

**Change Management**  
**and**  
**Organisational Transformation**

**Second Edition**

# About the Author

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**Radha R. Sharma** is Senior Professor, Organisational Behaviour and Human Resource Development at Management Development Institute, Gurgaon, India and has three decades of experience in teaching, research and executive development. She is Ambassador for India for HR Division and of Academy of Management, USA, which has representatives from over 109 countries. She is an alumnus of Harvard Business School from where she qualified for GCPCL. Dr. Sharma is a member of International Consortium for Research on Emotional Intelligence in Organizations (USA) and one of the founder members of the Forum for Emotional Intelligence and Learning (FEIL), India. She has been a Visiting Professor to International University: European Business School, Germany and has taught courses in MDI-ESCP-Europe International MBA programme. She teaches leadership, emotional intelligence, advances in organisational change, intercultural skills, organisational transformation, psychometric testing and measurement and spirituality and human behaviour courses at MBA, executive MBA and Ph.D. levels.

Dr. Sharma has successfully completed a number of research projects supported by World Health Organization (WHO); UNESCO; IDRC, Canada; Academy of Management, USA; McClelland Centre for Research and Innovation, USA; Polish Academy of Sciences, Poland; University of Otago, New Zealand; Humanistic Management Network and Government of India. She has received Outstanding Management Researcher Award, AIMS International, 2008; Outstanding Cutting Edge Research Paper Award, 2006 from Academy of Human Resource Development, USA; Best Faculty Award: Excellence in Research, 2006 and 2007 at Management Development Institute, Gurgaon, India; Best Paper Award 2003, *Indian Journal of Training & Development* during 33rd IFTDO World Conference and First Runners-Up Research Paper Award 2008 (co-author), World SME Conference and Outstanding Editor Award, 2007 from *AIMS International Journal of Management*. She has been Ph.D. Guide and examiner for institutions of repute.

Her publications include eleven books, popular among them being *Change Management* (McGraw-Hill Companies, 2007) *Change Management and Organisational Transformation*, McGraw-Hill Companies, 2012); *360 Degree Feedback, Competency Mapping & Assessment Centers* (Tata McGraw-Hill, 2004); *Organizational Behavior* (co-authored with Steven McShane and Mary Ann Von Glinow, McGraw-Hill-Companies, 2006, 2008 and 2011); *Organisational Behaviour: An Online Book*, 2003, *Enhancing Academic Achievement: Role of Personality Factors* (Concept, 1985). She has published a number of research papers in national/international peer-reviewed journals/conference proceedings. She has been a reviewer for Academy of Management conferences for the past several years. She is also a member of the Editorial Review Board of *Emerald Journal of Management Development*, *Cross Cultural Management: An International Journal*, *AIMS International Journal of Management*; *Global Business Review*, *IIMB Review*, *XIMB*, *Journal of Case Research*, *Manpower Journal* and has been the Co-Editor, *Indian Journal of Training and Development*; Assistant Editor, *Educational Planning and Administration Bulletin* and member, *Editorial Board of Survey*. She has also been the Guest Editor for special issues of *Vision—Journal of Business Perspective on Emotional Intelligence (2008)* and *Managerial Competencies (2011)* with one of the pioneers of competency framework, Professor Richard E. Boyatzis.

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# **Change Management and Organisational Transformation**

**Second Edition**

**Radha R. Sharma**

Professor

Organisational Behaviour and Human Resource Development

Management Development Institute

Gurgaon

India



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*Dedicated with love to my late father,  
S.G. Misra  
who has been a source of inspiration in my academic endeavours  
and  
who gave me initial lessons to cope with  
CHANGE*



# Foreword

---



सत्यमेव जयते

डॉ. सी. रंगराजन  
Dr. C. Rangarajan



अध्यक्ष  
प्रधानमंत्री की आर्थिक सलाहकार परिषद्  
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Economic reforms initiated in India in 1991 have transformed the socio economic environment in which the business organizations operate. Globalisation has posed both challenges and opportunities and the Indian economy has shown a steady upward trend post liberalization. Government policies and regulatory mechanisms have made the economy strong and resilient. This has enabled the economy to withstand the turbulent global economic crisis of 2008.

Change is inevitable in the context of global and domestic factors, advancement in technology, increasing corporate social responsibilities and emphasis on inclusive growth. But the moot question is how organizations deal with change. In this backdrop, Prof. Radha Sharma's book titled "Change Management and Organisational Transformation" assumes considerable importance. While incremental changes are easy to handle, paradigm shift necessitates fundamental rethinking. The book offers a detailed description of tools and techniques that organizations can use to survive and thrive in an environment of far reaching changes.

The book is a self-contained volume with a comprehensive coverage of the various facets of change management from concept to application. Besides a detailed description of fifteen models of change management, it focuses on organizational development and organizational transformation. Written in a lucid style, the book should prove useful to students, teachers and researchers in management, this book should also serve as a good guide to the executives in the corporate and non-corporate world.

I congratulate Prof. Sharma on her effort to produce a book which will be of interest to all those interested or engaged in the process of change management.

*C. Rangarajan*

**C. Rangarajan**





# Preface to the Second Edition

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The first edition of the book 'Change Management: Concept and Applications' with a Foreword by Hon'ble Shri C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister of India' received tremendous positive response from both academics and practitioners and had several reprints to cater to the increasing demand from across the geographies. True to the phenomenon of change, the subject of the book, more changes occurred in the field of *change* in recent years which have compelled the book to undergo *change* in its content to keep pace with the *change*. Encouraging feedback from academia and industry has resulted in this endeavour to pen down recent developments and new vistas in change management for those concerned with organisational development and transformation.

The global economy was jolted by the winds of economic turbulence in 2008 resulting in global meltdown impacting economies, organisations, tasks and people and bringing to light multiple facets of unprecedented change. Major environmental changes, paradigm shift in industry and product life cycle coupled with technological innovations have led to second order or gamma type of changes which are multi-dimensional, discontinuous, qualitative and radical. These changes cannot be dealt with effectively by traditional methods; therefore, a need was felt to bridge the knowledge gap by bringing out the second edition of the book with two additional chapters on organisational development and organisational transformation providing updated knowledge, proactive techniques and tools. Besides that, other chapters have also been updated in content.

**Chapter 1** has added new contents on *global economic crisis, IT/ITC security issue, emergence of new media, disruptive changes-terrorism and social violence and focus on inclusive growth* under 'external forces affecting the organisation' and *corporate entrepreneurship and intrapreneurship, strategic flexibility, safety and security of employees and unethical practices* under external forces affecting the organisation.'

**Chapter 2** highlights *environment-dependent perspective, population-ecology perspective along with alternative perspectives*.

**Chapter 3** presents *recent approaches to organisational development along with 15 models of change which constitute distinguishing feature of the book*.

**Chapter 4** on *Organisational Development (OD)* is a new addition to this book which encompasses the concept, evolution and different approaches to OD.

**Chapter 5**, an addition to the book on *Organisational Transformation (OT)* covers *emergence of OT, triggers for transformational change along with extensive description of analytical tools and techniques, strategic interventions, corporate social responsibility,*

*operational interventions, cultural interventions, organisational learning and knowledge management driven third generation interventions, HR interventions and future trends for organisational transformation.*

**Chapter 6** provides comprehensive coverage of resistance to organisational change along with methods and mechanisms for handling resistance.

**Chapter 7** focuses on role of a change agent and leadership, evolving policies and legitimizing change, and institutionalizing change.

**Chapter 8** focuses on implementing organisational change provides guidelines for diagnosing organisation's capability, organisation's strategy, techniques and skills for managing change.

**Chapter 9** discusses organisation culture, functions of organisation culture, strategies for culture change and emerging trends in organisational culture.

The book has included two case studies – one on a traditional organisation from India, the case of Reserve Bank of India, and the other on Exor-Fiat from another cultural context. I am grateful to Professor Roberto Quaglia and Professor Bernardo Bertoldi from ESCP, Europe for sharing the case study and enriching the book.

I hope the second edition of the book with additional and updated content will fulfill the knowledge gap on the scant literature on change management and meet the needs of all those interested/involved in change management through teaching, training, research or practice to gain insight into this pivotal subject.

I feel grateful and honoured to have the Foreword by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister of India for the second edition too, despite his extremely demanding schedule. The Foreword is an encouragement and recognition to an academic's efforts from an eminent scholar who is one of the architects of India's economic reform.

I am grateful to the Board and the Director of Management Development Institute for providing an enabling environment for academic work.

I place on record my sincere thanks to Tata McGraw-Hill for their professionalism and support in particular Mr. Tapas Maji, Ms. Surabhi Khare, Mr. Anirudh Sharan and Mr. Manohar Lal which has enabled me to bring out the second edition. I am thankful to Pheba Anandan Pillai for providing academic support and to the library of Management Development Institute for providing the facilities.

My family has been a tremendous source of strength tolerating my long hours and continued work. I would specially acknowledge my husband, Chandresh Kumar and my children Anubhuti-Vishwa Chandra, Swati and Abhinav Sharma who have provided unstinted affectionate support. I would like to acknowledge my other family members Anil Kumar Misra, Kshipra Misra, V. Kumar, Drs. Rajesh and Meera Sharma, Drs. Poonam and Vijay Chandra who have encouraged my efforts.

**RADHA R. SHARMA**

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# Preface to the First Edition

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The odyssey of authoring this book has been fascinating. While working on a research project on 'executive burnout' supported by W.H.O. and Ministry of Health, I realised that organisational change was one of the major factors exercising pressure on executives. My academic curiosity compelled me to probe into the phenomenon of organisational change and I found myself deeply involved in the myriad literature dwelling on various aspects of the phenomenon of change, which was rich but scattered and was not easily accessible to those interested in this subject. It motivated me to undertake a secondary research and develop a Ph.D. level course on '*Advances in Organisational Change*' where I shared my insights with the course participants. Tata McGraw-Hill encouraged me to develop a comprehensive book which could serve as resource material on change management for academics and practitioners. It took me about two years more to complete the journey to the destination of change in the form of this book.

Change is an accelerating constant in the present scenario and, like product life cycle, organisational life cycle is also shrinking for those organisations which are unable to anticipate, adapt or transform with the changing environment. Therefore, change management has become crucial for organisations' survival, growth, competitiveness and for achievement of their goals effectively. In this context, the book on *Change Management: Concepts and Applications* assumes great significance. Most of the existing books on change either focus on a particular tool of change management or are general guidebooks. In this backdrop, this book is a contemporary single volume with a comprehensive coverage of various models, perspectives and other facets of change management in a scholarly but lucid form. It is expected to fill the void and meet the needs of academics (students, research scholars and faculty) and practitioners (managers from public and private sectors and corporate leaders) and trainers interested or engaged in change management.

The book contains seven chapters and six case studies.

**Chapter 1** presents an overview of forces of change, types of change, recent developments and theoretical frameworks of organisational change.

**Chapter 2** highlights perspectives on change incorporating environment dependent organisational perspective, contingency perspective, population-ecology perspective, resource dependence perspective, several process-oriented perspectives and alternative perspectives. The unique feature of this chapter is inclusion of spiritual and *Vedantic* perspectives and their relevance in the present context.

**Chapter 3** embodies **14 models of change** and their interpretations which reflect the efforts put in by the author for secondary research. The models have been classified into four categories as process based models, models of evolving managerial interpretations of change, content based models, and integration of change models.

**Chapter 4** deals with resistance to organisational change, the biggest stumbling block in implementing change, in a simple style which practitioners will find very helpful.

It covers factors contributing to resistance, mechanisms underlying resistance, cognitive and affective processes underlying resistance, and the steps for reducing resistance to change and methods for handling resistance.

**Chapter 5** discusses various roles of change agents and leadership, skills required for a change agent, role of leadership and suggestions for how to make an organisation a continual leader.

**Chapter 6** deals with implementing organisational change which has practitioners' perspective in the form of diagnosing organisation's capability and strategy for organising change.

**Chapter 7** describes formal and informal components of organisational culture, functions of organisation's culture and change, organisation culture and leadership and firm size, strategies for culture change and emerging trends in organisational culture.

The book also includes **case studies on innovation (Wipro), business excellence (Tata Steel), organisational evolution (Reserve Bank of India), leadership and change (Clariant India), organisational turnaround (Asoka Spintex) which will help in applying the concepts presented in the earlier chapters.**

This text is expected to be a valuable addition to the scant literature on change management and would be useful to all those interested/involved in change management teaching, training, research or practice to gain insight into this pivotal subject.

I am extremely grateful to Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister of India for providing Foreword to the book despite his very demanding schedule. The Foreword is very encouraging both professionally and personally and I feel rewarded for my efforts in preparing this volume.

I am thankful to Shohag Dey for providing research support and to the library staff of Management Development Institute for organising books and other literature for the research. I am grateful to Reserve Bank of India, IIM, Ahmedabad and ICFAI for granting me permission to reprint their case studies. My grateful thanks to Tata McGraw-Hill for their adoption of the manuscript, tremendous cooperation, editorial and professional support and amazing efficiency without which the book would not have taken its present form. I would like to place on record my sincere thanks and deep appreciation to S. Raghothaman, V. Biju Kumar, Tapas Maji, Anubha Srivastava, Deo Narayan and Medha Arora for their valuable support.

Special mention needs to be made for the encouragement and support received from my husband Chandresh Kumar and family members Anil Kumar Misra, Kshipra Misra, V. Kumar, Drs. Rajesh and Meera Sharma, Drs. Poonam and Vijay Chandra, during the entire period. My children Anubhuti-Vishwa, Swati and Abhinav have been most understanding and this has been my source of strength for sustained efforts on the book. Words are not adequate to acknowledge their affectionate unstinted support.

**RADHA R. SHARMA**





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# 1

## Organisational Change: An Introduction

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### INTRODUCTION

Change is an inevitable aspect of life. It is the essence of any entity that has life or whose existence finds validity in the presence of life. Even 'time' would lose its significance in the absence of change. As change manifests itself in a variety of ways, it does not hold the same connotation across people, situations, and contexts. Times change, people change, things change, situations change, and so do organisations.

Globalisation of economies and resultant competition, liberalisation, deregulation, privatisation, mergers and acquisitions, development of Internet and web based technologies have changed the landscape in which organisations/businesses used to operate in the past. Speed and accessibility across the globe have brought about changes in organisational paradigm and executives have been confronted with unprecedented challenges of change during the past decade. They are trying to grapple with the impact of the above mentioned factors at their workplaces. The most important challenge before a manager today is how to manage change in a changing world with the knowledge of traditional, rigid and static management systems and processes. Identifying the need for organisational change and leading the organisation through change is one of the most critical and challenging responsibilities in an organisation today.

