels are the routes used to pass messages, such as social media, email, verbal presentations, reports, etc.

Force field analysis: Force field analysis involves listing the factors (forces), which are in favor of a particular action / change and those that are against.

Gap analysis: A process of assessing the current (as-is) state and the future (to-be) state, to assess how to make the transition from one state to another.

Transformational change: Change, which is not merely an extension of improvement or modification of the current state of an organization, but one which involves a complete and fundamental change in the organization, involving changes to processes and systems, people, structure, and / or culture.

17.12 Self-Assessment Test

1. What do you understand by change? Explain the nature of change.
2. Discuss in brief various forces of change.
3. Explain different types of change.
4. Discuss the process of change by Kurt Lewin.
5. Discuss the eight-step change management model of Kotter

17.13 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

17.14 Answers to Check Your Progress Questions

1. (a) Pressures for organizational change will reduce in the future.

Pressures for organizational change will reduce in the future is false.

2. (c) External force, slow decision-making

The statement 'External force, slow decision-making' does not match with respect to forces for and against change.

3. (b) Resistance to change

Stress, opposition, cultures and contractual obligations can all contribute to Resistance to Change.

4. (c) Unfreezing, movement to change and Refreezing

Lewin's three-step model is Unfreezing, movement to change and refreezing.

5. (c) Refreezing

In the third stage of 'Refreezing', of Kurt Lewin's Force Field Analysis reinforcement of the change process takes place

6. (a) Technology

Technology is an internal force of change.

7. (d) True

Management has decentralized decision-making and planning giving non-managerial employees more power in the workplace.

8. (a) Inadequate communication

Example(s) of external change forces is (are) inadequate communication.

9. (a) Continuous process

Change is a continuous process

10. (c) Empowering Others to Act on the Vision

Empowering Others to Act on the Vision is the fifth step in Kotter's change management process.

Unit 18

Managing Emotions in Change

Structure

"All transitions are composed of an ending, a neutral zone and a new beginning."

- William Bridges

18.1 Introduction

In the previous unit, force field analysis of change and resistance to change are discussed. Change management, a structured approach, denotes transitioning individuals and teams from a current state to a desired future state with an objective to accomplish organizational objectives through the vision and strategy of the firm. This aspect is discussed in the present unit.

Apart from this, the current unit also discusses that the main aim of this transition is to change the mindset and empower employees to accept and implement changes in their existing environment.

18.2 Objectives

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

- Explain various models of change management
- Illustrate emotional dimensions in the change management process
- Elucidate communications strategy template
- Discuss change assessment and planning template
- List manager's checklist for communicating change

18.3 Importance of Vision

Change management is part of all projects. This enables managers, and people to accept new work processes, different technology platforms, new systems, structures, and value systems in the organization. The set of activities that encourage and foster people to transition from their current working environment to a different and the desired way of working is shaped and influenced by the organization's vision.

In change management, there are some specifically designed intervention strategies to meet the organizational needs. The focus of these strategies is the reduction or elimination of sources of negative emotions. These sources of negative emotions create a destabilizing work environment. By reducing or eliminating these sources, the negative impact of emotions on employees is also reduced.

Redesigning work tasks, changing the layout of the work environment, flexible working schedules, participative management, and career development initiatives for employees, social support and open feedback, cohesive work teams, sharing rewards are some of the most efficient and frequently used strategies that organizations adopt to minimize the dysfunctional impact of emotional currents on employees.

Organizational change begins with adopting a vision. Change is necessitated by external factors – like social, technological, political, economic, or by internal factors such as policy, systems or structure.

In either case, the vision will set a tempo for the change process. The vision also helps in motivating the people that are impacted and helps them grasp the "Big Picture". The ability to visualize and articulate a possible future state for an organization or company has always been a vital component of successful leadership.

Example

Big-picture thinking to enhance managerial skills:

Francis is a manager on a flower farm. She asks her staff about the challenges they are facing with the plants and also asks their suggestions for improving efficiency. This helped her to improve the overall production process. When the staff are involved in the planning and decision-making process, the company morale also would be high.

Source: https://www.indeed.com/career-advice/career-development/see-the-bigger-picture April 8, 2021 Accessed on 04.03.2022

18.3.1 Characteristics of an Effective Vision

The vision statement tells where the organization intends to go and provides a compelling picture of a desired future state. The characteristics of an effective vision are listed below:

- Imaginable - It exhibits a picture of what the future would be like
- Desirable - Denotes the long-term goals of all stakeholders
- Feasible - Comprises realistic, achievable goals
- Focused – Provides guidance in decision-making
- Flexible – Allows dynamic changes and alternatives
- Communicable – can be fully explained in a short time

Example

Microsoft's corporate vision is "*to help people and businesses throughout the world realize their full potential.*" Microsoft's corporate vision presents the target market, what the company's technology products do, and what customers can achieve through such products.

Source: http://panmore.com/microsoft-corporation-vision-statement-mission-statement-analysis Feb 2019 Accessed on 04.03.2022

Check Your Progress - 1

1. Which of the following truly reflects change management?
    a. Transformation from desired state to current state
    b. Transformation from current state to desired state
    c. Transformation from formal structure to informal structure
    d. Transformation from informal structure to formal structure
    e. Remaining static
2. Which of the following are not the responses of employees for change management initiatives?
    a. Sense of shock
    b. Fear
    c. Resentment
    d. Apathy
    e. Satisfaction

Exhibit 18.1 provides 5 principles of leading change initiatives.

Exhibit 18.1: 5 Principles of Leading Change Initiatives

1. **Use the existing culture:** Lou Gerstner, as the CEO of IBM, is credited for one of the most successful business transformations in history. He said his learning experience was that "culture is everything." To be effective, the change initiatives must take into account the existing organizational culture while designing the transformation strategy.
2. **Start at the top:** "Walk the talk"- Commitment and demonstration of the commitment by the top management are critical for the success of change management. The top management needs a well-aligned group of executives strongly supporting the CEO.
3. **Involve every layer:** Strategic planning is all about integrating midlevel and frontline people who can make or break a change initiative. The unfolding of change initiatives is bound to be smooth if operational people are involved for their inputs as they are a rich pool of knowledge about potential glitches. By involving them their resistance to change can be significantly minimized.
4. **Engage and engage all:** Leaders, who understand how the human mind works, invariably engage all people in the change process. Powerful and sustained change demands constant communication. The more varied the communication styles the better will be the results.
5. **Make the rational and emotional case together:** Appeal to the head and the heart. Mere logical argument rarely reaches people emotionally. However, if the appeal is emotional as well, it ensures genuine commitment to the cause. Human beings respond to calls of action that engage their hearts as well as their minds, making them feel as if they are part of something significant.

Source: ICFAI Research Center

Activity 18.1

List out the vision statements of any three organizations. Tick against each of the five characteristics, if these are fulfilled. Find out which one tops among the three.

18.4 William Bridges' Three-Phase Model

The emotional dimensions of employees are a critical aspect because changes lead to conflicts and erosion of employees' sense of security and emotion management becomes imperative for the organization.

The notion of emotion management does not merely refer to an automatic emotional response but it is co-constructed through our efforts to feel and express emotions that are appropriate to a given specific situation. The main reason for organizations to manage their employees' emotions is the economic one, though there are several other reasons why organizations need to generate a buy-in of the employees.

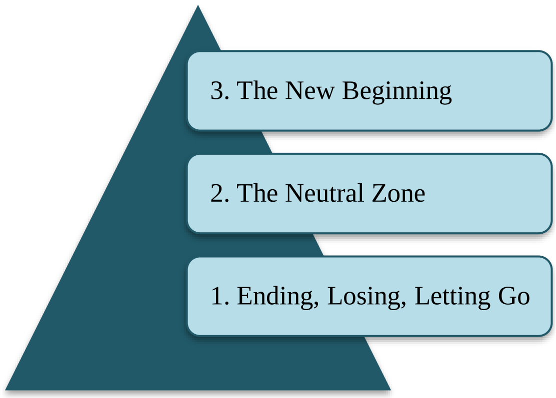
William Bridges developed a three-phase model that reflects the emotional influence of change over a period and the role of a leader, known as Bridges' Model. It consists of three phases (Refer Figure 18.1).

Phase 1: Ending, Losing, Letting Go

Phase 2: The Neutral Zone

Phase 3: The New Beginning

Figure 18.1: Bridges' Three-Phase Model



Source: ICFAI Research Centre

Bridges makes a distinction between change and transition. Change is contingent on situations while transition deals with the emotions and psychology of the people. The biggest obstacle in change management initiative is resistance to change. It can be very damaging to the process and if remedial action is not taken, then it can halt the initiatives to move forward if they are not addressed appropriately.

18.4.1 Phase 1: Ending, Losing, Letting Go

In this phase, the employees must come to a point where they accept change as a norm and can let go of the old situation. It is important to note that unless they accept a change mindset and let go of the old habits they will not be able to move forward in the desired direction that organization has set for itself. It is unlearning past experiences (Refer Table 18.1)

Table 18.1: Phase 1 of Change Process

Possible Reactions	Behaviors Displayed

• Sense of shock
• Fear
• Resentment
• Apathy
• Loss
	• Posing queries
	• Challenging
	• Making complaints
	• Not seeing any positive outcomes
	  o Troublemaking
	  o Moving away
	  o Finding fault

Source: ICFAI Research Center

The leader plays a proactive role in making people accept the realities and brings out a change in the mindset of people**.**

18.4.2 Phase 2: The Neutral Zone

In this phase, the employees tend to be tentative and accept that the "old order" is no longer relevant, yet the "new order" has not yet taken root. It is yet to be established in their thinking and work practices (Refer Table 18.2)

Table 18.2: Phase 2 of Change Process

Possible Reactions	Behaviors Displayed
• Anxiety • Confusion • Decreased motivation resulting in lack of productivity • Some hope	• Flexible and trying to adjust • Bargaining • Willingness to get involved

Source: ICFAI Research Center

The leader should talk to the employees about –

1. The possibility to experience emotions and feelings here
2. Developing required temporary policies, procedures and structures
3. Making connections within the team
4. Encourage the employees to think of new ways of doing things and empower them
5. Involve people actively in trying out ideas
6. Initiate training for those who require upskilling
7. Explain the organizational perspective and objectives of the change initiatives

Check Your Progress - 2

3. Match the following:

1. Imaginable 2. Desirable 3. Feasible 4. Flexible 5. Communicable 6. Focused	a) Simple and lucid to provide guidance in decision-making b) It portrays a picture of how the future looks like c) Comprises realistic, achievable goals d) Can be fully explained in a short time e) Allow dynamic changes and alternatives f) Addresses the long-term interests of all stakeholders

18.4.3 Phase 3: The New Beginning

In this phase, the employees willingly accept and show emotional commitment to the new state (Refer Table 18.3).

Table 18.3: Phase 3 of Change Process

Possible Reactions	Behaviors Displayed
• New energy • New identity • Sense of purpose	• Rebuilding • Cooperation • Clear focus and planning

Source: ICFAI Research Center

The leader must explain the purpose in the following aspects:

1. Communicating the vision
2. Elaborating on the outcome of the change
3. Make a transition plan: on the training and support
4. Allot the employees parts to play in the transition

Transition Stages People need to transition through change. They do this through three stages:

- Endings—People need to let go of the past first before they can embrace the new.
- Neutral Zone—People begin to explore their comfort with the new change.
- Beginnings—People begin to embrace the new change.

The “Bridges Model” is a useful tool for anyone who is going through any type of change.

- Change is dependent upon the situation: a new home, a new job, a new team, a new boss.
- Change is something that is external to the person going through the change.
- Change just happens. However, people’s reaction to change is what necessitates a process for managing change.
- This reaction is internal.
- The “Bridges Model” is a tool for change management that can be applied by anyone to any situation where change is occurring.

Exhibit 18.2 deals with William Bridges three-phase Model with respect to medical practices.

Exhibit 18.2: Leading through Transitions with William Bridges Three-Phase Model: COVID-19 and Medical Practices

For healthcare leaders, COVID-19 pandemic has posed many challenges:

- To sail through the pandemic, they need to consider the public health issue, especially about direct patient care, not sure of how long will this pandemic last about, the economic issue i.e. the survival of medical practice in terms of staff strength and finance and how to get back to normal after the pandemic ends.
- In such uncertain times, healthcare has to choose new practices.
- Here is where William Bridges three- phase model of transition can be put in to practice.
- The three phases are Phase 1: Ending, Losing, Letting Go, Phase 2: The Neutral Zone and Phase 3: The New Beginning.
- The transition starts with an end, moves forward with a neutral zone and ends with a start/beginning.

Phase 1: Ending, Losing, Letting Go: Ending refers to leaving the old situation. In the initial phase, handling the virus and associated illness was the first preference. In the process, the way healthcare officials communicated with staff, patients, payers and suppliers changed.

- Caring for COVID patients and non-COVID patients changed. Managing with limited PPE (Personal Protective Equipment) was a challenge.
- Many types of emotions raised in this phase and created stress among all the stakeholders like employees, owners, suppliers, patients and all others involved in the system.
- This phase is to sense the shock.

Contd….

Phase 2: The Neutral Zone: This phase refers to managing the routine and listing the requirements of new work practices.

- Checking for the financial help from government, programs undertaken by them, restrictions posed, if any.
- This phase also examines the past practices to deal with such issues and the challenges faced therein and the gaps observed.
- Conversation can be held with patients to understand the disease, and with employees to know the changes happened in their job.
- This phase releases from confusion and creates some hope.

Phase 3: The New Beginning: This phase refers to willingly accepting and showing emotional commitment to the new state of situation.

- In healthcare, the beginning happened in two phases.
- Phase one was recovering from the situation and taking up the new elective procedures and making revisits.
- Plans were made as to which staff will work from home and who are needed in the office.
- Financial reviews done in the earlier phase give a clear picture of revenue streams. Issues like patient flow and staff supply availability is understood.
- The second phase referred to as new normal involves executing the plans.
- Telemedicine and other new applications are implemented in daily routine.
- Chronic care programs continued. Payment models are fixed and budget process was adjusted, cash reserves were retained.
- Patient wait times were reduced. The patient-centric culture was created.

Source: https://www.mgma.com/resources/human-resources/leading-through-transitions-covid-19-and-medical, March 30, 2020, accessed on 27/10/21.

18.4.4 Leadership Behavior during Change Process

The change management leader has to address the issues at hand proactively. The leader should:

- Identify what each individual will be losing in the process.
- Accept the employees' reactions as natural.
- Be open-minded about losses and empathize with the affected employees.
- Look for ways to compensate the employees for their losses.
- Provide the employees with full and detailed information.
- Show care and concern and ask for reactions.
- Listen and pay attention to what the employees are telling.
- Allow people time to grieve.
- Respond to questions.

Activity 18.2
Imagining that you are the head of your organization, list out the above nine qualities in the order of their importance according to you.

Leadership Behavior

Leaders need to act as the central character in organizational change; they must take the employees into confidence and consider the impact that change has on them. In the modern organizational environment, employees do have a voice, will disagree and do not necessarily work amicably through the process.

Change needs to be championed by the leaders who are in a position of organizational power. It is their responsibility to have the appropriate skills and behaviors and to ensure their followers have the skills and understanding appropriate to ensure successful and lasting change.

It is leadership behaviors and skills, and the leadership style that influence followers and their reaction to organizational change, affecting whether a change is successful.

A variety of behaviors and skills are required by leaders to ensure positive impacts on followers and therefore sustainable, successful change. These include employee involvement, communications, accurate evaluation, management support, use of a flexible leadership style and consultation as well as developing strong corporate values and driving management developments. To ensure successful change, it is necessary that the leader has the right behavior and competencies.

Leadership style

In addition, different situations require different leadership styles. Change is most successful when leaders flex between directive-coercive and consultative approaches.

Leaders should have a vision, instill confidence, plan for the future, help managers become facilitators and develop a common purpose. Successful organizational change through procedural fairness, management support, well planned and implemented change initiatives can all result in an effective process.

Exhibit 18.3 presents a case study on change management at Coca-Cola.

Exhibit 18.3: Change Management at Coca-Cola

Coca-Cola, an American leading company for soft refreshments, was established in 1886 in the U.S.A. The company has adapted several change management techniques to remain in the global market.

Contd….

It has faced many challenges and witnessed aggressive competition from its biggest competitor, Pepsi, and other challenges from the political, social, and economic environment. The company also faced internal difficulties in its production, marketing operations. In order to handle the challenges, it started making products free of sugars and sodium and developed multiple strategies to move from the uncertain situations by adopting change management models.

Source: http://www.sciencepub.net/nature/nsj190421/11_37221nsj190421_76_91.pdf Accessed on 04.03.2022

18.5 Effective Communication Strategies during Change Process

Effective communication helps drive desired and required changes in any workplace. Below are listed tips for effectively communicating with employees during change:

- To ensure organization-wide consistency, focus only on communication that has been authorized.
- Highlight the business implications that required change. Reinforce the vision of the company and its "Big Picture".
- Explain the advantages that will accrue to the organization as well as the individuals through the change initiatives contemplated.
- Keep updating the information on a regular basis.
- Acknowledge the negative fallouts of change initiatives and strategies to counter them.
- Provide as much detail as possible with transparency to minimize scope for rumors.
- Acknowledge and admit issues where the organization does not have the answers and avoid the hazard of guessing.

It is necessary to formulate a written communication plan to ensure that the following aspects are taken care of:

- Communicate continuously, frequently, and through all channels, about the change, the process and its outcomes.
- Communicate immediately as and when information is available about change. Effective change management requires transparent and clear communication about various aspects of the change to the employees at all levels in the organization.
- Provide ample time to ask questions, seek clarifications on their doubts and provide inputs. A leader needs to provide information as well as take feedback from various stakeholders for the required integration process.
- Clearly communicate the strategic framework through a strategic planning process and the aims and goals of the change management initiative. Enable people to understand how they will be affected by these changes personally.

This is required to avoid people making wrong assumptions, which would negatively affect the whole process of change.

- Recognize that true communication is a conversation. Two-way communication based on employee feedback is essential for the effective implementation of the strategic change management process.
- The change leaders have to be in constant touch and spend time with the people and have conversation one-to-one or maximum in small groups to enable them to make the changes. People should be communicated the underlying reasons for the changes in such a way that they understand the need, purpose and context. Practitioners consider this as a conceptual framework for developing a conceptual framework to demonstrate the change. This helps in developing a favorable environment of mutual trust among the organization and the employees leading to better acceptance of the change.
- Unless you are sure of the answers, you should not attempt to answer the questions. Leaders lose credibility when they give incorrect information. Resistance to change is a natural phenomenon that needs to be addressed with appropriate answers by the leaders.
- Leaders should develop the habit of listening. They must not be defensive, and make excuses for answers that are given without rational thinking
- Leaders should mingle with others daily in the workplace. This helps in gaining the employee’s trust.
- Interactive workshops and forums are to be conducted regularly wherein all employees can understand the changes together, and can learn more. Training to be conducted as interactive communication and an opportunity to be provided for people to understand new behaviors and ideas about the process of change and change management. People from all levels must participate in all the sessions.
- Proactive communication should be maintained. All stakeholders should be updated with facts on various aspects of the change.
- Networking should be encouraged both formally and informally, to enable everyone to share one's ideas about the change process and change management.

Check Your Progress - 3

4. Which of the following phases of William Bridges refer to willingly accepting and showing emotional commitment to the new state of situation?

   a. Phase 1

   b. Phase 2

   c. Phase 3

d. Phase 4

e. Phase 5

5. In which phase, the employees must come to a point where they accept change as a norm and can let go of the old situation?

   a. Phase 1

   b. Phase 2

   c. Phase 3

   d. Phase 4

   e. Phase 5

Exhibit 18.4 provides important emotion management skills.

Exhibit 18.4: Five Key Emotion Management Skills

1. Self-awareness: Self-awareness allows one to understand one's emotions which, in turn, will help to predict how a situation or a person might affects you.

   Example: Knowing that by remaining calm and confident, you can be more prepared for work.

2. Reflection: Reflecting helps in resolving conflicts by separating the emotion from the situation.

   Example: Knowing the cause of conflict you have with your colleague, helps you to remain emotionally stable.

3. Acceptance: By accepting one's own emotions one can develop empathy towards others.

   Example: By accepting emotions, you can react rationally to a situation.

4. Perspective: Perspectives help in accomplishing tasks by treating emotions as healthy responses to situations.

   Example: Understanding that public speaking for many causes nervousness, one can come out of the emotion of feeling nervous for a presentation.

5. Empathy: Through empathy one can help a colleague who needs assistance either by managing their workload or creating a solution when they become frustrated at an obstacle or delay.

   Example: Empathy helps in building rewarding relationships with colleagues and prevent conflicts.

Source: https://www.indeed.com/career-advice/career-development/emotional-management-skills September 16, 2021 Accessed on 04.03.2022

18.6 Kotter’s Eight-Step Change Management Model

To provide a systematic structured approach for change management, models have been suggested by leading HR consultants. In his book “Leading Change”, John P. Kotter outlines eight critical steps that are essential for an organization that has set out to bring transformational change.

Businesses should adapt to a constantly changing environment to gain a competitive advantage and grow. Changes are inevitable and part of reality, as the saying goes, nothing in the world is constant except the change itself. The current rate of technological advancement and growing global competition requires a continuous change in the future.

Many organizations are adopting cultures and features of a learning or agile organization, to adapt to the continuous evolutions taking place in their environment. Successful implementation of changes depends upon the short- and long-term successes that have been observed.

Kotter's model of change management became an instantaneous success when it was propounded and was considered as a reference for understanding change management. The book of Kotter ‘Leading Change’ was a business bestseller and even now continues to be a good reference book. Many researchers refer to his books in their research.

18.6.1 Step one: Increase Urgency

Fostering a sense of urgency in people in the organization is the first stage, as usually, people tend to resist change and remain in their comfort zone. It will not work if people start thinking that why we cannot remain the same as we are now. Development does not take place with such attitudes.

Kotter’s first among the eight stages emphasizes creating a sense of urgency and awareness among people of the need for change in the organization. Creating a sense of urgency is important to gain needed cooperation. Transformations usually do not move forward when people do not realize the importance of change.

Change is required when there is some crisis or when customers are unhappy, or when costs are on the rise, or when budgets are cut, or when competitors are dominating the market.

18.6.2 Step two: Build the Guiding Team

The second stage in Kotter’s process involves forming a group that has enough power to lead the change. It is critical to identify the right people having a positive disposition and are enthusiastic about the change initiative and can affect others as well with their infectious enthusiasm and drive change effort with missionary zeal.