*Catalysed by technological breakthroughs in distribution, information, and communication systems, we are moving rapidly into a world in which geopolitical boundaries that have been the hallmarks of our history, are fading (Toffler, 1980). What Toffler predicted in the 1980s has actually happened. This is an era of tremendous change, marked by globalisation, technological advancements, telecommuting and e-commerce that are shrinking global boundaries and accelerating the pace of change.*

As Burke and Trahan (2000) put it: *“Adding deregulation, political instability, emerging new economies in the Pacific Rim, and an exploding number of new scientific discoveries . . . you have a recipe not only for market turbulence, but also for... “disruptive phase shifts” in how business is conducted.”*

In order to handle the paradigm shift, managers are required to understand the nuances of change in an organisation. The focus of managing change at present is on the organization as a whole, rather than on its parts like small work groups or single departments that represent a significant departure from the past managerial thinking (Greiner, 1967) and highlight the relationship between strategy and change management.

Over the years, there has been an increasing and overwhelming interest in understanding the evolution of organisations—their adaptability and flexibility and response to change, and the system-wide consequences of an organisation's responses, both planned and unplanned. Mohrman and Mohrman (1993) succinctly put it as “*organisational environments have become less benign, more complex, more interconnected, and more dynamic...*” producing conditions and need for change at the same time making it difficult for organisations to change by overloading the information-processing capabilities of the organisational members.

Recent literature on change management posits that organisations are facing an accelerating and pervasive need for continual, and increasingly rapid and dramatic change (Miller and Morris, 1999; Fradette and Michaud, 1998). Christensen and Overdorf (2000), Miller and Morris (1999), Tushman *et al.* (1997) and others have highlighted the need for change and inherent challenges in managing organisations through changes in the external environment. Such changes in the environment are predominantly the result of globalisation, advancements in information technology and communication systems, changes in international relations, breakthroughs in numerous fields amongst other factors. This calls for organisations to become flexible, adaptive, innovative and open to learning in order to grow or survive (Hargadon and Sutton, 2000; Sapienza, 1995; Senge, 1990).

The review of literature reveals that organisation-wide changes, especially in the private sector, aim at making rapid improvements in economic value while attempting to create an organisation whose structure, processes, people, and culture are aligned with its current mission, environment and future goals (Beer and Nohria, 2000). Intentional change has been considered at two levels (Burke and Trahan, 2000; Beckhard and Harris, 1987; Bridges, 1995). Firstly, transformational (fundamental level, which includes mission, strategy, culture, leadership, and external environment, focusing on the big picture); and secondly, transactional (transitional level that includes structure, systems, management practices, motivation, job fit, work unit climate and so on, which focuses on how things get done on a regular basis).

Martin Wood (1994) critically reviews the traditional management as follows: “*Traditional organisational thought has developed through narrowly defined ideals, focusing on short-term efficiency ahead of comprehensive, long-term effectiveness. This has resulted in existing organisational frameworks—within which day-to-day issues are dealt with—being taken for granted so that their artificiality remains unchallenged*”.

He further explained that such artificiality often finds its vector in groups, organisations, communities and societies that assume that contradictions to the accepted norms are unthinkable. They thus marginalise information that does not fit and often reinter-

pret new ideas to conform to the old ideas. These systems thus act as “mind guards”, maintaining a particular thought style in order to sustain a dominant perspective (Wood, 1994).

In order to prevent such blind thinking, one ought to cognise organisations as changing continually, framing and reframing, and existing only in the collective minds of their members (Wood, 1994). Thus in order to change successfully, the organisation has to bring about change in the values, beliefs and assumptions of its members. Or else changed strategies will continually fail and foster a strong resistance to further change.

## AN OVERVIEW OF CHANGE

Organisations pass through two kinds of change—*continuous* and *incremental*, and *discontinuous* and *radical*. However, even in radical or discontinuous type of change the organisation will retain some critical aspects, which have become dysfunctional and irrelevant and will substitute them with relevant and meaningful aspects. An overview of management of change would reveal that the impact of scientific management in the beginning of twentieth century resulted in technically and operationally focused change. This was followed by human relations approach where emphasis was laid on changing the social systems through human resource development interventions like motivation training programmes and training of supervisors.

The above mentioned approaches advocated introduction of slow-paced changes. **However, in the 1970s theories relating to change dealt with both social needs and technical efficiencies giving equal attention to both these aspects. This led to the emergence of two approaches—Organisational development (OD) and social technical system theory (STS).** The STS approach was spearheaded by Twist and Emery and gave importance to democratic processes in organisations emphasising teamwork and learning through participative action research.

The OD and STS theories of change grew in Europe, North America and Australia. At the same time Japan has been developing quality management techniques like TQM and advocated involvement of employees in decision-making emphasizing social factors. Thus human relations/OD/STS and TQM approaches adopted in different parts of the world strongly supported incremental rather than transformational changes in the 1960s and 70s and even 80s. The focus of these changes was to remove inefficiencies and dehumanisation (which lead to low job satisfaction and low employee morale) in bureaucratic organisations.

### Recent Developments

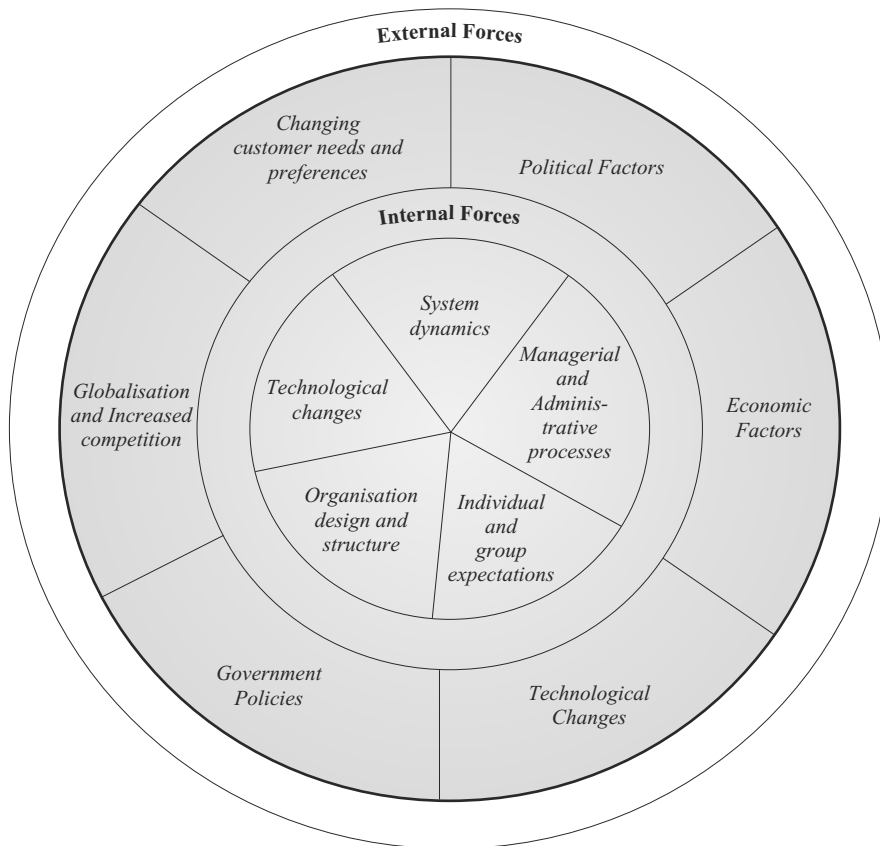
However, from 1985–99, there has been an upsurge in international and global competition due to pressure from economic reforms. A large number of organisations found themselves out of alignment with their operating business environment. New technological developments and information technology revolutions left the organisations gapping as their customers shifted their preferences to other types of products and

services. Organisations soon realised that the approach of incremental change was often inappropriate for repositioning them strategically. Consequently, many organisations in late 1980s and 1990s in the West and in 1990s in South Asia started substituting transformation change for incremental change. Paradigm shift was observed in the functioning of a host of organisations.

It is being realised by managers of many organisations that their organisations ought to be flexible to move between incremental and transformational change to remain aligned with the market conditions and also intra-organisational conditions. As large organisations are slow to transform, many organisations have reached the mid-range change.

### FORCES OF CHANGE

Organisations are vibrating with the forces of change. There are a number of other forces of change within and outside organisations that affect organisations. These forces of change can be represented diagrammatically as in Fig. 1.1:



**FIG. 1.1** Forces of Change

Source: Adapted from Harigopal, K. (2001) Management of Organisational Change, Response Books.

**Table 1.1** Shift in Trends

From	To
Industrial era	Information era
National economy	Global economy
Technology development	Technology sophistication
Stability and predictability	Sudden changes
Long term	Short term
Centralisation	Decentralisation
Hierarchies	Networking
Emphasis on continuity	Emphasis on change

In Fig. 1.1, the outer boxes represent the external forces and the inner boxes represent the internal forces within an organisation, which exert pressure on the organisation to change.

### External Forces Affecting the Organisation

#### ***Globalisation and government policies***

Globalisation affects an economy in a number of ways. With globalisation and liberalisation, any organisation in any part of the world can manufacture, process and sell its products/services to other parts that is liberalised. The business implications of globalisation are that a firm that had monopoly in a particular country will now have to compete with other international and/or global firms in terms of quality of products/services and price. Many Indian firms, which did not bother to allocate enough funds for product innovations, have lagged behind or suffered.

With the opening up of the economy, the market is flooded with a variety of products at competitive prices. The example of the ‘Ambassador’ car would be appropriate here, which hardly made any significant changes in its product design when the market demanded a variety of cars with different features. A number of car manufactured by Hindustan Motors firms took it as an opportunity and started offering a range of cars—utility and luxury. No wonder these firms began to eat into market share of Ambassador car; consequently this particular firm suffered a great deal financially. The change agent needs to be sensitive to developments in the field of their operation and be proactive rather than reactive.

### **CHANGES DUE TO GLOBAL ECONOMIC MELTDOWN**

The global economic meltdown of 2008, which occurred due to subprime crisis in the USA, has shaken up organisations across the globe. The seeds of this crisis were sown by the banks which had encouraged potential house buyers to take high amounts of loan with the belief that they would pay back in a short period. From mid-2007, interest rates began to rise but housing prices witnessed a downward trend. During



the housing boom, Mortgage Backed Securities (MBS) and Collateralised Debt Obligations (CDO) were used whose value was derived from mortgage payments and housing prices. However, the decline in housing prices spelled trouble for major global financial institutions which had borrowed and heavily invested in subprime MBS. The reason was the huge losses accruing from subprime MBS. Defaults and losses on other types of loans also increased. The ripple effects included breakdown/closure of many financial and banking institutions in the USA (such as Lehman Brothers, Freddie and Fannie, and Merrill Lynch) as well as in other countries. These financial maladies eroded the financial capacity of the banking system and caused huge financial loss to the consumers due to bankruptcies filed by the banking institutions. Other adverse effects were sudden rise in unemployment, negative impact on exports and imports, extremely volatile financial markets, and production cut-down. Consequently, many organisations had to suspend their expansion plans.

The global economic meltdown put organisations in a catch-22 situation. To face the challenges posed by the meltdown, organisations were required to take tough calls, like downsizing, reduction/suspension of perks and incentives, freeze of new recruitments resulting in low morale, stress and burnout among employees. The changes, triggered by the meltdown, required a re-look at business strategies and leadership style, re-vamping the organisation with a holistic perspective (inclusion of all stakeholders) and placing utmost importance on ethical business practices.

### ***Political factors***

Organisations in recent years have been driven by market boundaries rather than political boundaries. International politics affects trade and business; countries receive the status of favoured nations or sanctions are imposed on them. Economic factors have become the cementing force in a highly divided world today. Some countries, which have been having strained relations for years, have realised the value of co-operational co-existence and have united like North and South Korea, East and West Germany and 21 countries had together in 2003 under a common banner for WTO negotiations at Cancun. Countries in the Asian region have come together to protect their business interests globally. The change agent ought to be sensitive and flexible to protect the interest of their country/organisations with the changing world politics. The managers who would operate at national, international and global levels need to have knowledge of products and services that are covered under the WTO.

### ***Technological changes***

Information and communication technologies have shrunk the distances across countries/organisations. 'Technology' does not refer only to machinery, equipment and tool. It is also concerned with the use of information and knowledge as inputs, which are transformed into the final outputs. The process of transformation involves a technology; therefore, choice of appropriate technology is a key factor for competitive edge in the new environment. Internet and web technologies have given rise to virtual corporations.

Automation, mechanisation, computer based design and manufacturing systems affect the organisation at both macro and micro levels. It goes without saying that technology needs to be aligned with other aspects of the organisation.

### ***Changing customer needs and preferences***

With the availability of a variety of products there is a perceived change in customer preferences. This has led to greater competition and has reduced product life cycle whether it is a small product like a telephone handset or a big product like a fridge, television or a car. There is a demand for greater customization, which affects organisational production process.

### ***Economic factors***

In view of the increased competition alongwith low margins organisations try to minimise cost by keeping the organisation lean and outsource some of their functions. Besides, outsourcing itself has become a business, which has led to the emergence of Business Process Organisations (BPOs) and Knowledge Processing Organisations (KPOs), call centres that process business from across the globe.

The effect of all these forces can be observed on an organisation's structure and design, systems and processes, task, technology and above all on psychological contract (expectations from employees) of employees. The employees who were used to working for 8 hours during the day are now required to work during the night to cater to the needs of clients from the West who operate at that time due to time difference.

Employees who could manage their job with low technological skills are now required to master new technologies to be effective. The example of this can be observed in banking industry where an employee who used to process about 300 cheques a day is now required to process nearly 3000 cheques per day. Phone banking, tele-banking, weekend banking, 24 hours banking, seven-days banking have considerably changed the psychological contract of the banking employees. The situation is no different for the information technology sector. Telecom industry has been impacted by the emergence of call centres, a new paradigm. These changes have several associated social and economic repercussions.

### ***Environmental Factors***

Conservation and management of the environment is one of the social responsibilities of organisations, as they are important stakeholders in the environment. Over the years, regulatory systems, pro-environmental organisations, social workers and activists have increased pressures on organisations to be environment-friendly. Moreover, concerns like climate change and environmental issues facing society call for attention by all the stakeholders. Organisations can no longer thrive by simply complying with environmental laws. They need to integrate environmental aspects strategically with their plan of things for sustainable growth. Therefore, an organisation needs to incorporate environmental aspects in its value system, culture, knowledge capital,

process capital, human capital, products or services and business strategy. Thus, the changes articulated are regulative, normative and cognitive processes which lead to practices that are standardised and rationalised across the organisation (DiMaggio and Powell, 1991; Scott, 2008).

There is a steady rise in the number of organisations adopting triple bottom line (TBL) approach balancing concern for people, planet and profits. A number of measures are being adopted like reporting on sustainability and corporate social performance and similar practices. Incorporation of these has led to change from traditional ways of reporting. As per the Global Reporting Initiative (GRI) guidelines, through sustainability reporting an organisation discloses its strategy and profile and economic, environmental and social parameters.