Organization needs to draft a large, diverse group of employees at all levels with different skills and create a positive impact on others.

As rightly pointed out by Kotter, no single person is ever able to lead and manage the change process in an organization. What is required is a concerted and collaborative effort from all concerned to lead a change initiative. Only then, success follows. The collaborating team should possess the following characteristics:

- **Position power**: The team should consist of all concerned, lest the left-out people may block progress;
- **Expertise:** View should be taken from all so that decisions can be made meaningfully;
- **Credibility**: The team should be respected by all in the firm to enable the group's pronouncements to be taken seriously by the remaining employees; and
- **Leadership**: The team should consist of proven leaders who can drive the change process.

A collaborating team with good managers and ineffective leaders will not succeed. Good managers can keep checking the management process and good leaders can create the vision to make necessary changes.

18.6.3 Step three: Get the Vision Right

The vision needs to be very powerful and inspiring to galvanize people into action. It must be compelling and people should be able to relate individually to the vision.

We should always remember that by creating compelling and interesting situations, people will be attracted to see the problems and solutions. The vision is to be created in such a way that it is simple and precise and people can understand it quickly and go into action effectively.

Transformational change is not that easy- it is like entering into an unknown field. Therefore, we need to take an approach that is analytic, financially viable. We should develop a vision by which people are attracted and cooperate in bringing the change united.

18.6.4 Step four: Communicate for Buy-In

To generate the buy-in it is important that the vision is powerfully communicated organization-wide to ensure that people have an understanding of the same and ungrudgingly participate in the change effort voluntarily.

Develop a simple, clear and heart-touching communication style that can be personalized to the individual’s needs. Communication is an important element in the organizational change process because it reduces uncertainty, ambiguity and can determine positive or negative responses in organizational change.

Transformational change generates lots of information. Unfortunately, the message with regard to organizational change is not taken seriously and people often think why one should bring change. They do not buy into the suggested ideas and start resisting the efforts put forward; thus, creating the wrong emotional response.

The following points will never work:

- **Under-communicating** – Information must be precise and factual and give an opportunity for discussions.
- **Pushing information** – Change, many times, leads to conflict. Therefore, an atmosphere is to be created for open and honest dialogues.
- **Not walking the talk** – Kotter says, "Deeds speak volumes." Whenever there is a gap between pronouncements and actions, the destructive forces of cynicism develop. Consequently, change is undermined. We should take care that we are consistent with our vision.

Communication should always be simple and precise and we need to understand the moods of the people before conveying our views to address people's anxieties, anger or distrust. According to Kotter, two-way communication is much more powerful than one-way communication.

18.6.5 Step five: Empower Action

Empower action reflects that we should try to remove barriers and should foster optimism and build confidence around the change effort. Recognize and reward excellence.

People who are not empowered are given opportunities to learn what can be achieved and understand the gaps for those, which they felt as, cannot be achieved. This is mainly because they internalize a belief that they are not capable of achieving change; such feelings not only hold them back but it is also not good for the organization.

Therefore, it is very essential to tackle these barriers as quickly as possible. Thus, Kotter's 8-step change clearly demonstrates why change is needed. Those managers who do not understand the need for change should be rotated in their jobs or roles to make them understand the need for change.

18.6.6 Step six: Create Short -Term Wins

An emotional advantage can be gained through short-term wins. They foster confidence and nourish faith in the change initiatives and it can propel the momentum.

Focus on one or two goals instead of many goals with no focus. Ensure that no new initiatives are added until earlier goals are accomplished and celebrated.

18.6.7 Step seven: Don’t Let Up

It is important to keep the momentum going. Leaders build on this momentum to consolidate the change efforts and translate the vision into a reality by motivating, energizing people and focusing on the essentials and eliminating exhausting and purposeless work. Do not declare victory prematurely.

18.6.8 Step eight: Make Change Stick

Foster organizational culture compliance where people are creative and innovative and embrace change as a challenge. People should understand that change is for their good. Such supportive culture provides roots for the new ways of doing things inside the organization.

Kotter emphasizes that new behaviors are to be in alignment with social norms and shared values, otherwise they are prone to degradation.

According to Kotter, two factors are important in institutionalizing a change in corporate culture:

(1) Demonstrating to the employees how change has benefitted the organization by adopting new approaches, behaviors and new attitudes and helped in the improvement of performance.

(2) Ensuring that the next entries imbibe all the new approaches.

The eight-step model of Kotter has significant contributions to organizational behavior and organizational development. However, there are certain limitations to universal acceptance.

Kotter's eight-step model- Limitations

Kotter's eight-step model explains how the fundamental changes in businesses are adapted to cope with a more challenging market environment (Kotter, 1995). This statement clearly emphasizes that the framework is applicable for few changes and not applicable to some other changes. Let us look at some of the changes that are not applicable to Kotter’s model.

1. **A rigid approach**

   Kotter’s basic argument is that the eight steps are to be followed in sequential order and if the steps overlap with one another success will be compromised. It is clear that by not implementing the first step, the implementation of other steps becomes impossible.

2. **Some steps are irrelevant in some contexts**

   Some transformations neither require nor are able to pass through certain steps.

   For instance, the replacement of major software and the change of equipment cannot pass all the steps.

In these two cases, the changes are generally irreversible, and hence Steps 7 and 8 might not have any relevance.

3. **Dealing with difficulties during the process of change management**

   Companies implementing changes encounter many difficulties. Planning changes are many a time not able to limit the obstacles, and the model does not provide help in all situations.

   For instance, resistance to change is a major aspect of change management, so is the case with the commitment to change which is outside Kotter's model.

4. **Difficulties of analyzing change management projects**

   Analyzing major change management projects is very difficult, because of their complexity. As such, we do not find many case studies that could document the change process by way of using Kotter's model.

Example

Healthcare-Kotter's Change Model

When you have been diagnosed with a problem that requires a change in your habits, what happens?

1. Your doctor tells you How important is that you Change your habits. urgently, Otherwise, you could have serious problems.
2. Your doctor advises you to consult a specialist, Or a team of specialists.
3. 3 & 4. Your doctor counsels you that your life would be better without pain or worries if you Change your habits.
4. Your doctor reasons with you to start changing your habits because you also are convinced that it is important to change habits.
5. Then your doctor suggests you to reduce salt or sugar to start with.
6. He gives you a calendar with the appointments you will have .to meet with him.
7. He cautions you that these habits are to be changed forever, lest the problems may reappear.

Source: https://www.consuunt.com/kotters-8-step-model/ Accessed on 29-12-21

Major obstacles to those studies:

The difficulties of implementing the eight steps are:

- Covering all the eight steps is a cumbersome process.
- Changes take many years for implementation and hence time-consuming.
- Validating Steps 7 and 8 are complicated to evaluate.
- Many challenges are encountered in the evaluation level of implementation.

Check Your Progress - 4

6. Arrange the following in correct sequence---

   1) Get the vision right, 2) Create short term wins, 3) Increase urgency, 4) Make change stick, 5) Communicate buy-in, 6) Building a guiding team, 7) Don't let up, 8) Empower action

1) ----------------------	2) -------------------------	3) ---------------------------
4) ----------------------	5) -------------------------	6) ---------------------------
7) ----------------------	8) -------------------------	

7. Which of the following needs are powerful and inspiring that will galvanize people into action?
   a. Vision
   b. Mission
   c. Goals
   d. Objectives

8. How can an emotional advantage be gained?
   a. Long-term wins
   b. Short-term wins
   c. Change initiatives
   d. Poor communication
   e. Resistance to change

9. Changes in the workplace invariably result in employee anxiety due to -
   a. Resistance to change
   b. Poor communication by the leader
   c. Lack of employee interest
   d. Poor communication by the leader and lack of employee interest
   e. Make a new beginning

10. Maintaining communication with employees about the changes is the key to diffusing potential problems.

    True/False

18.7 Summary

- Change management is transitioning individuals, teams from the position of a current state to a future desired state to accomplish organizational goals and objectives.

- Managing the emotional aspects of employees is a critical aspect as changes lead sometimes to conflicts and employees feel a sense of insecurity.
- William Bridges' developed a three-phase model reflecting the emotional impact of change over some time and the leader's role.
- Brides' Model consists of three phases- Ending, Losing, Letting Go; the neutral zone; the New Beginning.
- The change management leader has to address the issues at hand and assure employees that their interests will always be protected.
- Kotter's model of leading a change is widely recognized.
- Too much complacency and take it easy attitude and not emphasizing the power of vision and communication are few reasons for the failure of change initiatives.

18.8 Glossary

Emotion management: Handling the various emotions like anger, frustration in a manner that expands one's perception

Organizational objectives: They are short-term and medium-term goals that an organization seeks to accomplish

Organizational vision: The projection of future status of an *organization* where the *organization* intends to arrive

Organizational strategy: An expression of how an organization needs to evolve over time to meet its objectives

Empowering employees: A management practice of sharing information, rewards, and power with employees

Missionary zeal: Extreme enthusiasm

18.9 Self-Assessment Test

1. Briefly explain the concept of change management in organizations.
2. Analyze briefly William Bridges Three-Phase Model of Change management.
3. Examine critically the role of communication in change initiatives in an organization.
4. Comment briefly on Potter's 8-step change model.

18.10 Suggested Readings / Reference Material

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18.11 Answers to Check Your Progress Questions

1. (b) Transformation from current state to desired state

Change management, in an organizational context, is a structured approach to transforming individuals, teams from a current state to a desired state to accomplish organizational objectives.

2. (e) Satisfaction

Satisfied employees do not ask for change.

3. Match the following:

Imaginable - It conveys a picture of how the future will look like

Desirable - To address the interests of all stakeholders

Feasible - Refers to realistic, achievable goals

Focused – Simple and lucid to provide guidance in decision-making

Flexible – Dynamic changes and alternatives are allowed

Communicable – Can be fully discussed in a short time

4. (c) Phase 3

William Bridges phase 3 refers to willingly accepting and showing emotional commitment to the new state of situation.

5. (a) Phase 1

In phase 1, the employees must come to a point where they accept change as a norm and can let go of the old situation.

6. Arrange the following in correct sequence---

1) Increase urgency
2) Building a guiding team
3) Get the vision right
4) Communicate buy-in
5) Empower action
6) Create short term wins
7) Don' let up
8) Make change stick

7. (a) Vision

The Vision needs to be very powerful and inspiring that will galvanize people into action.

8. (b) Short-term wins

An emotional advantage can be gained through short-term wins.

9. (d) Poor communication by the leader and lack of employee interest.

Changes in the workplace invariably result in employee anxiety due to poor communication by the leader and lack of employee interest.

10. True

Yes, maintaining communication with employees about the changes is the key to diffusing potential problems.

Unit 19

Corporate Strategy

Structure

"If one does not know to which port one is sailing, no wind is favorable".

\- Roman philosopher

19.1 Introduction

The quotation above helps us to understand that we must have clarity on what we do, managers before framing strategies for their companies, make a thorough assessment of the needs of the organization and plan how to go about them.

In the previous unit, managing emotions in change is discussed. In the present unit, the emphasis in this unit is on corporate strategy. Corporate strategy is the overall plan of a company, to create a competitive advantage over its rivals. The focus is on how to ensure that the organization stays ahead and dominates the market share in one or many businesses that the company operates. In other words, the company through corporate strategy tries to have a lion's share of the market.

19.2 Objectives

After reading this chapter, you should be able to:

- Illustrate what corporate strategy is and identify its elements.
- Appreciate and apply Porter's model of generic strategies.
- Distinguish between corporate, business, and operational strategies.
- Appreciate how different corporate strategies could add value to a corporation.

19.3 Elements of Corporate Strategy

"*Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts".* Corporate strategy is primarily focused on the overall direction of the company and it specifically addresses key questions like:

- How can our company be more focused?
- Can we create an additional value chain?
- Can we utilize employees more efficiently?

The logical question is then - *What set of businesses should the company pursue profitably, based on the above key points?*

The focus is how a multi-business corporation can create high business value through coordination of its multiple business activities. The endeavor is to identify and pursue such business segments that create maximum shareholder value for the organization.

Corporate strategy is the overall managerial game plan for a diversified company. It extends companywide. It concerns how a diversified company intends to establish business positions in different industries. The elements of corporate strategy are discussed below:

19.3.1 Vision

What we want to become. It is the description of aspiration of the organization, to achieve or accomplish something. It is a goal post that drives the action course of the organization.

A vision statement encapsulates the future of an organization and serves as the framework for strategic, operational, and business planning. To preserve an organization's ideologies and inspire employees toward success, it is necessary to frame an effective vision statement. Vision is critical for strategy and execution.

Example

Amazon.com Vision Statement:

"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…"

Exhibit 19.1 talks about communicating the changed vision.

Exhibit 19.1: 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.

Contd....

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."

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 22/10/2021.

19.3.2 Mission

It is who we are, what we value. It is a written statement on core purpose that is long-term in nature. It communicates the intended direction of the organization.

While vision is the cause and the mission is the effect, a mission is something the organization desires to accomplish, while vision is something that the organization intends to pursue that accomplishment.

The company mission articulates the purpose of the organization – why the company exists – while the envisioned future is what you hope to achieve and become.

It is important not to confuse the two, as the hallmarks of a successful vision are precision and clarity. A great vision statement is built on the back of a strong, clear mission.

Example

The mission statement of Samsung electronics:

'We will devote our human resources and technology to create superior products and services, thereby contributing to a better global society.'

To ensure a lasting vision statement, the company's mission needs to be broken down into two parts: a succinct statement of purpose and core values. The company needs to find answers to certain questions such as:

- Why does this company exist?
- Why do we come to work here every day and do what we do?

Successful organizations will be exposed to endless adversity: market cycles, technological advancements, and leadership transitions, to name a few. It is of utmost importance to have a strong mission statement, to ground and guide the company during troubled times. The mission statement focuses on the company's core reason for existence. Organizations that have weathered dramatic market shifts usually do so by embracing their mission, while changing their market offerings.

For example, if IBM's mission were to make the world's best tabulating and accounting machines, it would certainly be out of business by now. This company has had a variety of product lines over the years, including mainframe computers, floppy disks, airline reservation systems, automated teller machines, and computer operating systems.

Today, its consulting services account for more than 50 percent of the company's revenues. While the company's mission statement is a bit wordy, it nonetheless focuses on why people work at IBM, not the products and services IBM produces.

"At IBM, we strive to lead in the invention, development, and manufacture of the industry's most advanced information technologies."

Activity 19.1 List out the mission statements of any four key corporates. Analyze whether these statements answer the questions: Why does this company exist? Why do we come to work here every day and do what we do?\

19.3.3 Strategy Objectives: How we will achieve our vision.

One of the basic elements of corporate strategy is creating value differentiation for the target clients and the disciplined execution of strategic plan consistently, over a period for the organization. Optimal utilization of resources is the key to achieving success.

19.3.4 Goals: How will we assess our degree of success?

Goals and objectives provide the road map that empowers everybody in the organization to be more effective. They are the primary signposts that guide the organization to higher levels of performance. Goals provide the framework for action-points at various operational levels, like functional managers and departments.

Strategic goals are required to achieve the vision and mission of the organization.

Goals are general guidelines that explain what you want to achieve in your community. They are usually long-term and represent global visions such as "protect public health and safety."

Objectives define strategies or implementation steps to attain the identified goals. Unlike goals, objectives are specific, measurable, and have a defined completion date. They are more specific and outline the "who, what, when, where, and how" of reaching the goals. Plans and actions, based on clear goals and objectives, are more likely to succeed in meeting the community's needs.

Developing clear goals and objectives will help organizations to clarify problems, issues and opportunities in various areas. Well-articulated goals and objectives are more likely to succeed.

Exhibit 19.2 provides four characteristics of strategic goals.

Exhibit 19.2: Crafting Strategic Goals

Four characteristics of strategic goals to keep in mind when crafting strategic goals are:

1. Purpose-Driven - If purpose is linked to the strategic vision of the company and if employees are aligned and facing in the right direction, the company can outperform its competitors.
2. Long-Term and Forward-Focused - When setting strategic goals, ensure you're not confusing strategic and operational goals as strategic goals are based on company's long-term vision and values.
3. Actionable - Strong strategic goals are not only long-term and forward-focused—they're actionable.
4. When crafting strategic goals, it's important to define how progress and success will be measured. Example: "Increase brand recognition by 80 percent among surveyed Americans by 2030."

Source: https://online.hbs.edu/blog/post/strategic-planning-goals 29 October, 2020 Accessed on 04.03.2022

Check Your Progress - 1

1. Which of the following is not an element of corporate strategy?
   a. Vision
   b. Mission
   c. Objectives
   d. Goals
   e. Competitive advantage
2. Which of the following communicates the intended direction and purpose of the organization?
   a. Vision
   b. Mission
   c. Objectives
   d. Goals
   e. Competitive advantage
3. Name the company, whose vision statement is - "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."
   a. Reliance
   b. Amazon
   c. Samsung Electronics
   d. Bajaj Electronics
   e. Spotify
4. Name the company, whose mission statement is - 'We will devote our human resources and technology to create superior products and services, thereby contributing to a better global society.'
   a. Reliance
   b. Amazon
   c. Samsung Electronics
   d. Bajaj Electronics
   e. Spotify
5. Goals and objectives provide the road map that empowers everybody in the organization to be more effective.

   True/False
6. Strategy objectives relate to how the company will achieve its vision.

   True/False

19.4 Michael Porter's Generic Strategies- Source of Competitive Advantage

Porter's five-forces model describes strategy as taking actions that create defendable positions in an industry as follows:

- In general, the strategy can be offensive or defensive with respect to competitive forces.
- Defensive strategies take the structure of the industry as given, and position the company to match its strengths and weaknesses to it.
- In contrast, offensive strategies are designed to do more than simply cope with each of the competitive forces. They are meant to alter the underlying cause of such forces, thereby altering the competitive environment itself.

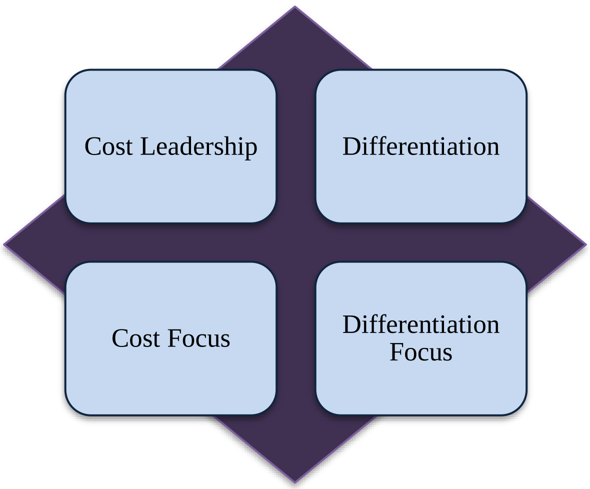
19.4.1 What is a Competitive Advantage?

Michael Porter, a Harvard Business School professor, is considered the Guru of marketing discipline. He has enunciated definitive principles of marketing, in his famous book *Competitive Advantage*.

Porter says "competitive advantage is at the heart of a firm's performance in competitive markets", and says the main focus of his book is "how a firm can actually create and sustain a competitive advantage in an industry - how it can implement the broad generic strategies."

Refer to Figure 19.1 for Porter's generic strategies.

Figure 19.1 Porter's Generic Strategies



Source: ICFAI Research Center

In very simple terms, a competitive advantage is what distinguishes or differentiates the business entity from the competition in the minds of its customers. Any business enterprise must have a clear and unmistakable competitive advantage that needs to be strongly communicated to its customers. The three factors that are critical are-

- What is the firm producing - goods or services?
- What is the target market - i.e., who are its customers?
- Who are the competitors - i.e., who else can meet the needs of the customer?

A clear and thorough understanding of the above will help the business entity to initiate strategy plans to ensure that it can have a sustainable competitive advantage. Let us analyze the four alternatives available to a firm for securing competitive advantage.

19.4.2 Cost Leadership

The firm tries to gain a leadership position, through a low price strategy i.e. it offers a low price compared to its rivals. In doing so, the company will be able to garner a large market share. The focus in this type of strategy is broad and it relies on industry level competition. For example, Walmart employs the strategy of low-cost and high-volume business.

Cost Leadership: Cost leadership means having the lowest per-unit (i.e., average) cost in the industry – that is, the lowest cost relative to your rivals. This could mean having the lowest per-unit cost among rivals in highly competitive industries. Alternatively, this could mean having the lowest cost among a few rivals, where each firm enjoys pricing power and high profits.

19.4.3 Cost Focus

In this type of strategy, the focus is low-cost and is a niche corporate strategy. It means that the focus is on a small segment of the market, rather than the market as a whole.

In cost leadership, the focus is broad and is at the industry level, while in cost focus it is narrow and aimed at a specific niche segment. The firm offers the lowest prices within that niche market segment, but it will not offer low prices in the broad market.

19.4.4 Differentiation

The differentiation relates to the product/ service offered by the firm. It tries to incorporate features that are of value from the customers' perspective and they experience better value, for their money.

The differentiation may relate to design aspects, technical aspects and so on.

The uniqueness of the product is the compelling selling point. The firm also demands a price premium, because of the superiority of its product/services and the need to recover the additional costs incurred.

The non-substitutability is the essence of differentiation. In a sense, the firm is creating its own market to some extent, as the rival cannot offer exactly the same product.

The difference between this and the cost leadership alternative is that it employs non-price factors to attract customers. Factors like service quality and convenience may influence consumer behavior.

Differentiating the product offering of a firm means creating something that is perceived industry-wide as unique. It is a means of creating the company's own market to some extent. There are several approaches to differentiation:

- Different design,
- Brand image,
- Number of features,
- New technology, etc.

Achieving a successful strategy of differentiation usually requires Exclusivity, which unfortunately also precludes market share and low-cost advantage, Strong marketing skills, Product innovation as opposed to process innovation, Applied R&D, Customer support, and less emphasis on incentive-based pay structure.

19.4.5 Focus Strategy

This strategy concentrates on a narrow segment and within that segment tries to target either cost advantage or product differentiation. It is a niche corporate strategy.

The basic assumption of this strategy is that the needs of the small group can be better understood and served more effectively by entirely specializing the needs of that small group.

For example, a packaged food company can focus on diet-conscious customers. Again in the diet customer category, the firm may focus particularly on the vegetarian diet category as a focus strategy.

Often, this strategy gives the benefit of high customer loyalty, as the product cannot have substitutes from rivals.