### **Focus on Inclusive Growth**

Inclusive growth has become a new buzzword across economies in recent years. According to a World Bank report (2009), inclusive growth is all about *“lifting the pace of growth and to enlarge the size of the economy while providing a level playing field for investment and to increase productive opportunities”*.

Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors and inclusive of the large part of the country’s labour force.

Inclusive growth/development is possible only through cooperation among various stakeholders of an economy. Effective inclusive growth takes place when there is inclusion at social, financial, economic and developmental levels for all the communities. Corporate organisations are required to play a significant role as enablers in inclusive growth. Organisations need to awaken their heart and soul and focus their mind on sustainable growth and development.

Business enterprises need to be inclusive organisations themselves. To transform itself into an inclusive organisation, an enterprise needs leaders who are open and practise and encourage others to practise inclusive growth. They should have a pluralistic value framework and culture of inclusiveness. An inclusive culture can be built on the principle of recognition of the differences and commonalities (emotional, solidarity, legal and political); reciprocal understanding; plurality of standpoints; and mutual enablement, trust and integrity.

An organisation intending to build an inclusive culture undergoes through the following transformational phases (Pless and Maak, 2004):

1. To raise awareness, create understanding and develop openness for reflection on inclusive culture
2. To develop a vision focused on inclusion
3. To rethink the concepts and principles of management
4. To acclimatise the HR systems and processes for inclusive culture

However, several challenges are faced by an organisation planning to promote inclusive culture. Some of these challenges are: confronting existing value systems,

mindsets, habits and bringing about change in embedded ways of thinking and behaving; questioning the dominating thinking styles; challenging hierarchical thoughts; and openly revealing teamwork barriers.

### **IT/ICT Security Issues**

In the present scenario, the information and communication technology (ICT) is an integral part of any organisation's overall infrastructure if it needs to thrive. However, organisations face challenges in maintaining and sustaining ICT infrastructure which include rapid obsolescence of technologies, emergence of new technologies, safety and security issues and ICT maintenance. The security of IT/ICT infrastructure is critical for organisations, as it stores large amount of organisation-related information, data and databases. Organisations face a lot of security issues such as the threat of data theft, cyber hacking and unauthorised sharing databases. These issues are creating enormous change in organisations.

### **Changes due to Emergence of New Technologies/Media**

Social media/networking technologies are the new media which have emerged just half a decade ago. These have brought about radical changes in organisations. Their impact has led to fundamental changes in business models, leadership style, organisational culture and values, dynamics of marketing and organisational communication (internal and external). Notable social media technologies are social networking websites, *blogging*, *microblogging* and *wikis*. Facebook, and LinkedIn are popular social networking websites while Twitter and Jaiku figure among well-known micro-blogging sites. YouTube is another popular social media.

A major challenge posed by social media technologies is that no company can control their impact (positive or negative). Owing to the involvement of the internet in these technologies, anybody can access the new-age social media across the globe in a fraction of second. There are both negative and positive aspects of the use of social media. The content generated over this media is a mix of emotional and functional aspects which needs to be addressed immediately by the company/organisation to mitigate the harm. The other negative aspect could be poaching of staff, spending office time by employees on social networking on personal matters.

However, there are many benefits. Social media technologies have created a 'shift of power' towards customers. Through these platforms of communication, consumers and customers convey their opinion/experience regarding organisations and their products/services. Thus, there is shift from one-way to two-way communication and customers and consumers become co-owners of a company's brand. The new processes that have emerged in the company-consumer relationship include listening, talking and enabling consumers to make sales decisions, developing business relationship (between the company and the customer), and embracing (helping each other) (Li and Bernoff, 2009). For example, Maruti Suzuki Ritz has a fan page on Facebook which serves as a platform for customers to interact with each other as well as with the company.

The HR function of organisations is tapping the potential of new social media for identifying prospective candidates for employment, using the social media input for training and development. The social media has also impacted the information technology function of organisations. The IT staff of organisations needs to identify/select processes to gather the large quantum of real-time data, conduct data analysis and leverage it purposefully. To integrate the selected processes into the organisation's existing IT infrastructure, talented IT workforce is needed. Wikis and other open-source platforms have brought a sea change in the way people collaborate. These are collaborative web spaces wherein anyone from the group can write, edit or remove material from the site. Individuals pursue their own interests and join internet communities of their choice wherein subject or issue-specific interactions take place. Based on these interactions, the Internet community members decide to collaborate for a particular task. The outcomes of wikis and open-source platforms are creating drastic impacts.

Traditional culture and values in organisations and organisational leadership are being threatened by the evolution of social media technologies. To leverage the opportunities and overcome the risks arising from the new social media, there is need to instil openness, sharing, transparency and democracy in the organisational culture.

Open leadership is emerging in organisations which is transparent and authentic in building relationships. This leadership devises strategy based on a shared vision, leverages networks for the spread of vision and strategy, believes every person is a leader, engages across different levels both within and outside the organisation, encourages trust along with engagement, develops a culture of trusted information sharing, and writes rules for risk taking (Li Charlene, 2010).

### **Disruptive Changes: Security Threats—Terrorism and Social Violence**

Disruptive changes from within and outside the country are impacting business organisations. Major security threats facing the country are: terrorism, social unrest, Naxalite attacks, insurgency in the North-East region and tension on the borders. These security threats are a grave concern not only for the government but also for private and public sector organisations. These threats have the potential to hamper the economic and social development of the country and business organisations. For example, the 26/11 terrorist attack on hotels Taj and Oberoi in Mumbai in 2008; Tata's decision to cancel the proposed Nano plant at Singur due to opposition from farmers and regional political parties; and Maoist attacks on Arcelor Mittal's steel project in Orissa have impacted the business and functioning of these organisations, forcing them to bear not only unnecessary losses but also change their business plans.

In recent years terrorism has emerged as a strategy to adversely impact a country's scientific and economic growth and social peace. The lurking threat of terrorism creates fear and anxiety among the citizens of a country's and international community (tourists, investors and traders) and undermines the country's global image. Besides, trust and harmony get affected, which in turn not only affect social life but also business interests. Fear of territorial conflict, terrorism and ethnic and Naxalite

attacks have been on the rise in recent years, adversely affecting many countries' internal security and business interests. These attacks, perpetrated by trained militant groups, are prevalent in mineral-rich states and economically and educationally laggard and tribal regions where people are vulnerable to taking to violence at the bidding of militants.

The above-mentioned security threats need careful consideration, as these adversely affect the interests of the corporate world. Even the organisations need to prepare themselves to deal with these threats. They need to check the antecedents of their employees and suppliers for any possible links with terrorists. They also would have to consider these security threats in various areas of their operations.

### **Internal Forces Affecting the Organisation**

There is a plethora of forces operating within an organisation that can influence the organisation in a major way thereby disturbing its equilibrium. Such forces cause the organisation to move into a state of quasi-stationary equilibrium and demand for changes within the organisation itself. Some such key forces are:

#### ***System dynamics***

Organisations are systems consisting of various subsystems which constantly interact with each other and hence exist in dynamic interrelationships. Factors such as technology, dominant groups, internal politics, interpersonal relationships often affect the alignment and relationships thereby demanding change in related domains.

#### ***Structure-focused change***

Such changes alter one or more basic components of the structure of the organisation. For example, downsizing and decentralisation. Organisations make structural changes to reduce costs and increase the productivity and efficiency.

### **BOX 1**

#### **BATA INDIA PLANS TO PRUNE 300 STAFF THROUGH FRESH VRS (currently, Bata has an employee strength of 9,500)**

The management of Bata India is planning to offer voluntary retirement scheme (VRS) to 300 employees in 2006 in an effort to reduce staff and to implement its financial and operational restructuring. Currently, Bata has an employee strength of 9,500. Bata had offered its VRS package in 2005. The company is planning to open 40 retail stores across the country in 2006 and modernize its 150 existing stores.

Source: Deccan Herald. Jun 30, 2006; p. 17

#### ***Technological change***

Change that affects the actual process of transforming input into output is referred to as technological changes. Examples include information processing systems,

automation and others. Using such systems usually calls for changes in the various subsystems of the organisation.

### ***Inadequacy of administrative processes***

Changing reality calls for change in the existing procedures, rules and regulations as well as revision of organisational goals and objectives. If the organisation ignores and neglects such revisions, it withers away with time.

### ***Individual/group expectations***

The organisation must look into the needs and expectations of its members by addressing issues such as members' ambitions, need for achievement, capabilities, frustrations and fears and the inter-group processes operating within an organisation in order to induce change, survive and grow successfully.

### ***Person-focused change***

This change is concerned with human resource planning and enhancing employee competence and performance. In order to induce such change, human resource management needs to tackle issues of redefining organisational strategy and goals, structural changes involving expansion, contraction or resizing, technological inputs, employee training and development, recruitment and selection policies, new ventures and profitability.

### ***Resource constraints***

An organisation's resources include capital, material, technology, machinery, personnel and information. Scarcity, inadequacy, non-availability and depletion of these resources lead to drastic changes in the organisation.

### ***Profitability issues***

Profitability issues such as loss of revenue, market share, low productivity, engagement with processes of restructuring and reengineering lead to major changes in the organisational setup.

### ***Strategic Flexibility***

Strategic flexibility is essential for an organisation for adopting changes due to uncertainties or adapting to the changes occurring in the environment. An organisation's strategic flexibility reflects in (or is the sum total of) its operational, financial, technological and structural flexibility to remain competitive. Operational flexibility would be required to make product/service mix offering acceptable to the market. To be flexible operationally, the organisation would have to make changes in production capacity and R&D. Financial flexibility would be in terms of adjusting the finances, accessibility to various financial resources and investing appropriately. Structural flexibility would reflect in the organisation's ability and agility to restructure its hierarchical levels

to remove the bureaucratic red tape, increase transparency and encourage effective communication. Technological flexibility would be in terms of adopting new technologies or upgrading the existing technology infrastructure. The organisation's strategic flexibility depends a great deal on its human resource—How supportive is the human resource in initiating and implementing changes in all the functional areas to facilitate strategic flexibility?

### **Need for Strategic Excellence**

Strategic excellence is a domain of corporate learning which enables an organisation to achieve and sustain industry leadership. However, to develop strategic flexibility, the organisation needs strategic sensibility and strategic creativity to leverage opportunities for strategic benefits. Strategic sensibility implies that to remain competitive, the organisation needs to be aware of and alert about the changes taking place within the industry/environment and also the uncertainties that could lead to radical changes. Strategic creativity means the ability to respond creatively to the changes and the flexibility to bring about fundamental changes within the organisation. Finally, the organisation needs the ability to leverage opportunities arising from the changes and leverage them for strategic benefits. To develop strategic excellence, the organisation needs to promote a culture that would encourage entrepreneurship, risk-taking, openness to new ideas and innovation. And, it should also have leadership that supports entrepreneurial culture and encourages external stakeholder engagement.

### **Autonomy and Flexibility for Employees**

There is a growing need and demand for giving autonomy and flexibility to employees in organisations. A major reason for this demand is that employees are now required to put in long working hours instead of the earlier fixed hours. This has resulted in huge pressure on their work-life balance which they are finding difficult to maintain. Therefore, organisations need to provide flexibility and autonomy to their employees through appropriate policies to prevent its misuse. Flexibility is required in working hours, remuneration and strategising work. Autonomy is needed in deciding their performance or output level and nature of contribution towards the organisation.

### **Corporate Entrepreneurship/Intrapreneurship**

Corporate entrepreneurship (CE) is defined as *“the presence of innovation with the objective of rejuvenating or redefining organisations, markets or industries in order to create or sustain competitive superiority”* (Covin and Miles, 1999). According to Morris and Kuratko (2002) corporate entrepreneurship is *“a term used to describe entrepreneurial behaviour inside established mid-sized and large organisations”*. It is also known as *intrapreneurship*. If organisations encourage CE, it would provide opportunity to employees to explore their entrepreneurial capabilities and may lead to innovations in processes, products or services. This would enable them to develop new competencies and give a competitive edge to the organisation to survive in turbulent times.



To make corporate entrepreneurship effective and sustainable in an organisation, change would be needed in leadership style, vision, organisational culture and structure. Besides, change in the mindset of employees is also required and they need to be given flexibility and autonomy in their functioning. The other requirements include collaborative work approach, transparency in information, technological and non-technical support, appropriate recognition, encouragement to entrepreneurial activities, and conflict management. These will go a long way in promoting corporate entrepreneurship and intrapreneurship.

### **Safety and Security of Employees**

Safety and security of employees, though an important issue for industrial units for many decades, has become crucial for the service industry in recent years due to their rising significance and socio-economic factors. There is rise in shift work in BPOs and KPOs and increase in the number of women employees working in the night shift. Security concerns arising from professional or personal rivalries, threats from terrorist groups to the industry and insurgencies have compelled organisations to tighten as well as upgrade their safety and security measures.

Organisations would require new technologies or would need to upgrade the existing technology infrastructure to keep data on the number of employees and their working hours and monitor transportation facilities provided by them. They also need to provide special safety and security for women employees working in night shifts, and safety and security training to other employees to handle security issues. Security tab needs to be kept on all individuals entering and exiting the organisation building. The government help is also required in case of a major security threat.

### **Unethical Practices by Employees**

Unethical practices by individuals and organisations are on the rise despite their stated adherence to ethical codes of conduct and regulatory frameworks. Unethical practices are adopted for a number of reasons: to achieve short-term goals, to cope with competitive pressures, to benefit the organisation or others (co-workers/clients/customers) or to serve selfish interests. Unethical practices include misappropriation of finances or assets, malpractices in product or service, accounting malpractices, misuse of resources for personal purposes or gain, sharing of company secrets with outsiders or competitors, sending wrong messages through advertisement and the like. These lead to devastating consequences not only for the person who indulges in them but also for his/her organisation resulting in loss of trust among the stakeholders of the organisation and financial loss to it.

When unethical practices are detected or come to light, a shock wave runs through the organisation. The organisation grapples with the adverse outcome of the unethical practices, employees get confused or remain in the dark as to how this could affect them. Auditors swoop on the organisation's premises to assess the misappropriation of funds or fraud, investors begin to demand return of their investments, consumers are worried about the product or service and customers or clients too somehow grapple with the situation as it affects their business/service.

**Box 2****GUJARAT ELECTRICITY BOARD MAKES A TURNAROUND WIPING OUT Rs 2,542-CRORE LOSS (the Board announces a net profit of ₹200 crore for 2005–2006)**

The Gujarat Electricity Board (GEB) has liquidated accumulated losses of ₹2,542 crore. The board has announced a net profit of ₹200 crore for 2005–2006. GEB has managed to increase its revenues through strict supervision of power distribution. The state government has split the board into four regional power generation companies, four regional power distribution companies, one transmission company and a parent company. GEB has restructured loans worth ₹4,130 crore and has brought down the interest rates from 9.51 per cent to 8.6 per cent.

Source: Business Line. Jun 13, 2006; p. 3

**TYPES OF CHANGE*****Change as incremental and intrinsic to an organization***

An organization is required to match their structure according to its environment and strategy. In doing so it may have its own constraints and may choose to adopt incremental internal change. Certain changes, though minute in nature, take place continuously in a way that the stability seen in the organisation is only apparent. Cognized from this perspective, an organization may be described to be in a state of flux with its systems and subsystems undergoing subtle changes all the time. Since the process of change here is considered to be slow in nature, change is noticed only on closer scrutiny. The stability is superficial and is a temporary incarnation of an organisation at a given moment. Miller (1982) differentiates between incremental and quantum changes. He posits that incremental changes create disharmonies, may destroy internal structural configuration and may be harmful and costly in the long run. Quantum change in structure, according to him, brings about harmony among structural elements like span of control, technology, distribution of authority, differentiation and integration but these have financial implications as many elements in the organisation are changed simultaneously. Therefore, an organisation needs to weigh the pros and cons of incremental and quantum changes intrinsic to the organisation.

***Change as extrinsic and revolutionary***

The external environment imposes various contingencies on the organisation. Changes are called revolutionary when quantum change radically transforms many elements of a structure in an organisation (Miller, 1982). From this perspective, organisations are conceived as stable structures and change is perceived as being disruptive in nature. To bring about change in the organisation implies forcing the organisation to modify, restructure or reconfigure. If the forces of change are beyond the tolerance level of the organisation, it crumbles or its fate is assumed to be dependent on the forces. However, certain organisations are able to retain their strength by invoking their creativity and shift in strategies and directions.

### ***Change as patterned and predictable vs. change as complex and unpredictable***

Some scholars assume change to be regular and stable with an identifiable cause-effect relationship. Here change is seen as transition from a state of quasi-equilibrium to one of equilibrium. Such a view of change is adopted by physical sciences. On the other hand, change is thought to be dynamic and complex in nature. It functions as a non-linear feedback system with no clearly identifiable and predictable cause and effect relationship (Harigopal, 2001). Change and future events thus can neither be predicted nor be controlled with certainty as it continually evolves as a result of interactions between various factors. Such a view of change is adopted by social sciences as these assume social systems to be in a state of quasi-equilibrium and interventions may or may not facilitate its course or determine it (Stacy, 1992).

### ***Duality or bipolarity of change***

Change is bipolar in nature. It is continuous (usually slow, incremental in nature) and discontinuous (usually characterized as rapid and radical in nature); stability and instability characterize it; it may be predicted and might go unpredicted; it can be controlled and is uncontrollable; it may be intrinsic as well as extrinsic to the organisation. In other words, change may be continuous punctuated by infrequent changes or there may be a period of stability (as many organisations in public sector observed before globalisation) but after that there may be instability and uncertainty. Change management thus calls for reconciliation of these opposites in productive ways, rather than choosing between the either poles. As the nature of these changes is different, these require different abilities and skills for their management. Theorists such as Greiner, and Tushman, Newman and Romanelli have given theories that have implemented such dual nature of change in explaining organisational transformation.

Greiner's life cycle theory of organisation concerns itself with organisational change from the perspective of organizational growth. According to Greiner (1972), organisations grow as they traverse through five distinct stages, where each stage consists of relatively calm periods of continuous change, culminating in a crisis that leads to a state of turmoil in the organisation. The resolution of crisis leads to a calm period of continuous organisational change which again climaxes in a crisis. These relatively calm periods of continuous change, he calls **evolutions** and the period of turbulent rapid discontinuous change, he calls **revolutions**. Organisational change is seen as a period of evolution punctuated by episodes of revolution. Summarily, Greiner's model discerns change as a progression toward increasing size and complexity where organisational structure, systems, and leadership follow a predictable pattern through various sequential stages of the organisational life cycle.

According to Tushman, Newman and Romanelli (1986), organisations experience two kinds of change. These are analogous to the types of change discussed by Greiner in the earlier paragraphs. Tushman calls the minor incremental organisational change as **convergence** and the discontinuous change as the **frame breaking change** or **upheaval**.

Other researchers have coined different terms to describe continuous and discontinuous change. For example Goss, Pascale and Athos (1993) use the term **reinvention** (that is, not changing what is, but creating what is not) to describe discontinuous change. Nadler and Tushman (1990) refer to discontinuous change as **strategic change**, which they further distinguish into two types—**reactive** (change made in direct response to external environment; they refer to as **re-creation**) and **anticipatory** (change made in expectation of a future event as **re-orientation**).

Implementation of change, as described in change management literature is broadly categorised into two approaches—the participative and the directive. The participative school of change implementation propounds that organisational members should be involved and given opportunities to participate in planning and implementing change. Participation not only leads to better ideas but also reduces resistance to change. Directive school of change implementation holds that as discontinuous change needs to be rapidly implemented, participation is not essential as it is often time consuming. Rather, it assumes that downsizing and de-layering are essential for the organisation to survive in the dynamic competitive environment.

It is important to remember, however, that both participation and coercion are implicit in any change that often involves a judicious mix of both. Hence all these types of changes—continuous, discontinuous, participative and directive, are inherent in any change situation. Though, one categorizes them for better understanding, any organisational change invokes all of them and they are practically inseparable.

Increasing international competition and rapid technological change have high expectations about organisational performance and adoption. Deregulation and globalisation are putting an enormous amount of pressure on organisations. Changes in political alliances and orientations offer a host of new opportunities. In response to the new challenges, a number of models of organisational analysis and decision making have come to the fore. Traditional focus on rational thinking will not reveal the total picture; the reality of the situation requires different approaches to different situations. We need to learn more about the puzzles to reach or get some clues in solving them. The following section, discusses some of the theoretical frameworks that attempt to explaining organisational change in various ways and taxonomies.

Change takes place at three levels: micro level (those changes that people face in their personal lives); organisational level (changes in any organisation that impact people's lives); and macro level (changes that affect people and organisations universally).

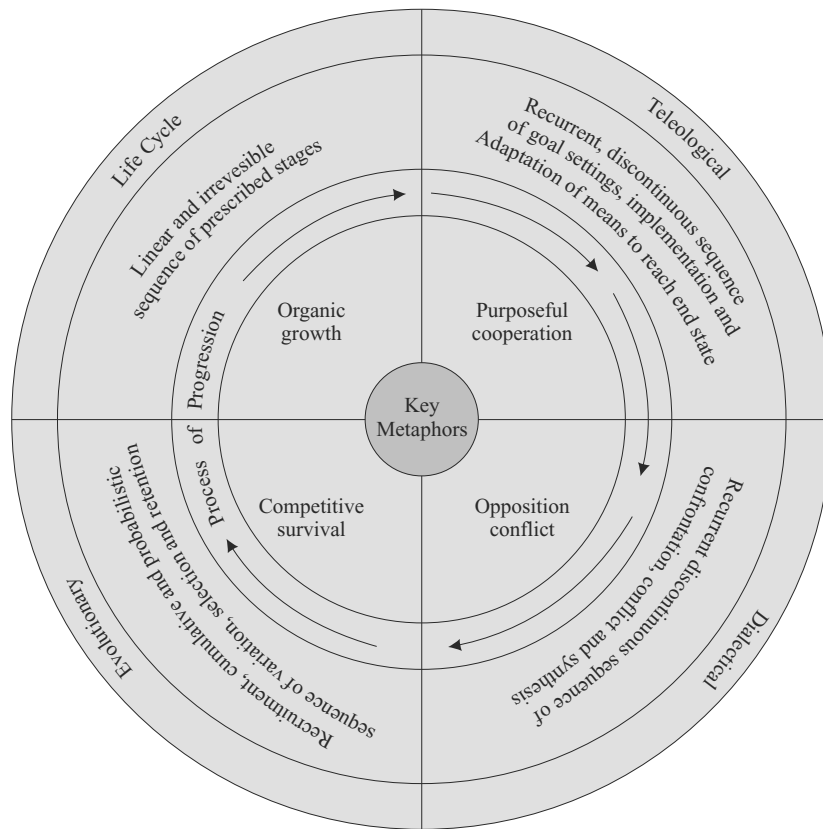
## **THEORETICAL FRAMEWORKS OF ORGANISATIONAL CHANGE**

Theories on organisational change are numerous. Some theories emphasize internally driven change (Van de Ven and Poole, 1988), while others emphasise externally driven change (McKelvey, 1982). In order to provide an integrated approach to the theories on organisational change, Van de Ven and Poole (1995) reviewed the literature extensively and identified 20 different theories of development and change across 200,000 titles and

200 articles (cf. Burke, 2002). In order to organise the same, they clustered them into four prototypical theories or primary schools of thought. These are—Life cycle theory, Teleological theory, Dialectical theory and Evolutionary theory.

### Life Cycle Theory

According to this school of thought, an organisation follows a single sequence of stages or phases, which is cumulative (characteristics acquired in earlier stages retained in the later stages) and conjunctive (the stages are related in such a way that they derive from a common underlying process) (Van de Ven & Poole, 1995). The basic assumption in theories based on life-cycle school of thought is that any organisation is like a living organism. As an organisation undergoes change, it passes through stages/phases in both its structure/form and function somehow, maintaining its identity throughout the process.



**FIG. 1.2** Four Process Schools of thought of Organisational Change

Source: Adapted from Burke, WW (2002) Theory and Practice of Organisational Change, Sage Publications.

Greiner's (1972) model of organisational development follows the life cycle theory, by positing five stages in an organisation's life cycle:

1. Creativity (it is the starting up phase)
2. Direction (the phase where more focus is required)
3. Delegation (the phase in which the organisation grows larger)
4. Coordination (this is the phase of differentiation of functions, need for integration within the organisation)
5. Collaboration (the phase where the organisation becomes a total entity by working together effectively in collaboration)

Other theorists whose models are based on the life-cycle school of thought include Adizes (1979) and Kimberly and Miles (1980).

### **Teleological Theory**

With the basic assumption being that an organisation is purposeful and adaptive; those theories that get categorized under teleological school of thought are firmly rooted in teleology. Thus, organisational development may be viewed as heading towards some goal or end state. With respect to teleological theory, Van de Ven and Poole (1995) stated that—

*“Proponents of this theory view development as a repetitive sequence of goal formulation, implementation, evaluation, and modification of goals based on what was learned or intended by the entity”* (p. 516).

This school of thought views organisational change as a result of change in its goals and purposes and considers this process as ongoing and iterative, with an organisation never attaining a permanent equilibrium or being static (Burke, 2002).

Examples of the applications of teleological theory include establishing organisation mission statement, listing a set of goals, planning different strategies and so on.

### **Dialectical Theory**

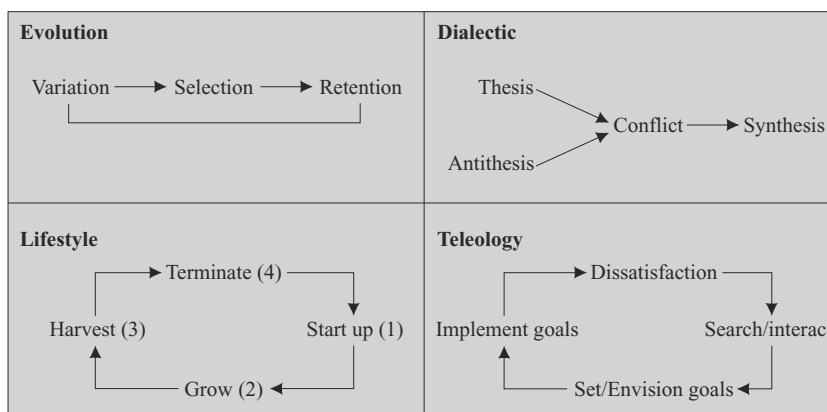
Van de Ven and Poole (1995) state the basic assumption with this school of thought as organisations exist in a pluralistic world of colliding events, forces, or contradictory values that compete with each other for domination and control. The reason behind the organisational change is collision between two different viewpoints followed by some kind of resolution. Though the resolution is always desired to lead towards some creative synthesis of the two different positions, often in reality, the resolutions might take the form of hostile takeovers or acquisitions.

### **Evolutionary Theory**

The basic assumptions of this school of thought are that organisational change is an ongoing and evolving process, and organisation change proceeds according to a continuing cycle of variation, selection, and retention among organisations competing for resources in a specific environment. Such change parallels biological evolution and

thereby its name. Van de Ven & Poole (1995) explain it further as competition for scarce environmental resources between entities (organizations) inhabiting a population (particular environment) that generates this evolutionary cycle.

Recent literature has included two more theoretical frameworks on which models explaining organisational change may be based. These are the social **cognition theory** and the **cultural theory**. According to the social cognition theory, all organisational members may not comprehend the organisational reality in the same way. It refutes a single view of organisational reality and is gaining popularity amongst researchers as such a theory helps them explain change in ambiguous environments. The cultural theory helps to blend the assumptions of social cognition and dialectical models and focuses on the irrationality of organisations.



**FIG. 1.3** Process Theories of Organisational Change

Source: Adapted from Van de Ven, A.H., Poole, M.S. (1995) Explaining development and change in organisations. *Academy of Management Review*, 20(3), pp. 510–540.

Broadly, one may find that organisational change theories make implicit or explicit assumptions regarding what an organisation is and its relation with its environment. Dooley (1997), Hage (1999) and Haveman (2000) have articulated this relationship for some organisational theories that have impacted the change literature. As Branch (2002) has delineated, an organisation may be viewed as:

- ◆ An ‘organism’ that adjusts or evolves in response to fluctuations or contingencies in the environment and simultaneously influences its environment. In stable and certain situations, mechanistic organisational forms are appropriate, but in unstable and uncertain markets, an organic organisational form is more appropriate.
- ◆ An entity that must adapt to its environment through testing in a Darwinian sense—firms with inferior structures and/or practices die in a resource

constrained competition and both planned and unplanned variations are introduced in a cycle of variation-selection-retention.

- ◆ An institution influencing and influenced by its context (Powell and DiMaggio, 1991).
- ◆ Defined by its ability to change its information processing capabilities. Because of bounded rationality, heuristics are seen as dominating organisational decision making and thus organisational change approach.
- ◆ Political, that is, those departments or occupations that handle the major contingency facing the organisation will become the dominant coalition and exert their power to maintain dominance. A variant of this is resource dependency theory.

### Theories of Change at the Individual Level

The way organizational change can be accomplished has often involved theories of change at the individual level. Bennis et al. (1985) in “The Planning of Change”, have categorized change mechanisms into strategies—empirical-rational, educative strategies, normative/persuasive strategies, and power-coercive strategies to bring about change in people. Meyer et al. (1990) proposed the concept of mimetic strategies that are used to induce change by providing examples, models and instances of change.