Exhibit 19.3 details Starbuck's strategy in improving its operations.

Exhibit 19.3: Starbucks - Brewing Coffee Differently

Starbucks Coffee started its operations, in the year 1971. Over the last six decades, the company has grown from strength to strength and has huge ambition to become a truly international coffee brand. High-quality coffee at affordable prices is the strategic focus of the company. The Starbucks brand is so popular that the company hardly uses advertising and relies on word of mouth as the medium for attracting customers. Mission statement: "Our mission is to inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time."

Contd….

The company aims at making coffee drinking a pleasant experience for communities. It offers a host of choices to satisfy the varied palates of the customer. The core competencies of Starbucks are high-quality coffee with good ambiance at the bars and availability at accessible locations at an affordable price.

Source: ICFAI Research Center

In a focus or niche strategy, the company's focus is on a particular buyer group, product segment, or geographical market. While low-cost and differentiation are aimed at achieving their objectives industry-wide, the focus or niche strategy is built on serving a particular target (customer, product, or location) very well. A focus strategy means achieving either a low-cost advantage or differentiation in a narrow part of the market.

Porter's Generic Competitive Strategy: The graphic indicates the generic competitive strategy as per the Porter's model.

Example

Starbucks employs "In-store Brewing" as a focused differentiation strategy. It provides high-quality coffee that is brewed in-store as a unique product differentiated from the products offered by its rivals.

The new instant coffee line is a low-cost product and economical alternative to Starbucks' regular coffee. In-store brewing is a unique product that is sharply differentiated from other products in the market.

The complimentary gifts and brewing utensils are unique items that are available only at Starbucks. Coffee lovers are treated with royalty and no wonder that the customers are extremely loyal patrons of Starbucks.

Conclusion:

On the whole, Starbucks has survived tough competition and protected its competitive advantage. Since the days of brewing good quality and bistro-style coffee choices to the masses, Starbucks has been a forerunner and has been evolving its strategies to stay ahead of the pack.

The company will need to create a value innovation chain for enhancing the customer experience. Strength of Starbucks lies in the brand value and customer loyalty.

It will be appropriate to focus on its core competencies and focused differentiation rather than spreading too thin, through more product range.

A bird in the hand is worth two in the bush.

Check Your Progress - 2

7. In SWOT analysis, what does O represent?
   a. Outcomes
   b. Operations
   c. Opportunities
   d. Objectives
   e. Organizations
8. Which one of the following reflects competitive advantage?
   a. How a firm can use technology to its advantage.
   b. Factors that distinguish the business entity from the competition.
   c. How the firm conducts market research.
   d. Customer survey done by the company.
   e. How a firm maximizes its profits.

19.5 Strategic Management Objectives

We have now understood that strategy is a comprehensive plan for accomplishing an organization's goals. In this context, it is important to understand the concept of strategic management and its application in an organizational scenario. Broadly, the following are the objectives of strategic management.

- Maximize profits
- Maximize shareholder returns
- Maximize market share
- Have meaningful CSR (Corporate Social Responsibility)

The basic objective of strategic management is about how the firm can achieve the above objectives with minimal resource deployment. It is about how the firm approaches various business opportunities that are existing in the marketplace and how it prepares itself to face the challenges and overcome them through effective strategies. Effective strategies are those strategies that facilitate a superior alignment between the organization and the business environment. As a consequence, the organization can enjoy a high degree of success and realize its goals.

Types of Strategic Levels:

The three types of strategic levels are:

- Corporate-Level Strategy
- Business-Level Strategy
- Operational-Level Strategy

19.5.1 Corporate-Level Strategy

It is the macro-level perspective and concerns the whole organization. It deals with what type of industry or business should the organization get into.

Corporate-level strategy issues may relate to geographical territory of operations, diversity of products or services, acquisitions/mergers of other businesses. The resource allocation amongst several business units is an important plank of corporate-level strategy.

For example, for a News Corporation, diversifying into print journalism or television media is corporate-level strategy.

19.5.2 Business-Level Strategy

It is the micro-level and deals with how the individual businesses should compete in a specific industry/market.

For example, Bajaj Auto would compete with Hero Motors in the two-wheeler auto segment.

The firm has to compete with peers in the same industry and, hence, the business-level strategy is often called 'competitive strategy'. These individual businesses are generally stand-alone businesses, within the ambit of a larger corporation. Business-level strategy typically deals with competitive strategies, to outwit the competitors and garner larger market share, within the market itself.

It is important to note that there should be a broad alignment between the business level strategy and corporate-level strategy.

Example

Global brands such as IKEA and McDonalds are known for their competitive pricing. This approach is difficult to maintain due to changing market conditions. Their pay-off can be significant as seen from these two brands.

Source: https://www.poppulo.com/blog/corporate-strategies-examples August 21. 2020

19.5.3 Operational-Level Strategy

Different components of an organization, through their operations, need to deliver effectively the corporate- and business-level strategies.

The resources, processes, and people must be optimally deployed to give maximum benefit to the organization. It must be noted that operational level strategies are executional in nature and largely influence the success or failure of corporate and business strategies.

Operational decisions need, therefore, to be closely aligned and linked to the other two levels of strategy. The linkage and integration of all three levels of strategies are critical for delivering the organizational goals.

For example, the marketing strategy has to take into account the production capacity, which relates to operational strategy.

Example

A business can attract customers away from competitors. One strategy is to attract nonusers that have no experience with your business or with a competitor. Another strategy is to employ one or more geographic locations, centered around a target area. Businesses may also try to add value to existing clients, by increased spending on product or service upgrades.

Source: https://smallbusiness.chron.com/operations-strategy-examples-24650.html March 06, 2019 Accessed on March 9, 2022

Check Your Progress - 3

9. Which of the following deals with macro-level perspective and concerns the whole organization?
   a. Corporate Level strategy
   b. Business Level strategy
   c. Operation Level strategy
   d. Competitive strategy
   e. Marketing strategy
10. Business level strategy is the micro-level and deals with how the individual businesses should compete in a specific industry/market.

    True/ False

Activity 19.2

Write briefly a corporate level, business level, and operational level strategy statement for your organization or an organization that you are familiar with.

19.6 Strategic Tools

Strategic frameworks analyze both the firm and the environment. These analyses should be conducted as part of market research before selecting an industry as part of the ongoing strategic planning of the business entity.

There may be some overlapping among the frameworks, depending on the characteristics of the chosen industry and the sub-segment, as well as the general environment.

19.6.1 McKinsey 7-S Model

McKinsey and Co. is a consulting firm that has provided a useful model known as The McKinsey 7-S Model. Since the introduction in the 1980s, the model has been widely used by academics and practitioners and remains one of the most popular strategic planning tools.

The framework is a useful strategy tool, for an in-depth analysis of the strengths and weaknesses of an organization. The 7-S stands for: Structure, Systems, Style, Staff, Skills, Strategy, and Shared values.

Strategy, structure, and systems are known as the "hardware", while style, staff, skills, and shared values are considered as the "software".

The underlying assumption of the model is that, for an organization to perform effectively, these seven elements need to be aligned and mutually reinforcing. The model can be employed to identify, what elements need to be realigned to improve the performance.

The model can be applied to many situations and is a valuable tool when the organizational design is in question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement a new strategy.
- To identify how each area may change in future.
- To facilitate the merger of organizations.

In the McKinsey model, the seven areas of the organization are divided into the ‘soft’ and ‘hard’ areas:

- Strategy, structure, and systems are hard elements that are much easier to identify and manage when compared to soft elements.
- On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create a sustained competitive advantage.

The brief details of the seven areas are as given below:

1. **Strategy** is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market.
2. **Structure** represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy-to-change elements of the framework.
3. **Systems** are the processes and procedures of the company, which reveal business’ daily activities and how decisions are made. Systems are the area of the firm that determine how business is done and it should be the main focus for managers during organizational change.

4. **Skills** are the abilities that a firm's employees perform very well. They also include capabilities and competencies. During organizational change, the question often arises of what skills the company will really need, to reinforce its new strategy or new structure.
5. **Staff** element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated, and rewarded.
6. **Style** represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of the company's leaders.
7. **Shared Values** are at the core of McKinsey's 7s model. They are the norms and standards that guide employee behavior and company actions and, thus, are the foundation of every organization.

19.6.2 Economic Value Added (EVA):

EVA is an internal performance measurement. It compares the profit earned on capital employed. It is also known as economic profit. *EVA* is the incremental difference in the rate of return (RoR) over a company's cost of capital.

Essentially, it is used to measure the value a company generates from funds invested in it. If a company's *EVA* is negative, it means the company is not generating value from the funds invested into the business.

EVA is a trademarked concept of Stern Stewart & Co.

Check Your Progress – 4

11. *EVA* is the incremental difference in the rate of return (RoR) over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested in it.

    True/False

19.6.3 What is Reverse Engineering (RE)?

Engineering is essentially a process of designing, assembling and creating products and systems, by using specific raw materials. Forward engineering is a traditional approach – abstractions to logical design to physical implementation of the design.

In reverse engineering, the process is simply reversed. It is a process of duplicating an existing equipment or product.

RE does not use drawings, documentation, or Computer Aided Design (CAD). The original or physical model is used to develop the algorithm, without the use of an engineering drawing.

A new geometry is created from a physical and manufactured part that is captured in a digital form and sometimes an existing CAD model is modified.

Reverse engineering in the modern world has wide applications in manufacturing, industrial designs. For example, while designing a new car, an existing car is disassembled to understand and learn how it was built and how it works.

Based on these inputs, incremental refinements are sought to manufacture a new version of a car that is superior to the existing car model. It is used frequently in computer hardware/software nowadays.

19.6.4 Business Process Reengineering:

A radical re-design of core business processes and workflow, with the objective of dramatic improvements in productivity and quality enhancement, is known as Business Process Reengineering (BPR). The most important consideration for BPR is delivering more value to the customer.

Hammer and Champy provide the following definitions:

- Reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service, and speed.
- Process is a structured, measured set of activities designed to produce a specified output for a particular customer or market. It implies a strong emphasis on how work is done within an organization.

Typically, companies cut down organizational layers and focus on removing unproductive activities in two important areas. First, they redesign and replace vertical functional units into cross-functional teams. Second, they harness technology, to improve data dissemination and the process of decision-making. The essence of BPR is a radical change initiative with a customer-centric orientation. The major steps involved are-

- Realign and refocus company values to customer needs.
- Redesign core processes and workflows, through information technology.
- Reorganize organizational hierarchy and focus on cross-functional teams, with end-to-end accountability for the work process.
- Rethink basic organizational structure and people related issues. For example, the plant layout in a manufacturing industry has to ensure that stock of finished goods is near the production area, to avoid wastage of time and effort.

Business processes are characterized by three elements:

- Inputs (data such as customer inquiries or materials),
- Processing of the data or materials (which usually go through several stages and make necessary stops that turn out to be time and money consuming),
- Outcome (the delivery of the expected result).

The problematic part of the process is processing. Business process reengineering mainly intervenes in the processing part, which is reengineered, to become less time and money consuming.

The most important action in applying BPR is the company's strategic goal, to provide customer-oriented services. BPR is a technique, used to implement this type of organizational structure.

19.6.5. Business Process Management (BPM)

It is a systematic and structured approach to designing an organization's workflow, in more effective and efficient manner. BPM monitors and controls the production process, to make the organization cost-efficient. The main focus of BPM is to reduce human error and miscommunication.