In their attempt to mimic scientific theories, the prevailing paradigms of management theories have held on to reductionism, determinism and equilibrium as the principal factors, discerned organisation as a machine and have promoted an autocratic style of management and total authority over the workplace. Recent times have, however, seen the contemporary management practices attempting to adopt an organic view emphasising on organisation-environment interactions, teamwork, motivation, adaptability, change and learning (Wheatley, 1992; Morgan, 1986). Early works by Mayo (1933), McGregor (1960), Likert (1961) and Trist (1981) inter alia, have laid the foundation for necessary attention towards a balance between the technical side and the human side of organisations.

Later Robertson and Seneviratne (1995) researched on changes in technology and physical settings with reference to how organisational change may be accomplished. They introduced the concept of organisational work setting to describe the grouping of organisational arrangement and social factors into a category. Other researchers such as Beckhard and Harris (1987) have emphasised the need for intervention strategy to be driven by vision and strategy.

Lewin’s (1951) model of change process has provided the required framework for other researchers to build on subsequent models/theories of organisational change. Lewin also identified three ways that lead to organisational change:

- ◆ Change the individual workers, implying change at the individual level.
- ◆ Change various organisational structures and systems.
- ◆ Change the organisational climate, implying the interpersonal style.



The critical aspect of framework was to point out the centrality of change at the individual level, thereby recognising the importance of individual in an organisation, the resistance to change, and effective leadership that might affect the change process.

According to Beer and Nohria (2000), about 70 per cent of all change initiatives fail. The reason behind such failures is that managers, often get inundated with multiple initiatives, lose focus and get immersed in the pile of text available in print and online that is to “aid” them to carry on the change. Though every organisation’s change initiative involves a unique process, these researchers gave forward two theories, in which most of the corporate change may be categorised and studied—Theory E and Theory O. As both these theories of change achieve the management’s goals, either explicitly or implicitly, the models based on these theories are also valid.

Theory E views organisational change from the context of changing the economic value of the organisation. The strategies that are involved take a hard approach to change, by giving prime importance to the shareholder value and considering it to be the only legitimate measure of corporate success. Such change, hence, includes a high usage of economic incentives, drastic layoffs, downsizing and restructuring (Beer and Nohria, 2000). The organisations operating in the US economy often follow this theory.

Theory O views change to be based on organisational capacity. The organisations based on such lines do not focus solely on their stock prices but indulge in a soft approach to change. The goal is often to develop organizational culture and human capability through individual and organisational learning. These include the process of changing, obtaining feedback, reflecting, and making further changes. Such an approach to change is adopted by corporate houses operating in the Asian and European economies.

However, it is important to note that few companies subscribe exclusively to one theory and often their practices follow a mix of both the theories. Companies that can effectively combine both the hard and soft approaches to change can reap big payoffs in profitability and productivity. These companies are likely to achieve a sustainable competitive advantage. These can also reduce the anxiety that grips the whole society in the face of corporate restructuring (Beer and Nohria, 2000).

### BOX 3

#### **R&D RESTRUCTURING IN THE PIPELINE (will integrate its R&D center in India with that of Dunlop Tyres International of South Africa)**

Apollo Tyres Plans to restructure its research and development (R&D) activity. The company will integrate its R&D center in India with that of the newly acquired Dunlop Tyres International of South Africa. The move is to streamline, channelise and synergies R&D activities of the group, focusing on new areas such as better radialisation technology. Apollo Tyres has acquired Dunlop Tyres International of South Africa for Rs 290 crore in Jan 2006.

Source: *Business Standard*, Jul. 11, 2006

**Table 1.2** Comparison of Theories of Change

Theories	Dimensions of Change					
	Goals	Leadership	Focus	Process	Reward System	Use OD Consultants
Theory E	Maximise shareholder value	Manage change from the top down	Emphasise structure & systems	Plan & Establish programmes	Motivate through financial incentives	Consultants analyse problems & shape solutions
Theory O	Develop organisational capabilities	Encourage participation from the bottom up	Build up corporate culture: employees' behaviour & attitudes	Experiment & evolve	Motivate through commitment-use pay as fair exchange	Consultants support management in shaping their own solutions
Theory E & O Combined	Explicitly embrace the paradox between economic value and organisational capability	Set direction from the top & engage people from below	Focus simultaneously on the hard (structures and systems) and the soft (corporate culture)	Plan for spontaneity	Use incentives to reinforce change but not to drive it	Consultants are expert resources who empower employees

Source: Adapted from Beer M. & Noharia, N. (2000). Cracking the Code of Change, Harvard Business Review, 78 (3 May-June), 133–141.

Change strategies may be seen as rooting from two different models of behavioural change (Sapienza, 1995). According to the first model, behavior may be seen as a function of attitude, with attitude change seen as driving changes in behaviour which implies that if attitude is changed, behaviour will follow (Lewin, 1958). The second model views behavior as a function of context, with changes in context seen as driving changes in behaviour which implies change the context and behaviour will follow (Branch, 2002). Although the change literature has been divided on the precedence of one over the other, later research call for a balanced approach. In Branch's words, "... *that employs mutually reinforcing interventions, tailored to the particular circumstances and history of the organisation, to change both attitudes and context is likely to be the most effective in creating the desired change*".

Other theories of organisational change in the change literature include life-cycle and growth stage theories (Adizes, 1999; Greiner, 1967, 1998) that emphasised on predictable life stages of an organisation that drive change and create change management demands; cultural change (Cameron and Quinn, 1999; Burke and Trahan, 2000) that incorporates both learning theory and action research (Argyris and Schon, 1978; Argyris, 1993; Wheatley, 1992); participation/engagement theory (Strebel, 1998; Heifetz, 1994; Holman and Devane, 1999) and theory of disruptive change (Christensen and Overdorf, 2000). Organisational change has also been examined from the perspective of human resource management (Abrahamson, 2000), organisational communication (Morrison and Milliken, 2000), cognition (Greve and Taylor, 2000) and from a critical notion of "change" (Leana and Barry, 2000; Chia, 1999; DeCock, 1998).

Forwarding their ideas on the effect of cultural change on the overall organisational change, Burke and Trahan (2000, p.207) said, "*The executives and companies that succeed in the 21<sup>st</sup> century business environment will be visionary, culturally inclusive, environmentally sensitive, and attuned to balancing the need for ethics with profit.*"

Cameron and Quinn in their book 'Diagnosing and Changing Organisational Culture' (1999 p.1) also asserted the importance of culture and analysed that "*The failure rate of most planned organisational change initiatives is dramatic ...Several studies reported that the most frequently cited reason given for failure was a neglect of the organisation's culture. In other words, failure to change the organisation's culture doomed the other kinds of organisational changes that were initiated*".

Argyris and Schon (1978) researched on organisational learning and theories of action in order to justify effective organisational change. In their book, Organisational Learning: A Theory of Action Perspective, the authors described the theories of action as, "*All human beings—not only professional practitioners—need to become competent in taking action and ,simultaneously reflecting on his action to learn from it ...All deliberate action had a cognitive basis, that it reflected norms, strategies and assumptions or models of the world which had claims to general validity. As a consequence, human learning, we said, need not be understood in terms of... but as the construction, testing and restructuring of a certain kind of knowledge. ...*".

Applying such a line of thought to understanding organisational learning, it might be understood as the testing and restructuring of organisational theories of action. In the organisational context as in the individual one, one must examine the impact of models of action theories, upon the capacity for kinds of learning.

Furthering the concept of learning theory and action research in the context of organisational change, Argyris (1993) in 'Knowledge for Action: A guide to Overcoming Barriers to Organisational Change' said (p. 244–247), "... *the model for change that is in good currency—and which was originally developed by Lewin—requires some revision*". It is possible to produce actionable knowledge for changing organisational defense routines. The rare changes can be created in such a way that they will persevere using action strategies (such as advocacy, evaluation and attribution coupled with/without illustrations and encouragement of inquiry of testing).

Summarily, one can infer that organisational change is a broad and multidimensional area of research in the organisation theory. While organisational change literature is replete with organisational change theories that are based on Lewin's framework of change process, the emergence of the organisational theory based on complexity theory has enabled in widening the scope of looking at organisational change. Not only new ways of examining and theorizing organisational activities and views on the social organisational processes, it has enabled analysis of the discontinuous, disruptive and emerging patterns of change in organisations. As per the complexity theory, non linearity is a key phenomenon which has to be taken into consideration while researching change as the underlying structures to the social and natural systems recognize that all changes are disruptive and fluid in nature and remain in the state of discontinuity and flux. Following this line of thought, it is then highly imperative to understand that organisational change cannot be implemented in a stepwise manner, as it is a continuous and vision-governed adaptation to external changes and emerging conditions (Styhre, 2002).

Complexity theory when applied to organisational change underlines that organisational change has to keep in mind that fact that it has to operate with a moving target whose durability is highly elusive. The change process thus must consist of fluid, emergent series of events whose components are derived from multiple sources. The bottom line is to remember that what is of great relevance for an organisation change activity at one one point of time may at the next moment be completely obsolete.

In the words of Styhre (2002), "*Complexity theory suggests that changes are produced on the basis of multiplicity of interconnected causes and effects whose relationships are complicated to conceive of from within the analytical framework assuming linearity.*"

As a result when organisational change is explained using complexity theory framework, it accepts interruptions, breaks, points of departure, disruption in flow of energy and information which constitute, facilitate or obstruct organisational change. Obviously, this theory does not subscribe change to be uni-dimensional process rather it assumes it to take place amidst disruptive temporary conditions and interconnected activities.

From the foregoing it is evident that organisational change literature includes a number of perspectives and theories on change. Some of the key perspectives, approaches and models of organisational change will be presented in the following chapters.

## ■ ■ Summary

This introductory chapter provides a comprehensive perspective on organisational change and describes types of this change. Various forces, external as well as internal, influencing organisational change have also been explained. The external forces of organisational change include globalisation, global meltdown, political factors, technological changes, economic factors, environment management, inclusive growth, new media, cyber security issues and security threats. The internal forces which trigger organisational change include system dynamics, structure-focused change, technological change, inadequacy of administrative processes, individual/group expectations, person-focused change, resource constraints, profitability issues, creating strategic flexibility, need for autonomy and flexibility for employees, intrapreneurship/entrepreneurship within the organisation, safety and security of employees, unethical practices, if any, and need for strategic excellence. The types of organisational change discussed in this chapter include incremental and intrinsic change, extrinsic and revolutionary change, patterned and predictable change vs. complex and unpredictable change, and duality or bipolarity of change. The chapter also explains theoretical frameworks, viz., Life Cycle Theory, Teleological Theory, Dialectical Theory, Evolutionary Theory, and Theories of Change at the Individual Level. Examples of firms which have undergone change have also been provided to explain the concepts.

## ■ ■ Questions

1. Describe the types of organisational change.
2. How do external forces influence organisational change?
3. Throw light on prototypical theories of organisational change.
4. Differentiate between Theory E and Theory O. How do these impact organisational change?

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# 2

## Perspectives on Organisational Change

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### **INTRODUCTION**

Organisational change has been studied from multiple perspectives at micro and macro levels. It is one of the many perennial issues in organisation and management theory (Huff and Huff, 2000). This chapter focuses on its macro perspective.

### **ENVIRONMENT-DEPENDENT ORGANISATION PERSPECTIVES**

The undercurrent in the change literature reflects the basic idea that organisations' internal activities and operations are dependent and determined by the external environment. Such perspectives perceive organisational change as a function of external environment and posit a link between an organisation's internal practices and mechanisms, and the outside world. Based on this line of thought, we hereby discuss some of the mainstream perspectives on organisational change—contingency perspective, resource dependence perspective, population-ecology perspective, institutional perspective, evolutionary perspective and adaptation perspective.

### **Contingency Perspective**

The contingency perspective focuses on the changes related to the structure of the organisation. Structure may be broadly described as the way in which the organisation breaks down a complex task into individual activities and integrates these separate activities to achieve its purpose. Structure is usually described through its two major dimensions—specialization and integration.

Specialisation refers to the number and variety of activities that make up individual jobs in the organisation. Specialisation may also be referred to as the division of labour. In organisations, there are usually horizontal and vertical divisions of labour. Integration refers to the various ways and means of coordinating the work of individuals in the organisation. This is implemented through ways such as direct supervision, systems, and goals, plans and targets, rules and procedures. Such coordination is necessary to

prevent chaos and to bring about uniformity and standardisation in organisational activities. Coordination hence helps in enhancing quality and increasing effectiveness and productivity of the organisation. (Nilakant and Ramnarayan, 1998).

Organisational change, which inevitably involves restructuring, is brought about by effecting change in these two dimensions of organisational structure. The organisation's management usually initiates such change. The structural contingency perspective of change is primarily concerned with issues of job specialisation and coordinating mechanisms in organisations. It maintains that the appropriate structure depends on a set of factors that include size, technology, strategy and environment of the organisation. The main idea here is that most effective or appropriate structure is the one that is in 'fit' or alignment with its contingency variables. Misfit results when there is some kind of change in one or more contingency variables and since misfit affects organisational performance, a change is required. It can be said that any change in size of the organisation or strategy or environment or acquisition of a newer technology necessitates a change in organisational structure in order to ensure effectiveness.

With focus on the relationship between change and environment, this perspective gives high importance to two components of the environment—complexity and stability. Complexity refers to a number of different organisations operating in the same environment. When the number is low, the environment is a simple one; and when there are many competitive organisations, the environment is considered to be a complex one. Stability refers to the rate of change in the other organisations operating in the same environment. When the rate of change is slow, the environment is considered to be stable; and when the rate is rapidly high, the environment is considered to be unstable. The higher the level of complexity and instability, the higher the level of uncertainty.

Studies have found that when the rate of change is low, the external environment is stable, rules, procedures and a clear hierarchy of authority, characterise the organisation; decision-making is centralized and the organisation follows a top down approach. Such organisations are known as mechanistic organisations. On the other hand, when the organisation operates in a rapidly changing environment, internally the organisation adopts a more flexible, free flowing and adaptive approach. Such an approach is characterised by decentralised decision-making, more reliance is on task forces and teams for coordinating activities and the living system approach. This type of organisation is known as an organic organisation.

Contingency perspective, however, has been criticised on the perspective's consideration. It takes into consideration only two variables at a time such as environment and structure, size and structure, and so on. In order to deal with such a criticism, a concept called *configurational* approach has been advanced in recent years wherein the contingency variables are clustered together. These clusters, known as configurations, are jointly dealt with, when deciding upon an appropriate structure.

## Resource Dependence Perspective

For any organisation to survive, it needs to acquire resources from the environment. This is the basic theme of the resource dependence perspective. According to this perspective external stakeholders have control over the organisation. A look at the organisation's power structure at the top level reveals the external stakeholders' prominence in controlling the organisation. The evidence of resource dependence is reflected in management control, resource allocation, regulation, fund raising and so on. It is, therefore, implicit that the dependency on the groups and organisations in the environment, that have control over its resources, is high. This, in return, increases the vulnerability as well as the uncertainty of the organisation.

This perspective focuses on reducing the dependence on the environment by adopting a series of strategies and attempts to influence and control the environment. The entire process has a political undercurrent providing it momentum. While putting forward this perspective, Pfeffer and Salancik (1978) have distinguished between internal and external strategies that the organisation adopts to bring about the desired change summarised in Table 2.1. Internal strategies are aimed at adapting and changing the organisation to fit the environment; external strategies are aimed at changing the environment to fit the organisation. They further identified seven internal strategies and five external strategies for its everyday implementation.

### BOX 1

#### INDIA CEMENTS TURNS AROUND (reports a profit after tax of ₹45.31 crore)

India Cements Ltd (ICL) has reported a pre-tax profit of ₹40.41 crore (before extraordinary income) for 2005–2006. The company reported a loss of ₹58.82 crore in 2004–2005. The profit after tax, including extraordinary income of ₹9.57 crore, was ₹45.31 crore. Sales and other income were at ₹1,836.69 crore (₹1,402.30 crore). The company has achieved a turnaround through financial restructuring. The company is swapping its high cost debts with low cost funds. ICL is also upgrading its existing plants at an estimated cost of ₹345 crore. The company is planning to grant 15 lakh equity shares to eligible employees under the Employee Stock Option Scheme.

Source: *The Hindu*. Jun 14, 2006; p. 16

## Population-Ecology Perspective

Population-ecology perspective critiques the contingency perspective. This perspective refutes the contingency perspective on the basis of the following points:

- ◆ Leaders might not possess adequate information about the environment.
- ◆ The assets of the organisation might be suited to the current organisational needs.
- ◆ Political resistance to change may be present within the organisation.
- ◆ The firm may have financial and legal compulsions which may come in the way of its entry or exit from present markets/industries.

These, among others, are critical blocks for the contingency perspective to be put

**Table 2.1** Strategies of Resource Dependence Perspective—Pfeffer and Salancik

<b>INTERNAL STRATEGIES</b>	<b>Domain Choice</b>	A strategy of venturing into a new market/industry to minimise uncertainty
	<b>Recruitment</b>	Appointing people from the external organisations who can facilitate dependence on these organisations
	<b>Environmental Scanning</b>	Scanning the environment for trends, patterns, and changes to sensitize the organisation for anticipatory changes and prepare these to respond to environmental changes
	<b>Buffering</b>	Strategies for safeguarding the organisation’s production process from fluctuations in demand. These include variety of activities like having many suppliers, maintaining inventory, preventive maintenance, offering discounts etc.
	<b>Smoothing</b>	
<b>EXTERNAL STRATEGIES</b>	<b>Rationing</b>	
	<b>Geographical Dispersion</b>	Relocating the business to other parts of the country to take advantage of differences in costs/concessions or to be closer to customers/markets
	<b>Advertising</b>	Enhancing visibility to maintain/enhance market share
	<b>Contracting</b>	Establishing long-term contracts with suppliers to reduce uncertainty
	<b>Co-opting</b>	Inducting experts/people of reputation from outside into the board of directors to provide expertise and enhance company’s image
	<b>Coalescing</b>	Involves joint ventures, mergers, and strategic alliances with other firms
	<b>Lobbying</b>	Influencing regulatory bodies like the govt. to formulate policies and action that facilitate interests of the organisation

Source: Developed Summary of Strategies from Pfeffer, J., & Salancik, G.R. (1978). *The External Control of Organisations: A Resource Dependence Perspective*. New York: Harper and Row.

into practice. The population perspective, therefore, came up with a newer concept wherein they advocated studying a population of a multitude of organisations rather than focusing on only one organisation.

Population refers to organisations in a particular sector that occupies an ecological niche in the environment which, in turn, provides resources for the organisation. The environment hence can be seen as a system consisting of multiple niches. Organisations, in order to survive in their niches, have to keep developing distinctive capabilities such as skills, patterns of behaviour and management systems suited only for their specific niches. However, some organisations are unable to develop their distinctive capabilities and do not get the required resources from the population and fail to survive. Similarly, certain new organisations are born, creating their niche, thereby, affecting the population.

In order to get an insight, it would be helpful to study population of organisations in a niche (sector wise) where more than one organisation dealing with the same services/goods/products is studied. In order to explain such a phenomenon, theorists propounding this perspective have given forward three associated concepts. These are three types of processes that lead to change—variation, selection and retention. Variation subsumes all those processes that lead to differences in the organisation in terms of strategy, structure, systems, skills and culture. Variations are brought about by management action or could be a result of chance. In selection, organisations that have the required features are selected whereas those who do not, die. Retention refers to those processes that help the organisation to retain the features that are needed by the environment. In case of change, these features may get discarded or modified. So in order to bring about a change, (from this point of view) this perspective involves analysing one's organisational niche, examining its viability to survive for long, developing appropriate strategy to allow future transition to other niches and finally to formulate a change programme to allow for the same.

This perspective does not deal with the role of managers in organisational change or in adaptation with environment. Too many players in the same niche can lead to fierce competition and low margins thereby depleting the resources of an organisation in a niche and making its survival difficult.

### **Institutional Perspective**

The institutional perspective gives special relevance to the social norms, values and culture of the environment in which the organisations operate or thrive. These constitute the institutional environment of the organisation and are given more importance than the markets and competitors under this perspective. These are also called symbolic elements that often affect the strategies and the structure of an organisation to attain conformity. Since legitimacy is always sought after, organisations often work on their strategies and structure so as to conform to the lawful norms and standards constituting the institutional environment. Such conformity allows access and availability of the necessary resources.

#### **BOX 2**

##### **KINETIC AIMS FOR TURNAROUND BY SEPTEMBER 2007 (through utilisation of its idle capacity in the motorcycle units to manufacture automotive components)**

The Kinetic group aims at a turnaround by September 2007 with the restructuring of its business undertaken recently. It proposes to utilise its idle capacity in the motorcycle units to manufacture automotive components. Kinetic Scooters has launched an Italiano series 165 cc scooter, Blaze. The vehicle is priced at ₹49,999 in an ex-showroom in Delhi. The company is targeting the sale of 35,000–40,000 units and revenue of ₹180 crore in the next one year. It proposes to launch two scooters by December 2006. Kinetic Engineering intends to launch two 100 cc motorcycles in 2007.

*Source: Auto Monitor. Jun 30, 2006; p. 8*

DiMaggio and Powell (1983) define institutionalisation as a process through which organisations adopt specific structures because of the external legitimacy that the structural elements have with external constituents. In due course, the organisations resemble each other as a result of processes of isomorphism (organisational change as a result of copying one another, by complying with laws and regulations and through the influence of professionals within the organisations). These may be broadly classified under the terms of coercive isomorphism, mimetic isomorphism and normative isomorphism. Their characteristics have been described in the Table 2.2.

**Table 2.2** Types of Isomorphism

	<i>Characteristics</i>
<b>Coercive Isomorphism</b>	Organisational change to comply with government legislations and regulations; structural features adopted due to pressures from the state, other organisations or society at large.
<b>Mimetic Isomorphism</b>	Organisational change by imitating other organisations; (features are adopted by copying/imitating other successful organisations in order to cope with pressure from sources such as force, legal compulsion, funding pressures) and legitimizing and to obtain legitimacy.
<b>Normative Isomorphism</b>	Organisational change through influence of professional managers/specialists; structural features adopted as a result of pressure from the state to reinforce the power of professional bodies (who train and socialise organisational members to adopt certain organisational forms).

*Source:* Developed from DiMaggio, P. & Powell, W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organisational fields. *American Sociological Review*, 48, 147–160.

As explained in Table 2.2, the institutional perspective inherits a basic argument that an organisational structure may not or does not necessarily support the work that goes on in the organisation. With respect to intra-organisational structure, institutional implications of change imply an emphasis on appropriate organisational structure. In their relationships with other organisations and in their internal structuring, organisations attempt to resemble other organisations that have external legitimacy by attempting to change their existing structure and adopting a structure similar to other organisations in the industry.

Hence, in short, it can be said that the institutional perspective stresses on the idea of a direct link between change and learning. It advocates that adaptive organisational change is often the result of conforming through various methods such as imitation or mimicry, conformity to norms and socialising influence of professionals, in addition to market pressures. Apart from legal compliances the organisations may adopt benchmarking to implement internal change.

## Evolutionary Perspective

Organisational theorists and researchers propounding the evolutionary or life cycle aspects of organisational phenomena view evolution as a process of successive differentiation and integration (Park and Krishnan, 2003). Broadly, there exist three different organisational evolution frameworks:

1. Ecological models emphasising on change across populations of organisations as the result of net mortality driven by processes of environmental selection (Hannan and Freeman, 1989; McKelvey, 1982)
2. Adaptation models emphasising incremental change and moving equilibrium, as more effective organisations adapt to environmental threats and opportunities (Aldrich, 1979)
3. Transformational models emphasising metamorphic changes in organisations (Miller, 1982)

Tushman and Romanelli (1985) developed a model of organisational evolution and asserted that organisational evolution occurs through the interaction of internal convergent forces for stability and external forces for change as mediated by executive leadership and one must recognise these forces to understand organisational evolution (Park and Krishnan, 2003). The case of Reserve Bank of India in the latter part of the book is an appropriate example of evolutionary perspective.

Hannan and Freeman (1989) asserted that inertia is generated as a result of an organisation's internal structural arrangements. As the organisations grows old, these inertial pressures increase so as to increase the organisation's stability over time. On the negative side, such inertia also creates resistance towards change and helping the organisation to avoid the liability of newness. Instances of external pressures, cost cutting, and informational, political and historical constraints restrict organisational change. Evolutionary perspective emphasises that to face the inevitability and uncertainty of change, intra-organisational structures must ensure fitness of subsystems. Inter organisational structural change follows the same basic mechanism as intra-organisational change. Carroll (1984), describing the evolutionary perspective on inter organisational structure, argued that concentration increases through death of large generalists; as specialists can occupy open niches and use the concept of "survival of the fittest" to explain organisational structural change. Recent versions of the evolutionary perspective have included elements of adaptive perspective, as well as blended elements of voluntarism with determinism.

In the recent organisational change literature, the perspective that has held a dominant position is the adaptation perspective. This perspective emphasises voluntarism and views the phenomenon of organisational change as occurring in the following way. Organisations scan for the relevant organisational environment, formulate strategic responses to environmental change, and attempt to adapt to changing environmental contexts in order to ensure organisational survival (Park and Krishnan, 2003; Miner, 1994). The perspective implicitly assumes that the organisation is a learning organisation. The organisation learns what their environment is, and which organisational



design features work best in their particular environment (Park and Krishnan, 2003; Daft and Huber, 1987).

The adaptation perspective includes variations of contingency, resource dependence, organisational strategy, institutionalisation and organisational learning theory (Park and Krishnan, 2003). Theorists adhering to this perspective, while discussing its implications for change relate organisational effectiveness and survival to adaptive and flexible structural arrangements (Miles and Snow, 1978). In the opinion of Park and Krishnan (2003), “an efficient adaptation often results from an innovative change or transformation of intra- and inter- organisational structure” (p. 267).

Organisational adaptation is a dynamic process (Hrebiniak and Joyce, 1985) and though adaptation perspective gives more importance to humans and organisations than environment, a better understanding would emerge by considering both the environment and human and organisations.

## **PROCESS ORIENTED PERSPECTIVES**

Process oriented change perspectives/models which address organisation’s changing cultural and human systems using technologies are grounded in theories from behavioural sciences (Burke, 1994). These perspectives are different from the strategic planning models that are frequently primary, if not the only focus of many organisations’ change efforts (Beer, 1994; Goodstein et al., 1993). Effective and successful organisational change incorporates and manages both these perspectives concurrently (Champy, 1995; Kanter et al., 1992). Three important process-oriented perspectives, which exemplify significantly different conceptualisations of how change affects organisation as classified by Siegal et al. (1996), are:

### **Patterns in the Change Process**

Change is typified by certain patterns that affect organisations similarly (Lewin, 1958; Schein, 1987.) Lewin’s model of change process is one of the most powerful models on human systems. The fundamental description of change, as presented by Lewin (1958) has been incorporated into many organisational models (Tichy et al., 1977) in their attempts to understand and direct the process of systemic change. In his model, Lewin has provided three stages to bring about change in any system—unfreezing, changing and refreezing.

Unfreezing is the process by which people become aware of the need for change and efforts are thus made to ‘unfreeze’ current behaviour. Changing means to move from the current state to the future desired state. It may include change in behaviour or attitude, resulting in organisational shake-ups. The aim is to move in positive direction and may include the techniques of restructuring, changes in roles and change of jobs. Freezing involves stabilizing new behaviour and the ways of freezing may include awards, recognition, rewards and so on.

Schein (1987) has further developed Lewin’s three-stage process model and thereby provided an example of a contemporary approach to organisational change. For Schein,

unfreezing is the process of creating motivation and readiness for change. In general, there are three ways of accomplishing this—disconfirmation, introduction of guilt or anxiety, and creation of psychological safety.

The second step for Schein ‘changing’ (for cognitive restructuring), is akin to movement in Lewin’s model. This is the process of helping people to see things differently and react differently in the future. Changing can be accomplished by identification with a new role model, mentor, boss or consultant, which enables one to see things from another’s viewpoint or by scanning the environment for new and relevant information. The third step, refreezing involves integrating the change process through personal refreezing and relational refreezing.

### **Impact on Organisational Identity**

Organisations are challenged to maintain their entities and identities throughout the transition (Beckhard and Harris, 1987; Duck, 1993). Beckhard and Harris (1987) focused on the importance of transition state through which the organisation must navigate in order to evolve from its present state to its desired future state. Members of an organisation first realise their dissatisfaction with the current state and then identify a desired future state, thus describing the new role, function or structure that the organisation needs to adopt. To manage this transition effectively, Beckhard and Harris recommend creating a transition management team (TMT) composed of leaders who are respected by the organisation and have wisdom, objectivity and effective interpersonal skills. This team must also have resources and clout to manage the change process. They further recommended activity planning as a mechanism for creating a detailed roadmap of all the tasks that must be accomplished during the transition state in order to achieve the desired future state.

Duck (1993) expands on Beckhard and Harris’ approach, highlighting the dynamic nature of change and the importance of an effective transition management team (TMT) composed of people who report directly to the CEO and can commit all their time and effort to manage the change process. From Duck’s perspective, for successful change to occur it is critical for the TMT to manage the dynamic aspects of change, not just the individual pieces of it. The cornerstone of this process is effective communication, throughout the whole organisation. In addition, the TMT must be responsible for managing the emotional connections that are essential for the successful completion of any transformation (Kanter, 1983).

### **Impact on Individuals**

Change affects the individuals within an organisation more fundamentally than it does the organisation as a whole (Bridges, 1986; Jick, 1990).