Example

By adopting BPM, healthcare and insurance were able to manage up to 50,000 paper applications per day. Resolving inconsistencies found in individual applications also have been completely automated. There was continuous optimization and improvement in cycle times.

Source: https://appian.com/bpm-basics/bpm-in-action/healthcare---insurance.html Accessed on 30-12-21

19.7 Summary

- Corporate strategy is the overall plan of a company, to create a competitive advantage over its rivals. It is focused on the overall direction of the company.
- The elements of the corporate strategy include vision, mission, strategic objectives, and goals.
- Strategic planning is concerned with the analysis of these environmental factors for developing the organizational strategy.
- SWOT analysis provides a comprehensive view of the current business situation and plans the future strategy, to ensure survival and growth of the company.
- Competitive advantage is what differentiates the business entity from the competition in the minds of the customers either through cost leadership or differentiation.
- Business firms use corporate-level strategy, business-level strategy, and operational-level strategy, to ensure that their organizations are cost-effective and efficient.
- Various strategic tools like EVA, Business Process Reengineering, etc. are employed, to increase the effectiveness of the organizations.

19.8 Glossary

Corporate Social Responsibility: A company's sense of responsibility towards the community, ecological, and social environment.

Data dissemination: It is the distribution or transmitting of statistical, or related data to end-users.

Distribution network: It is the chain of businesses or intermediaries, through which a good or service passes until it reaches the end consumer.

Functional manager: He is the person, who has management authority over an organizational unit within a company.

Low price strategy: A pricing strategy, in which a company offers a relatively low price, to stimulate demand and gain market share.

Market share: It is the portion of a market, controlled by a particular company or product.

Shareholder value: Shareholder value is the sum of all strategic decisions that affect the firm's ability to increase the amount of reserves efficiently that is ultimately distributed to shareholders.

Value chain: Creating maximum possible value for the customers.

19.9 Self-Assessment Test

1. Briefly explain the elements of corporate strategy – vision, mission, and goals.
2. Write a note on competitive advantage.
3. Distinguish between “Cost leadership” and “Differentiation” strategies.
4. Explain McKinsey's 7- S Model.
5. Explain briefly EVA, Reverse Engineering, and Business Process Reengineering

19.10 Suggested Readings/ Reference Material

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19.11 Answers to Check Your Progress Questions

1. (e) Competitive advantage

Competitive advantage is not an element of corporate strategy.

2. (b) Mission

Mission communicates the intended direction and purpose of the organization

3. (b) Amazon

Amazon's vision statement is - Earth's most customer-centric company.

4. (c) Samsung Electronics

Samsung Electronics' mission statement is – Inspire the world, create the future.

5. True

Goals and objectives provide the road map that empowers everybody in the organization to be more effective.

6. True

Strategy objectives relate to how the company will achieve its vision.

7. (c) Opportunities

In SWOT analysis, O represents opportunities.

8. (b) Factors that distinguish the business entity from the competition.

Competitive advantage refers to factors that distinguish the business entity from the competition.

9. (a) **Corporate-level strategy**

Corporate strategy is the overall plan of a company, to create a competitive advantage over its rivals. It is focused on the overall direction of the company.

10. **True**

Business-level strategy is the micro-level and deals with how the individual businesses should compete in a specific industry/ market.

11. **True**

EVA is the incremental difference in the rate of return (RoR) over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested in it.

Unit 20

Alternative Strategies

Structure

"The biggest risk is not taking any risk….. In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks."

- Mark Zuckerberg

20.1 Introduction

In the previous unit, we discussed corporate strategy, including Michael Potter's generic strategies and competitive advantage. In the present unit we discuss about strategic alternatives, concentric growth & diversification, related vs. unrelated diversification, joint venture (JV), mergers and acquisitions, management models for valuation, divestiture, public-private sector investments and government policies.

20.2 Objectives

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

- Explain the concept of models of valuations
- Analyze the steps involved in the valuation of companies
- Distinguish between mergers, acquisitions, and joint ventures
- State various strategic frameworks for valuation
- Discuss public and private sector investment & government policies

20.3 Strategic Alternatives

Strategic planning is directional in nature, dealing with the longer-term planning of and 'the big picture' of an organization. Based on the company's vision and mission, strategic planning provides the organization with a navigational map for achieving the ultimate goals of the organization - be it a business entity or not-for-profit organization. An alternative strategy helps companies address the issues that have the biggest impact on their business value and creating shareholder value in the end.

Strategic choices or strategic alternatives are essential ingredients of the strategic planning process and its efficiency lies in the formulation of the strategy.

A firm's strategy determines the path that it takes towards achieving its goals and objectives. The degree of suitability of the strategy, chosen and formulated, will greatly affect the success or failure of the business. Hence, generating strategic alternatives and making a strategic choice are critical factors of the strategic planning process.

The organization will have several strategic alternatives like joint venture, diversification, mergers & acquisitions, etc. It has to choose the best possible alternative in a given situation. Alternatives represent two or more options of achieving the same desired end or goal.

Example

Finding the need for ventilators and other products after the emergence of Covid-19, Washington-based company, Ventec Life Systems and world renowned company General Motors, entered a joint venture agreement. The two companies collaborated to increase the availability of multi-functional ventilators across America to aid the Covid-19 patients. The collaborative venture developed a production facility in Indiana and delivered 30000 units of VOCSN (Ventilator, Oxygen Concentrator, Cough Assist, Suction Pump, Nebulizer) to the US Department of Health and Human services. Later, Ventec ramped up monthly production from 150 ventilators to 10000 VOCSNs.

Source: https://www.wallstreetmojo.com/joint-venture-jv/ Accessed on March 8, 2022

The objective of focusing on alternatives is to narrow down the choice of alternatives. Depending on the business imperatives, the firm could generate alternative strategies, by working forward from the present to the future position that it desires, as its vision.

It is virtually impossible to consider an infinite number of alternative strategies; a manageable set of most attractive alternative strategies is shortlisted. The best among them is identified for execution by the organization. (Refer Figure 20.1).

Figure 20.1: Strategic Alternatives - SWOT Framework

Source: ICFAI Research Center

Based on the analysis of its various resources like men, material and funds, the firm has to weigh the available opportunities in the market and the possible constraints/ threats and has to decide on the strategic alternative it would like to pursue, with the overall objective of maximizing the benefits. It should primarily address the following issues:

- Does this strategic alternative yield maximum leverage to the firm?
- Can the firm create an additional value chain?
- Can the firm become cost-efficient and utilize employees optimally? For example, a worker, who is producing 10 units per shift, will be able to produce 20 units per shift.

Check Your Progress - 1

1. Strategic planning provides the organization with a navigational map for achieving the ultimate goals of the organization.
   True/False

20.4 Concentric Growth & Diversification

Different companies adopt different strategies to grow. Many companies generally grow organically in their current industry and increase their market share relying on sales.

Few others expand their industry presence, through mergers and acquisitions and increase the size of the organizations. Still, others pursue growth through a diversification strategy.

Diversification results from the business expansion of the company into another industry, usually related to the existing business. This is termed concentric diversification as such expansion relates to the current operations of the business entity.

Examples

If a company's sales are on the decline, then generally the revenue from new products will rise and compensate for the loss in sales for the older products.

One example of concentric diversification is that of a computer maker, who witnessed drop in PC sales. In order to boost revenue, the computer maker started selling laptops and tablets. Another example is a pizza restaurant adding pasta and calzones in its menu.

Source: https://efinancemanagement.com/mergers-and-acquisitions/concentric-diversification 08-Oct-2021 Accessed on 04.03.2022

20.4.1 Advantages of Concentric Growth

Concentric Growth offers certain benefits to companies that choose to adopt the strategies.

Economies of Scale

Through concentric diversification, companies achieve economies of scale. It implies that through such a strategy, the company will be able to transfer skills from its current business to the new business it creates. Frequently, the company may use part of the existing infrastructure for the new business operations. Resource optimization is the essence of economies of scale.

E.g. capacity expansion

New Products or Services

Existing resources can also be employed to develop new products and services in the concentric strategy method, particularly in the case of related industry.

For example, a media house can diversify into television, radio, and print, wherein it will be able to transfer skills seamlessly from one segment to another.

Geographical Expansion

Such expansion may have strategic reasons because the firm may find growth potential in certain geographies, which currently do not have business operations. Through concentric diversification, the company consolidates its position in the new area.

20.5 Related vs. Unrelated Diversification

The goal of diversification strategies is to achieve synergy. The firm operates more efficiently and effectively through its diversification efforts. There are two types of diversification -Related diversification and Unrelated diversification.

1. In related diversification, companies look for "strategic fit", i.e., increasing the benefit in the existing value chain with the new venture. It capitalizes on its existing strengths and competitive advantages that add extra value.

For example, Johnson and Johnson operates in three sub-segments of healthcare- consumer, pharmacy, and diagnostic segments, each of which is distinct yet have a common value chain.

The biggest advantage is that it reduces an organization's dependence on any one of its business activities and thus reduces economic risk. The synergistic value between various units that exists is greater than their economic value separately.

2. In unrelated diversification, the company has no "strategic fit". There is no logical and meaningful value chain, as various businesses have no common link between them. The underlying business philosophy is "any business we think, we can make a profit". Companies pursuing unrelated business diversification are often referred to as conglomerates.

   For example, Textron Inc., a conglomerate that operates in the aircraft, industrial, and finance industries worldwide.

20.6 Joint Venture (JV)

JV is a cooperative business activity, usually between two companies, where they agree to work together, to achieve specific goals.

It is short-term in nature, and the companies have the advantage of maintaining their independence and identities as individual companies.

Research indicates that the joint ventures are successful if both the partners are having an equal stake in the partnership and complement each other's strengths.

The big advantage is that each company can focus on its core competence.

Example

Car manufacturer BMW formed a joint venture with the Chinese Automobile manufacturer Brilliance Auto Group in 2003 to sell BMW cars in China. They have invested €450 million in the venture, with BMW taking a 50% stake in the child company while Brilliance Auto took a 40.5% stake and the remaining 9.5% went to the Shenyang municipal government.

This type of horizontal joint venture was brought about due to laws in China requiring that manufacturing operations be at least 50% Chinese owned. But China has not followed this requirement for automobiles and in 2018, BMW s announced its plans to increase its stake in BMW Brilliance to 75% (as reported by Green Car Congress). This helped BMW to take control of its joint venture in China.

Source: https://breezy.io/blog/joint-venture-examples 22nd Apr 2021 Accessed on 04.03.2022

Characteristics of joint ventures are:

- Limited scope and short-term tenure
- Each participant contributes something of value

- Involves small fraction only of participants' total activities
- No sharing of assets/ information beyond venture
- Firms maintain their individual competitive relationships

A joint venture generally refers to an arrangement between two or more organizations, to form a new business (either incorporated or unincorporated), for a specific purpose.

The reasons that joint ventures are formed often relate to the development of new technology, the pursuit of a new market opportunity, and for sharing resources.

Presumably, each of the joint ventures has determined that it is better to partner with one or more other organizations rather than to pursue the new venture on its own.

The benefits gained by the parties, entering into a joint venture, may include a reduction in initial capital requirements, immediate access to new markets or technology, and/or access to resources that otherwise may not have been readily available.

While the benefits associated with joint ventures frequently are emphasized, the risks often are not fully considered or understood by the parties involved, before the arrangement.