The third set of approaches to change concerns the experiences of individuals in the change process. Jick (1990) and Bridges (1986) focus on the psychological adjustment that individual members of an organisation must make during change. These authors elaborate a frequently overlooked aspect of organisational change—the impact on the individual. Bridges presents a three-part individual transition process that accompanies

Lewin's three stages of change. The first stage involves letting go of one's old situation and identities. The second stage is described as the neutral zone, where organisational members move through a period of ambiguity and contradiction as they search for a new framework and identity that cause to establish themselves in the hanging environment. Following Kubler–Ross (1969), Bridges asserts that the new beginning or final stage of transition cannot occur until the various loss experiences in the first two stages are acknowledged, accepted, and resolved.

## **ALTERNATIVE PERSPECTIVES**

Though the interest in transformation has been widespread, the most common area/focus of interest of studying it has been for economic reasons. The perspectives that have been put forward are often based on competitive and economic lines to explain the rapid change at the organisation and industry-wide level. Issues such as the bottom-line effects of transformation, increased performance and profits at reduced costs have been the main impetus behind investments in transformational processes.

Management literature is replete with discussions about the need for individual, organisational, and societal transformation. The common thread running through them justifies transformation at the individual, organisational and societal levels as the need to keep pace with the increasing rapid change. Individual change demands managers and leaders to be proactive, adaptive and flexible to the constantly shifting organisational demands. Organisations, in turn, must transform in order to keep pace with shifting global marketplace, increased competition and the rapid acceleration of change. Societal transformation is required in order to deal with the unsolved social problems, severe degradation of environment, various inequalities, among various other reasons.

Recent literature, however, has brought change in looking at transformation from this narrow lens and the growing stream of research is looking at alternate perspectives. These perspectives assume that the core benefits of transformation are not limited to economic benefits.

### **Transrational/Spiritual Perspective**

According to this perspective, individuals, organisation as well the society on the whole looks forward to non-material, spiritual qualities while seeking transformation. At the individual level, this entails increased attention to personal meaning and transformational leadership to integrate personal development and awareness in everyday work (Whyte, 1994). Similar inferences may be drawn at the organisational level, based on the landmark longitudinal study conducted by Collins and Porras (1997) on 18 companies that have been leading in their respective areas for about five decades. The researchers found that core, non-economic beliefs and values and an empowering culture rather than just bottom line drove these organisations to succeed. In economic terms, it was seen that these companies had out-performed their competitor companies by 16 times. Similar results were found by Peter et al (1982) in their research on 'excellent' companies.

In their paper ‘Spiritual perspectives on individual, organisational and societal transformation’, Neal et al (1999) put forward a comprehensive spiritual perspective that encompassed transformational processes at different levels of analysis—the individual, the group (organisational) and the societal levels.

At the organisational level, they described transformation vis-a-vis transrational logic resulting in corporate change. According to Neal et al (1999), organisational transformation by nature is non-rational and non-linear and thus displays similar characteristics as individual transformation. Organisational change often looks different when seen externally and appears to follow orderly the logical steps towards transformation. However, when explored internally, a different model emerges.

To identify the experiential qualities of major corporate change, the researchers designed a project to explore the moment of transformation by consultants. These consultants had successfully supported organisations in top management teams, business units and companies. In order to understand the commonalities between theory and practice in organisational change, the practitioners chosen for research were individuals who had also developed specifics of organisational transformation, which they used as guide in their practice. The practitioners used their theory to diagnose and design the initial stages of the change process (their theory provided a rational logic for pushing the organisation to the brink of transformation, and the theory offers logical tools to support the overall effort).

Qualitative analyses of the results of the study showed that though spirituality was not at the core of any of their theories, these organisations which had undergone transformation, had been affected by some factor that could not be explained through rational logic. The practitioners expressed this actual “cause” of transformation in terms of “grace”, “magic” and “miracle” which could not be scientifically or logically explained. In their attempt to explain such a phenomenon, the researchers gave the theories of chaos and self-organisations. These theories often merge rational with trans-rational logic to provide new ways to model the non-linear, complex behaviour of dynamic systems. The researchers further suggested that chaos and self-organisation could link with more mainstream theories to provide an explanation for the non-material elements of organisational transformation. These theories could integrate the deductively logical and non-linear aspects of the process, through understanding the dynamics of far-from-equilibrium dynamic systems.

Though there was a logical framework that produced rational actions in the first stage of an intervention effort, at a critical threshold it was non-linear logic and spontaneous felt action (‘magic’, ‘grace’, and ‘miracles’) that actually supported the organisational transformation (Neal et al., 1999).

Other researchers have also asserted similar views and have endorsed new and different management paradigms. Hench (1998), for example, has identified a new model of experiment, serve, self-organise and learn in a way that a new view of management advocating “a continuous learning process for creating meaning and value through service with and for others” can come about. Banner and Gagne (1995) have put forward new assumptions of a transformational paradigm, which include—‘everything is

connected', 'the whole organises the parts', 'we are co-creators of life', 'harmony and integration follow alignment with life' and 'paradigm shift is now'. Based on these assumptions, they created a transformational model in which society is organised in a way that the level of cause is shifted to the individuals and the elements of organisational structure or social context that emerge are based on long-term social interactions. This model sees social transformation, not as a product of economic benefits to culture, but the individuals' and organisations' shift to spiritual principles and issues. Theorists, advocating the spiritual perspective hence underline that the transformation is a non-linear and non-rational process. Neal et al (1999) put it succinctly—

*“..there are invisible fields of thought and reality that affect us in everyday world. We must, indeed, transform our understanding of research, data collection, and knowledge. We propose that the management field will benefit greatly from incorporating spiritual perspective into our theories as well as in our research and theory development process”.*

### **Vedic Science Perspective**

The term 'Vedic Science' was given forth by Maharishi Mahesh Yogi (1994) in his effort to reformulate the immemorial vedic worldview (predominantly residing in India), in scientific terms of rational, systematic and empirical approach. He explains organisational transformation through this approach. Vedic science perspective attempts to provide a holistic approach by synthesising the classical (top-down approach of planned change) and quantum (living/learning systems approach or bottom-up approach) paradigms of organisational change. According to this perspective, the classical planned change approach and the learning organisation approach to organisational change are incomplete as they fail to identify a common unifying basis for the organisation.

The classical and quantum paradigms of organisational change may be understood as focusing on the objective aspects of an organisation. Druhl et al., (2001) describe it as, “the objective aspect of an organisation is found in its stated objectives and its structure. The structure has been defined by its administrative units, its business processes, its positions and roles.”

As this aspect of an organisation appears to be independent of the observer, and is clearly defined and spelt out every time, therefore, can be viewed as objective. The proponents of mechanistic design of the organisations consider this to be the most important. Therefore, top-down approach to organisational change involves modification of the structural elements and stable processes with the help of an outside consultant. Druhl et al., posit that the bottom-up approaches and their paradigm of the learning organisation deal with relationship between the objective, structural aspect of the organisation and also the subjective aspects of its individual members. In this perspective personal development is considered important and is given attention, but it is viewed in the context of the organisation's structure, and in relation to the individual's contribution to the organisation's objectives.

In order to deal with such lopsided approaches to organisational change, vedic science perspective includes a holistic approach to organisational change and development, to necessarily include a scientific account of and approach to the subjective aspect of the organisation, represented primarily by its individual members. According to this perspective, a complete understanding of organisation, organisational change and the corresponding successful strategy of change will emerge only when the usually missing element of subjectivity is included. This subjectivity in the arena of organisations and social relations refers to the individuality of the organisational members. Individuality in turn, does not just imply the member's behavioural aspects but also includes his/her inner nature, his awareness or consciousness, the inner wakefulness which perceives, the subjective screen on which position, role and interaction are seen and from which these are organised (Druhl et al., 2001).

The perspective of vedic science explains that the primary constituent of reality is actually a field of universal intelligence or consciousness, which is by nature completely abstract, unbounded and omnipresent throughout time and space. Maharishi Mahesh Yogi (1968, 1988, and 1994) further explains that the subjective aspects, found in individual human intelligence and consciousness are reflections of this universal intelligence, conditioned by human physiology. Human physiology determines and is influenced by the quality of individual awareness (Druhl et al., 2001). This connection may be extended to include units of social organisation and corresponding units of collective consciousness. The quality of collective consciousness of each group influences the functioning of the group and in turn is influenced by the quality of individual consciousness of the group members.

According to Druhl et al., (2001), the field of consciousness then may be considered as organised at distinct levels corresponding to the levels of social organisation. These levels are:

- ◆ The level of individual consciousness or awareness (most specific to the individual and coordinated closely with individual physiology).
- ◆ The level of collective consciousness for the organisation (shared by and coordinated with its individual members, clients and owners).
- ◆ The level of collective consciousness for the cities, nations and the entire world.

Thereby, vedic science holds that the activities within an organisation are organised on their deepest level, and with greatest effectiveness, in these levels of collective consciousness. Social interactions and communications, when in line with the coherent functioning of collective consciousness, help by steering the deeper processes to the levels of consciousness. This helps to translate the process results into action, thereby proving that they are most effective and beneficial.

In relation to the transformation of an organisation, vedic science attempts to address the subjective aspects of organisations, for it itself is the science of subjectivity. In order to deal with the structural and behavioural aspects of the organisation, vedic science holds a vision of integrated organisation, in which the diverse interests of its

members, shareholders and clients, as well as the interests of society and the environment, are spontaneously harmonized (Druhl, 2001). Such integration is the product of organisational collective consciousness or the “organisational consciousness” as termed by Harung (1999). This state of integration symbolises the state of maximum long term broad-based efficiency and a developed organisation combines this with economic success and environmental dynamics.

## ■ ■ Summary

This chapter provides multiple perspectives on organisational change at macro and micro levels. Environment dependent organisational change perspectives are based on the premise that organisational operations are dependent on and are determined by its external environment. The environment dependent organisational change perspectives include contingency perspective, resource dependence perspective, population-ecology perspective, institutional perspective, evolutionary perspective and adaptation perspective. The process-oriented change perspectives are grounded in behavioural theories and consider the change impacting individuals and the organisation. The alternative perspectives discussed in the chapter explain the change which is made by adopting transrational/spiritual perspective and Vedic science perspective which focus on non-materialistic and spiritual aspects and impact an individual, a group and society. Comparisons have been made between transrational change and transformational change using theoretical and practitioners’ perspectives.

## ■ ■ Questions

1. What is environment-dependent organisation perspective? Discuss its classifications.
2. Compare contingency perspective with institutional perspective.
3. Highlight the salient features of trans-rational/spiritual perspective and its impact on organisational performance.
4. Compare the top-down and bottoms up paradigms of organisational change.

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# 3

## Models of Change

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### INTRODUCTION

Organisational change, a vibrant force in the current scenario of rapid developments, is an inevitable feature of organisational life. The environment within and outside the organisations is changing at an ever-increasing pace, creating the need for faster response to the environment and eventually for deep seated transformations within the organisations themselves.

### RECENT APPROACHES TO ORGANISATIONAL DEVELOPMENT AND CHANGE

Several models of organisational change have been developed by researchers. Two contrasting models of change are the “trickle down” model vs. “identity search” model. The former is termed as Sanskritization in Sociology, which means following the examples of the elite group. According to this “trickle down” model of organisational change occurs because top management takes a decision and adopts new ways (technology, systems, structure etc.) and others follow it. According to the latter, the “identity search” model, the urge to develop one’s own uniqueness and identity will make the group or individuals accept change. These two models correspond to the kind of approach the organisation adopts viz., the top-down (classical) approach and the bottom-up (living systems) approach.

Thus the approaches to organisational change may broadly be classified into two categories:

◆ ***The Top Down Approach: the classical paradigm***

An organisation comprises of functional areas viz., production, sales and accounting etc. Directives from the top management drive these areas through defined paths of command and control. The underlying assumption here is that, ***management needs to push hard to sustain change***. This approach broadly adopts the following steps (Binney and Williams, 1997):

- Developing a vision
- Communicating the vision
- Top management determination

- Planning and programming
- Adopting the best practice

◆ ***The Bottom Up Approach: the systems paradigm***

This paradigm views organisations as systems that get affected by environmental changes. Also known as the living-systems approach, the organisation here is considered to be a “learning” organisation, with multiple feedback systems between its various sub-systems. Here, ***change is considered as an ongoing process*** that occurs naturally when an opportunity is present and need not be driven externally.

Summarily, the characteristics of the systems approach are:

- ◆ Organisations need to be studied in relation to the contextual environmental factors such as structure, size, technology and leadership patterns (Smircich, 1983, p. 344)
- ◆ Organisations are composed of several interdependent subsystems; a change in one/more part(s) affects the entire system (Sisaye, 2005)
- ◆ Organisations are purposeful and comprise individuals, groups/teams, structures, systems and policies (Beer, 1980)

Such systems allow for individual learning as well as greater social interactions. Here, the leader is more than the provider of clear vision and aids in the change process by facilitating, identifying and directing the emerging patterns of behaviour and thinking (Binney and Williams, 1997). The other common features of this approach can be summarised as:

- ◆ Assumptions such as organisations are adaptive, dynamic, flexible, self-organising, and interdependent
- ◆ Leader is democratic (releasing the potential for change) not autocratic (driving change)
- ◆ Recognition of the need for both change and stability
- ◆ Focus on the current reality in addition to future orientation
- ◆ Understanding and respect for the distinctiveness of each organisation and its own specialised need for change
- ◆ Interdependency of the different subsystems within the organisation and their influence on each other.

As delineated by Nadler (1981), there are four main intrinsic organisational subsystems that are functionally interrelated, which promote congruity and system maintenance among team members, in terms of tasks, individuals, formal structures, and a set of informal organisational arrangements (that deal with communication, power, influence, values and norms).

Since organisations exist in a constantly evolving external environment, certain changes in their systems, structure, strategy, function, procedures and day-to-day activities are required to attain equilibrium, to preserve their systemic characteristics and to grow and adapt to environmental changes. The environmental control (that is

the interaction between an organisation and its environment) often manifested in the forms of competition, bargaining, co-optation or coalition, necessitate the management to initiate changes or to alter goals. Work teams are often employed to prepare strategic plans and develop missions and goals to align organisational resources with changing requirements of the external environment.

According to the systems approach, organisations need to pursue both process and structural intervention strategies simultaneously to bring about changes effectively. Process intervention strategies work on changing people's behaviour, culture, attitudes, interpersonal and inter-group interactions, as well as organisational communication styles and flow of information (Beer, 1980). These strategies facilitate team work, cultural change and system maintenance in the organisation. Structural intervention strategies target changing the components of organisational systems such as the organisation and job design, reward systems, performance management systems and accounting control systems. Both the process and structural intervention strategies need to be simultaneously handled to ensure effective team characteristics, functions, cultural interactions, and structural aspects of management systems. The systems approach to organisational change is rooted in the principles of OD process and structural intervention strategies. OD as viewed by Porras and Silvers (1991) is a change program designed to create a better fit between the organisational capabilities and its current environmental demands or promoting changes that help the organisation to better fit predicted future environments.