By their nature, joint ventures are usually risky because of the possibility that the new product, new market or new technology, for which the joint venture was formed, is not viable.

In addition to ‘operating risks’, joint ventures sometimes fail or they are considered 'unsuccessful' from the standpoint of one or more participants. This primarily is due to issues that arise in the course of interactions between the joint venture and the parties or between the parties themselves.

By their nature, many joint ventures have a finite life. The intended duration of the joint venture, and any renewal provisions, should be clearly set out in the agreement.

If there is no specified termination or renewal date, the joint venturers should consider how their relationship can be terminated (if desired) at the outset, and provide for that eventuality in the agreement.

In some cases, it may be appropriate to include buy-sell provisions in the contract with specific triggering events and basis, by which the price of a particular joint venture interest is to be determined.

For example, it normally is prudent to stipulate that one party to a joint venture has the right to acquire the interest held by another party, if that other party becomes insolvent. This may serve to protect the assets in the joint venture and to minimize disruptions.

In other cases, a contract might state that either party upon written notice to the other can terminate the joint venture after which time the operations are wound up, and the net assets are distributed to the owners.

Exhibit 20.1 explains two joint ventures at Macrotech.

Exhibit 20.1: Joint Ventures at Macrotech
Macrotech, an Indian real estate company earlier known as Lodha Developers, is headquartered in Mumbai. In 2021, in the first half of the financial year, it has entered into two joint ventures to develop projects that had sales value of ₹1,500 crore. It entered into agreements with real estate companies in Mumbai Metropolitan Region (MMR) and in Pune as well. Macrotech initiated this agreement because it had requirement of huge lands in both MMR and Pune as its focus for the next two to three years will be on these two cities. The first agreement was in the area of Malad at Western Suburbs that had a Gross Development Value (GDA) of about ₹600 crore. The second agreement was at Pune (NIBM) where the expected GDV was around ₹900 crores. Macrotech estimated to get approximately 20 per cent as the margin on the top line, while also sharing the revenue with landowners and partners in both the projects.

Source: https://www.nbmcw.com/news/macrotech-developers-unveils-1-500-cr-project-in-a-joint-venture.html, 04 June 2021, accessed on 28/10/2021.

Joint venture agreements normally contain restrictions on the transfer of equity interests. However, an issue that sometimes arises is one, in which a third party purchaser acquires one of the parties holding an interest in a joint venture, leaving the remaining parties with a new partner.

This may fundamentally change the dynamics of the joint venture, particularly if the other parties to the joint venture perceive the third party acquirer as a competitor.

To prevent such an occurrence, the agreement should provide the parties with the right to terminate the joint venture upon a change in control of one of the joint venturers, or buy the interest held by a joint venture that is acquired by a third party.

In the latter case, the contract may establish the basis for determining 'value', which may represent a discount from fair market value to effectively impose a 'penalty' on the joint venture that is acquired.

Activity 20.1
Select one multinational company that operates in different countries, with different products. Using the above SWOT framework, analyze the merits and demerits of at least two products, in two different countries. Please justify your analysis.

Check Your Progress - 2

2. Which of the following is not corporate restructuring?
   a. Joint venture
   b. Mergers & acquisitions
   c. Government policies
   d. Divestiture
   e. Investment
3. What are companies pursuing unrelated business diversification often referred to as?
   a. Joint venture
   b. Merger
   c. Conglomerates
   d. Concentric Growth
   e. Economies of scale
4. Do you agree Johnson and Johnson is an example of related diversification in the healthcare industry.

   Yes/No

20.7 Mergers and Acquisitions

In a merger, two companies are combined to form a new third company (A+B = C).

A merger takes place, when two companies, often of equal size decide to combine themselves as a single company.

For example, Daimler-Benz and Chrysler were two separate companies. Both ceased to exist when the two companies merged, and a new company, DaimlerChrysler, was created. In an acquisition, the identity of one company remains intact, while the second company loses its identity and becomes a part of the company, in which it is merged.

In other words, in an acquisition, one company takes over another and establishes itself as the new owner, the purchase is called acquisition and the target company ceases to exist. Its identity is merged into the company that has bought it.

Tata Steel buying out the operations of Corus Steel is a classic example of acquisition. The underlying principle is that two companies are combined, to make into a bigger company and greater shareholder value.

The reasoning behind M&A is that two companies, combined, are more valuable than two separate companies.

Sun Pharmaceutical Industries Limited, a multinational pharmaceutical company has brought out Ranbaxy Laboratories. The buyout is worth $4 billion**,** in which Sun Pharma diluted 16.4%.

The deal that was the biggest in the Asia-Pacific region's pharmaceutical sector, announced in 2014, was a rare acquisition of a local rival by a leading Indian company. Once the deal was closed in March 2015, Sun became the world's fifth-largest generic drug maker.

Experts said the deal was good for Sun Pharma, as it helped it to fill therapeutic gaps, gain easy access to emerging markets, and consolidate its position in the domestic market.

Activity 20.2 List out any five mergers and acquisition of companies. Mention against each whether the basic characteristics of the mergers or acquisition as mentioned above have been fulfilled

Types of Mergers

All mergers are not of the same type. Table 20.1 illustrates different types of mergers.

Table 20.1: Types of Mergers

Horizontal Merger	Where two companies, competing in the same industry segment merge. Both companies are in direct competition and have common product lines and markets. The combined entity gains in strength and better market share, and increased profits. E.g. In the banking industry in India, the acquisition of Times Bank by HDFC Bank, Bank of Madura by ICICI Bank, Nedungadi Bank by Punjab National Bank, etc. In consumer electronics, acquisition of Electrolux's Indian operations by Videocon International Ltd.

Contd….

	In the BPO sector, acquisition of Daksh by IBM, Spectramind by Wipro, etc. The main objectives of horizontal mergers are to benefit from economies of scale, reduce competition, achieve monopoly status and control the market.
Vertical merger	Where two or more companies in the same industry but in different products and different markets merge. They combine all the operations and productions under one roof. One is when a firm acquires another firm that produces raw materials used by it. E.g., a tire manufacturer acquires a rubber manufacturer, a car manufacturer acquires a steel company, a textile company acquires a cotton yarn manufacturer, etc. Another form of vertical merger happens when a firm acquires another firm, which would help it get closer to the customer. E.g. a consumer durable manufacturer acquiring a consumer durable dealer, an FMCG company acquiring an advertising company or a retailing outlet, etc.
Co-Generic Merger	Where two or more companies have similar production processes, business markets, or basic technologies and merge. It includes the extension of the product line or markets. It opens a huge gateway, to diversify around a common set of resources. E.g. combination of a computer system manufacturer with a UPS manufacturer.
Conglomeration	Where two companies have no common business areas and belong to different industrial sectors. It is just a unification of businesses from different verticals under one flagship enterprise or firm. It is solely driven by the profit motive and it increases the brand value of a particular company. E.g. a watch manufacturer acquiring a cement manufacturer, a steel manufacturer acquiring a software company, etc. The main objective of a conglomerate merger is to achieve one big size.

Source: ICFAI Research Center

Mergers and Acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, *Merger* is the combination of two companies to form one, while *Acquisition* is one company taken over by the other.

M&A is one of the major aspects of the corporate finance world. The reasoning behind M&A, given generally, is that two separate companies together create more value, compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities/options, through the route of merger or acquisition.

20.7.1 Advantages of M&A

There are many advantages of growing a business through an acquisition or merger. These include:

- **Synergy**: Enhanced cost efficiencies and savings of the new business through synergy is the biggest advantage. The revenue stream becomes robust.
- **Staff reduction:** Job cuts are common in most M&As. Besides increasing operational efficiency, the staff overheads are considerably brought down.
- **Economies of scale**: Size matters in bringing down operating costs, as a bigger company can place bigger orders. Mergers also affect the purchasing power to buy equipment or office supplies, etc., as companies have a greater ability to negotiate prices with their suppliers.
- **Competitive edge**: By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge. It helps the company to increase market penetration and better visibility. Bigger companies access new markets and increase revenues and earnings. A merger is perceived favorably by the investors and bigger firms can raise capital quite easily than a small company.

20.7.2 Hostile takeover

It is also one type of corporate acquisition or merger that is carried out against the wishes of the board or the management of the target company. Here the bidder continues to pursue the acquisition despite the board/ management of the target company rejecting the merger proposal.

There are two methods of a hostile takeover. In the tender offer method, the bidder offers to buy the target company's stock at a fixed price above the prevailing market price. Open market is another method of a hostile takeover by acquiring a majority interest in the stock of the company.

Sometimes a proxy fight is adopted by the bidder who persuades the majority of shareholders to replace the management of the company with a more pliable one who will be willing to approve the acquisition. However, it must be noted that most acquisitions and mergers occur by mutual agreement in the corporate world.

Broadly the companies agree that all the shareholders’ interests are protected well by the transaction.

Improving the performance of the target company is one of the most common value-creating acquisition strategies.

20.8 Management Models for Valuation

The main reason for companies choosing the route of mergers and acquisitions is to create shareholder value in the long run. “What is this investment worth?” is the basic question in M & A and acquisitions, which are evaluated properly, offer companies the opportunity to grow tremendously.

The present value, of the future cash flows, is predicated on different valuation models. Hence, almost all evaluation models estimate cash flows or income flows to determine, whether it is a worthwhile investment for the company.

The company planning the buyout cannot afford to over-invest in the target company, to remain viable and profitable. The fundamental tenet is that the value of an asset today is the present value of the future cash flows, during the economic life of the asset.

Following are the key questions:

- What are the main reasons for companies to go for either Merger or Acquisition?
- Does M&A create shareholder value?
- Is premium payable by acquiring company justified, based on valuation?
- What are the most frequently used valuation methods for estimating a company’s value?

Check Your Progress - 3

5. State whether the given statement is True/False.

   Merger takes place when two companies come together and decide to combine themselves, as a single new company.

6. Match the following:

1. Horizontal merger 2. Vertical merger 3. Co-generic merger 4. Conglomeration	a) Where two companies have no common business areas b) Where two or more companies have similar production processes, business markets, or basic technologies c) Where two companies compete in the same industry segment d) Where two or more companies are in the same industry but in different products and different markets

7. Enhanced cost efficiencies and savings of the new business through synergy is possible in
   a. M&A
   b. Joint Venture
   c. Divestiture
   d. Investments

The Enterprise Value (EV) reflects the monetary value of the ongoing operations of a business. The focus of EV is the value of a company's business and not the value of the company.

It calculates how much it would cost to buy a company’s business minus debts and liabilities. It is a theoretical takeover price of a company’s business.

EV is an alternative method to market capitalization. It is a more reliable estimate of the takeover price of a company than the market capitalization.

The enterprise value is calculated by the following formula:

Enterprise Value = Market capitalization + Debt + Preferred share Capital + Minority interest - Cash and cash equivalents

Market value (also called market capitalization) = Share price * no. of shares outstanding.

While analysts use several valuation methods, we will now briefly look at the important valuation methods. They are classified into three categories, based on the following three dimensions.

- Dimension one- direct (or absolute) vs. indirect (or relative) valuation methods.
- Dimension two- cash flows vs. financial variables methods.
- Dimension three- Economic Income Models

20.8.1 Direct valuation vs. Relative valuation:

Direct valuation is the estimate of a company’s fundamental value through value analysis and is compared with the market value. Fundamental value is also called intrinsic value. It is based on the after-tax cash flows that the company is expected to generate in the future that is discounted at an appropriate rate.

If the market value is equal to fundamental value, then the company is said to be fairly valued and in case of difference, it is considered either overvalued or undervalued.

In contrast, relative valuation methods do not estimate directly the company’s fundamental value. No fair value is arrived. Instead, it indicates only, whether it is fairly priced relative to some benchmark/peer group. Since valuation is based on the comparison, the method is also known as a comparable approach.

20.8.2 Discounted Cash Flow Models vs. Financial Variables Methods

This is based on the fundamental principle of corporate finance - the value of a company today is equal to the present value of future money (cash flows). The future cash flows are discounted appropriately to the present equivalent of cash, at the Weighted Average Cost of Capital (WACC).

The Price to Earnings ratio (P/E ratio) is the ratio of market price per share to earnings per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its earnings per share. It is also sometimes known as "earnings multiple" or "price multiple".

The P/E ratio tells how much the market is willing to pay for a company's earnings.

20.8.3 Economic Income Models:

In contrast to the DCF model, the economic income of the company is the basis to estimate its fundamental value. Economic income is usually defined as net income after deducting a charge for using equity.

The rationale of economic income models is that a company that generates positive economic income creates shareholder value. Hence, it should be rewarded with a premium on the share price. The most popular economic income model is economic value analysis.

20.9 Divestiture

Put simply, divestiture is the disposal or sale of an asset by a company. The strategy allows the company to release cash from assets that are either idle or not performing optimally and do not have a significant bearing on the core business of the company.

In a small business entity, divestiture may involve the sale of a particular line of business. Spinoff or shutdown of a business unit or subsidiary is also an example of divestiture.

Divestiture was an important corporate restructuring strategy of General Electric under Jack Welch. During his 1st term as CEO, Welch divested 117 business units that were not profitable and they accounted for 20% of GE's assets.

Example

As per a global study, nearly 81% of the respondents within India pointed out that they are planning a divestment in the coming two years. Of these, 67% of Indian companies expect huge transformational divestments in another twelve months.

Source: https://economictimes.indiatimes.com/news/company/corporate-trends/many-indian-companies-plan-to-divest-businesses-ey/articleshow/69420473.cms?utm_source = contentofinterest&utm_medium=text&utm_campaign=cppst May 21, 2019 Accessed on 04.03.2022

20.9.1 Advantages of Divestiture:

- Helps the company in having a strong strategic focus by eliminating business units or assets that do not fit into the company's core business
- Restores the cash position to a healthy level, to meet the company's financial obligations
- Helps in reducing the amount of debt on the company's balance sheet
- Provides greater operational transparency, particularly for large companies with diverse businesses and activities

The overall benefit of divesting is the increase in value in multiple areas like streamlined focus with high operational efficiency and cash resources. Increasingly, companies are using divestiture as a major way of corporate restructuring.

20.10 Public-Private Sector Investments

The public sector represents the government and is owned and funded by the government, in key areas like defense, railways, and basic infrastructure like roads and seaports. It is also a huge employment generator. A state-owned enterprise in India is called a Public Sector Undertaking (PSU) or a public sector enterprise. These companies are owned by the union government of India, or one of the many state or territorial governments, or both. The company stock needs to be majority-owned by the government to be a PSU.

(i) Public Enterprises

Public enterprises are financed by the government. Either they are owned by the government or majority shares are held by the government. In some undertakings, private investments are also allowed but the dominant role is played by the government only.

Example

The Department of Public Enterprises (DPE) is made part of the Finance Ministry to speed up the privatisation process and exercise greater financial control over state-run enterprises.

Source: https://timesofindia.indiatimes.com/business/india-business/govt-brings-department-of-public-enterprises-under-finance-ministry/articleshow/84223160.cms Jul 8, 2021 Accessed on 04.03.2022

(ii) Government Management

Public enterprises are managed by the government. In some cases, the government has started enterprises under its own departments. In other cases, government nominates persons to manage the undertakings. Even, autonomous bodies are directly and indirectly controlled by the government departments.

(iii) Financial Independence

Though investments in government undertakings are done by the government, they become financially independent. They are not dependent on the government for their day-to-day needs. These enterprises arrange and manage their own finances. An element of profitability is also considered, while pricing their products. It has helped the enterprises to finance their growth themselves.

(iv) Public Services

The primary aim of state enterprises is to provide service to society. These enterprises are started with a service motive. A private entrepreneur will start a concern, only if possibilities of earning profits exist but this is not the purpose of public enterprises.

(v) Useful for Various Sectors

State enterprises do not serve a particular section of society but they are useful for everybody. They serve all sectors of the economy.

(vi) Direct Channels for Using Foreign Money

Most of the government-to-government aid is utilized through public enterprises. Financial and technical assistance received from industrially advanced countries is used in public enterprises.

(vii) Helpful in Implementing Government Plans

Economic policies and plans of the government are implemented through public enterprises.

(viii) Autonomous or Semi-Autonomous Bodies

These enterprises are autonomous or semi-autonomous bodies. In some cases, they work under the control of government departments and in other cases, they are established under statutes and the Companies Act.

Examples

Autonomous organization - Indian Council of Agricultural Research (ICAR). The ICAR played a pioneering role in ushering Green Revolution and subsequent developments in agriculture in India through its research and technology. It has played a major role in promoting excellence in higher education in agriculture. It is engaged in cutting edge areas of science and technology development.

Semi-autonomous organization - All India Institute of Medical Sciences, New Delhi, operates under the Ministry of Health and Family Welfare.

On the other hand, the private sector operates in that part of the economy that is not state-controlled, and is run by individuals and companies for profit. The private sector's focus is for-profit businesses. Of course, some nonprofit companies also exist such as u/s 25 companies of Companies Act.

Private enterprises are motivated primarily by considerations of profit. Therefore, these enterprises operate mainly in those areas of economic activities, which offer a regular and steady return on capital investment. On the other hand, public enterprises are guided by several socio-economic and political objectives. They cover a wide spectrum of operations, with little regard for considerations of profit.

The entire or majority capital of a private enterprise is contributed by private investors/owners, from their own resources. Its capacity to raise capital is limited and it can face a shortage of funds. On the other hand, the entire or at least 51 percent of the capital of a public enterprise is provided by the Government, from public funds. Such an enterprise can never be short of funds because Government can mobilize unlimited financial resources.

Companies and corporations, owned and operated by the government, are known as the public sector, like PSU banks in India. The basic idea is that since the private sector operates with a pure profit motive, the government, through the public sector, promotes social welfare measures intended to benefit all sections of the society.

20.11 Government Policies

In modern society, the role of government and its policies significantly affect the way business operates.

For instance, the government policy relating to industry licensing and entry of foreign companies in various sectors of the economy shape the contours of that specific industry. In a regulated economy, the role of government is high and its political philosophy impact on business is immense.

Policies of the government largely influence the strategic choice of the firm, because the government:

- Is a major purchaser of goods and services,
- Subsidizes companies and industries,
- Protects home industry, against foreign competitors,
- Bans entry into select industries, and
- Restricts the use of certain technology and type of products

Example

GST has brought in 'one nation one tax' system, impacting every business sector. For example, the GST regime has been doing well for the Indian startup scene. Earlier, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed now under GST.

Source: https://cleartax.in/s/gst-analysis-and-opinions Feb 17, 2022 Accessed on 08.03.2022

Check Your Progress - 4

8. State whether the given statement is True/False.

   Economies of Scale helps in bringing down operating costs, as a bigger company can place bigger orders.

9. What is disposal or sale of an asset by a company called?

   a. Joint Venture

   b. Divestiture

   c. Discounted Cash Flow Model

   d. Financial Variables Method

   e. M&A

10. What is the Valuation method, based on cash flows, called?

    a. Joint Venture
    b. Divestiture
    c. Discounted Cash Flow Model
    d. Financial Variables Method
    e. M&A

20.12 Summary

- Alternative strategy helps companies address issues that have the biggest impact on their business' value and creating shareholder value, in the long-run.
- In concentric growth strategy, companies generally grow organically, in their current industry and increase their market share relying on sales.
- In related diversification, companies look for "strategic fit" i.e., increasing the benefit in the existing value chain, with the new venture.
- Joint venture is a cooperative business activity, usually between two companies, where they agree to work together to achieve specific goals.
- In a merger, two companies are combined to form a new third company (A+B = C). While the identity of one company remains intact, the second company loses its identity and becomes part of the company with which it is merged.
- The Enterprise Value (EV) reflects the monetary value of the ongoing operations of a business. Discounted Cashflow model is based on the fundamental principle of corporate finance- the value of a company today is equal to the present value of future money (cash flows).

- In contrast to the DCF model, in Economic Income Model, the economic income of the company is the basis to estimate its fundamental value. Divestiture is the disposal or sale of an asset by a company.
- The strategy allows the company to release cash from assets that are either idle or not performing optimally and does not have a significant bearing on the core business of the company.
- In modern society, the role of government and its policies significantly affect the way business operates.

20.13 Glossary

Economic life of an asset: The expected time during which an asset is useful to the company. This could be different from the actual physical life of the asset.

Industrial licensing: There are some regulations and restrictions with regard to establishing industries in certain categories. This is done by making it mandatory to obtain licenses from the appropriate regulatory authority before setting up such an industry.

Operational efficiency: It is the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support.

P/E ratio: The price-to-earnings ratio, or P/E ratio, is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share.

Price to book value: It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

PSB: Public Sector Banks (PSBs) are banks where a majority stake (i.e., more than 50%) is held by a government.

Regulated economy: A regulated economy is an economy where the government controls the forces of supply and demand, such as who is allowed to enter the market or what prices may be charged.

Shareholder value: Shareholder value is the value enjoyed by a shareholder by possessing shares of a company. It is the value delivered by the company to the shareholder.

Strategic fit: It expresses the degree to which an organization is matching its resources and capabilities with the opportunities in the external environment.

20.14 Self-Assessment Test

1. Explain briefly the reasons for companies pursuing M & A strategy.
2. Distinguish between related and unrelated diversification.
3. Analyze briefly Discounted Cash Flow and Economic Income Models.
4. Explain divestiture and its advantages.

20.15 Suggested Readings/ Reference Material

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20.16 Answers to Check Your Progress Questions

1. True

Yes. strategic planning provides the organization with a navigational map for achieving the ultimate goals of the organization.

2. (c) Government policies

Government policies do not come under corporate restructuring.

3. (c) Conglomerates

Companies pursuing unrelated business diversification are often referred to as Conglomerates.

4. Yes

Johnson and Johnson is an example of related diversification in the healthcare industry.

5. True

A merger takes place when two companies decide to combine themselves as a single new company.

6.

Horizontal merger
Where two companies compete in the same industry segment.
Vertical merger
Where two or more companies are in the same industry but in different products and different markets.
Co-Generic merger
Where two or more companies have similar production processes, business markets, or basic technologies.
Conglomeration
Where two companies have no common business areas and belong to different industrial sectors.

7. (a) M&A

Enhanced cost efficiencies and savings of the new business through synergy is possible in M & A.

8. True

Economies of scale helps in bringing down operating costs as a bigger company can place bigger orders.

9. (b) Divestiture

Divestiture is the disposal or sale of an asset by a company.

10. (c) Discounted cash flow model

Valuation method, based on cash flows, is called discounted cash flow model.

Leadership and Change Management

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