For an organisation to respond effectively to environmental changes, it has become essential to improve the functional performance abilities of management control systems. The advent of growth in international competition has given prominence to the importance of cost as a competitive tool and the need to undertake changes in organisational structures and systems (Sisaye, 2005). As a result, new organisation structures and processes, cost cutting and changes in the cost structures associated with sales and production have come about which demand effective teams to manage organisations. This need has been further reinforced by the prospects of organisational growth as a result of acquisitions and diversification strategies, technological boost and structural changes. The management control systems may be seen as OD-oriented strategies with functions systemic and purposive functions, to institutionalize cultural norms of managing teams and to address the cultural, social, political-power control issues within the organisation.

According to Sisaye (2005), systems analysis may be used to show the synergetic effect between OD and management control mechanisms to manage team effectively. Systems analysis suggests that formation of teams in an organisation is developmental and system-integrative, since team members from several cross-functional areas manage complex tasks that have a broader, organisation-wide scope.

Another way of analysing change models is to look at the external or internal forces as determinants of changes. The adaptation model emphasizes the role of external factors (a new government policy, competitive environment) in producing change in

organisations (more emphasis on quality, restructuring etc.) According to the proaction model, the explanation comes from within the organisation (the decision of the organisation to set an example, to be a leader, to anticipate future) as actions and change itself in response to such an internal urge.

Yet another explanation of organisational change may lie in an emphasis on the structure or the process. Successful change, according to the structure model, would require preparing the necessary structural details (technology, design of the organisation and systems) and introduce these systematically. People will also change. According to the process model, successful change can be planned by helping people to develop process competencies (ways of planning, decision-making, problem solving, collaborating, communicating etc.) and then people will find new ways of organising etc. From the process-oriented perspective, organisational change may look at patterns in the change process, challenges to organisational identity and/or impact of change on individual members. That is, change may be typified by certain patterns that affect organisations similarly (e.g. Lewin, 1958; Schein, 1987); change may also be analysed as organisations being challenged to maintain their entities and identities throughout a transition (Beckhard and Harris, 1987; Duck, 1993). Change affects the individuals within an organisation more strongly than it does the organisation as a whole and may be investigated using such a lens (Bridges, 1986; Jick, 1990).

For greater understanding, some of the change models that have held relevance and existed over a span of time, have been described in the later chapters. The models have been categorised depending upon their nature of change, analysis and treatment into three groups:

- (a) Process-based models
- (b) Content-based models
- (c) Integrated models

## **PROCESS BASED CHANGE MODELS**

The focus in the process models is on the actual steps—the ‘how’ of organisational change process. These models deal with the sequence of steps involved in bringing about change in an organisation and with interventions related to it.

### **Lewin’s Model of Change**

This model is one of the early models of planned change. According to Lewin (1975), change underlies the modification of those forces that keep a system’s behaviour stable. The level of behaviour at any point of time is the resultant vector of two vectors—one aiming towards maintaining the status quo, and the other striving for change. When these two forces balance each other equally, the current behaviour is maintained, which Lewin calls the quasi-stationary equilibrium. According to Lewin, change in a system, hence, can be induced by either increasing the forces for change or decreasing the forces maintaining the current state or by applying a combination of both.

In this model organisational change affects three levels—Individual level, Structure and Systems level, and Organisational Climate level, which have been explained as under:

- ◆ Individual level (change affecting individual's attitude, beliefs, values, skills and behaviour)
- ◆ Structure and systems level (change affecting incentive system, information systems etc.)
- ◆ Organisational climate (change affecting leadership styles, interpersonal relationships, decision-making)

In order to provide a basis for change at all these levels in an organisation, Lewin's model consists of the following three critical steps:

### ***Unfreezing***

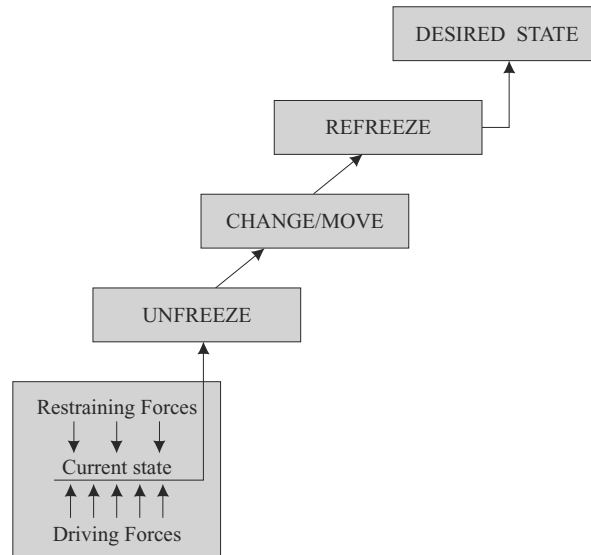
This involves reducing forces that maintain the organisation's present behaviour. This may be accomplished at the individual level by disconfirming individual's present behaviour. The individual here may be given information that reveals incongruity between the behaviour desired by organisational members and his/her current behaviour. At the systems level, new and more effective designs such as matrix management etc. may be demonstrated to initiate change. At the climate level, survey feedback methods may be used to understand and feel about certain management practices. The purpose of unfreezing is to heighten the awareness of employees about discrepancies currently prevailing in their behaviour, the system and the organisational climate, and attune them to the need for change.

### ***Changing/Moving***

This refers to the shift in behaviour to a new level resulting in the development of new behaviours, values and attitudes in individuals through changes in the organisational structure and processes. The changes initiated must be perceived as solutions to problems identified during the unfreezing stage. This often leads to organisation shake-ups. Organisational change may include restructuring, change of roles and change of jobs.

### ***Refreezing***

This is the stage where the organisation stabilises and achieves a new state of equilibrium and a preferred behaviour. It is often accomplished through the use of various support mechanisms, all aimed at reinforcing the new organisational state. The new state is made relatively secure against change until the next cycle of change is planned. The different ways to freeze behaviour in organisational members may include awards, recognition, rewards and demonstration of benefits to individuals.

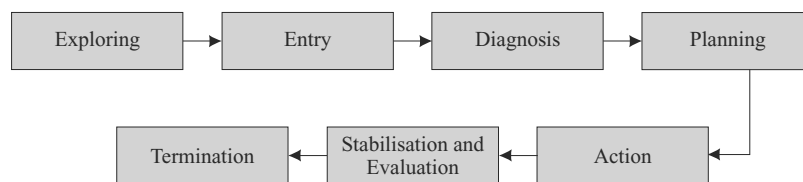


**FIG. 3.1** Process Model of Organisational Change

Source: Developed from Lewin.K. (1975) *Field Theory in Social Science*, Greenwood, West, Port, CT.

### Planning Model

Initially proposed by Lippit et al. (1958), the planning model was later refined after modifications by Kolb and Frohman (1970). This model has often been employed in bringing about planned change in organisations. The planning model proposes seven-steps for change. That is, there should be free and open sharing of information between the organisation and the change agent and this information must be such which can be translated into action. The planning model can be understood through the Fig. 3.2.

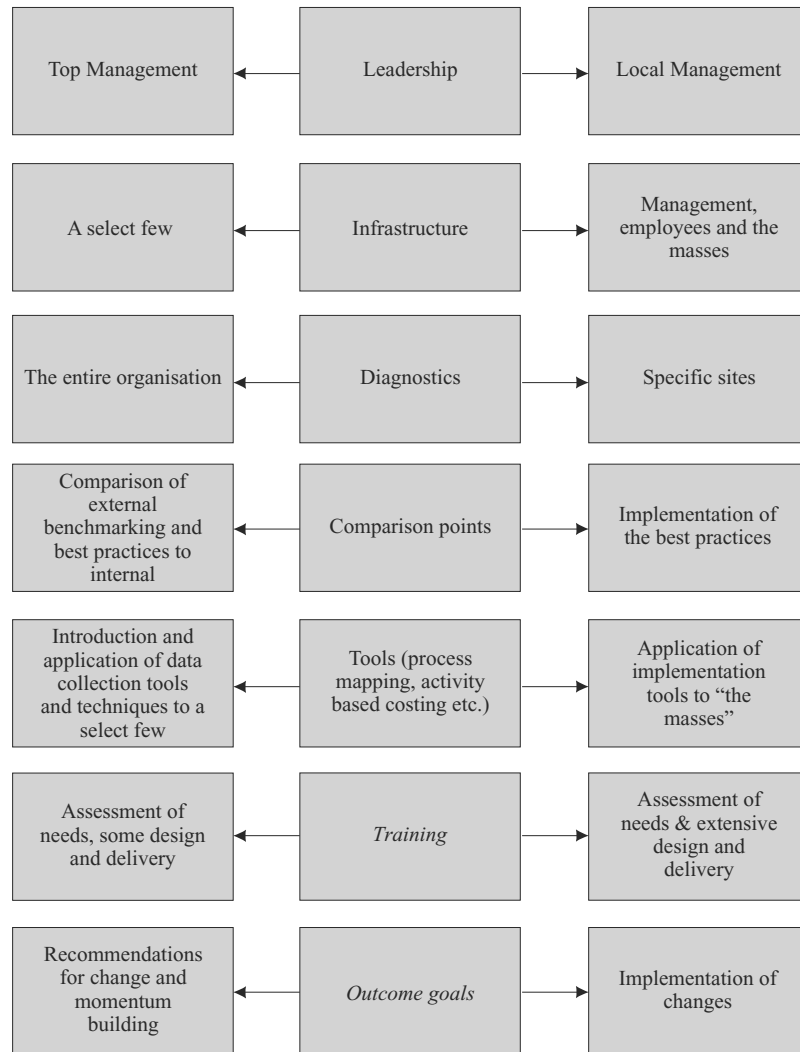


**FIG. 3.2** The Planning Model

Source: Developed from Kolb, D., & Frohman, A. (1970). *An Organisational Development Approach to Consulting*. Sloan Management Review, 12, pp. 51–65. Lippit, R., Watson, J., & Westley, B. (1958). *The Dynamics of Planned Change*. Harcourt Brace, New York.

In this model planned change goes through a series of steps. As the first step organisation and change agents jointly explore the need for and the areas that require change. Thereafter, they develop mutual contract and mutual expectations. This is followed by identification of specific goals toward improvement. As change cannot proceed

effectively without handling resistance, identification of the actual and possible reasons of resistance to change are worked out and planning is done for specific improvement goals. Implementation of steps identified in planning is the next stage followed by decision-making for termination of the system or to begin another.



**FIG. 3.3** The Differences between Strategic and Grassroots Change

Source: Adapted from Galpin, T. (1996). *The Human Side of Change: A Practical Guide to Organisation Redesign*. San Francisco: Jossey-Bass.

### Model of the Change Management Process

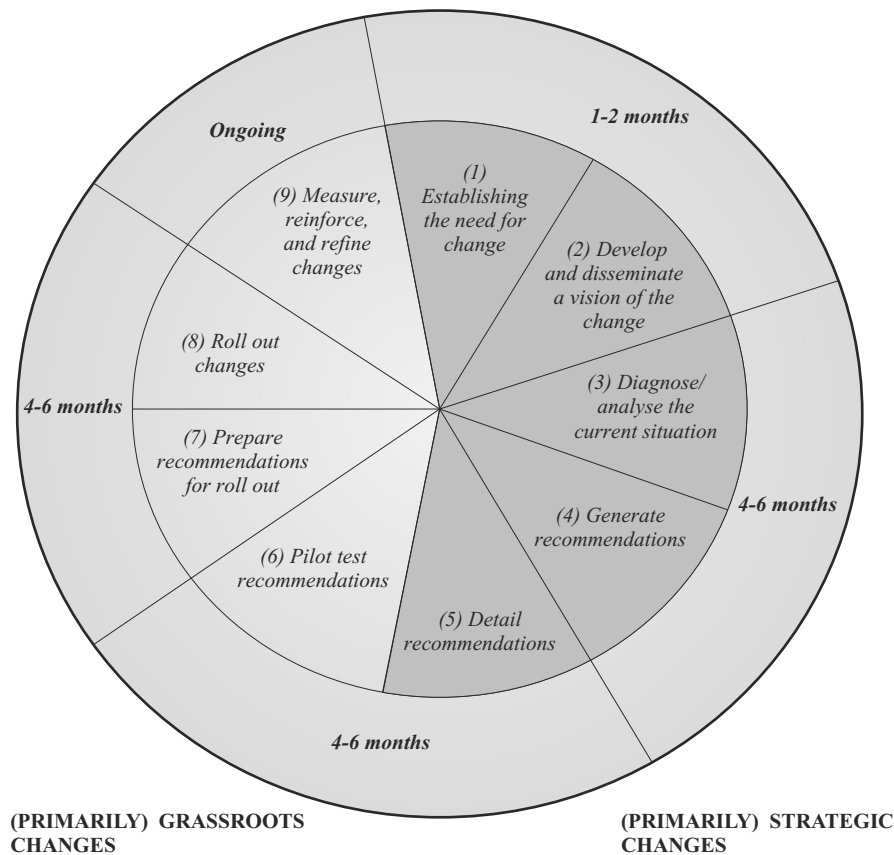
Galpin (1996) proposed the model of the change management process which provides guidance for successfully implementing change. In his view a successful organisational change effort must target two levels—the strategic level and the grassroots level.



Strategic change refers to the up-front, initial effort involving executives, senior managers, a small cadre of employees and often consultants, who provide an outside view (Galpin, 1996). This kind of change is broad and organisation wide and involves two primary goals—a technical or analytical goal (involving generation of recommendations for change) and a “soft side” goal (involving creation of momentum for change).

Grassroots change is the effort that drives change deep into an organisation by stressing implementation at the local level. The primary goal here is to implement and sustain desired changes.

Change does not usually occur in one leap but often entails several key stages along the way. Figure 3.4 depicts a change process through nine stages for creating and implementing change. The nine stages require management within an organisation to understand and apply the characteristics of both strategic and grassroots changes.



Note: The stages described in gray are primarily strategic changes and the stages depicted in black are primarily grassroots changes.

**FIG. 3.4** The Model of the Change Management Process

Source: Adapted from: Galpin, T. (1996). The Human Side of Change: A practical Guide to Organisation Redesign. San Francisco: Jossey-Bass.

The early stages require greater application of the changes characterised by strategic nature. During the early stages, senior management establishes a need and develops a vision for change and a select few analyse the current organisation, formulate recommendations, and detail them for testing. The later stages call for a greater application of characteristics of grassroots change.

More people horizontally and vertically across the organisation are involved during pilot testing and roll out, as middle managers and supervisors are needed continually to measure and reinforce the changes being tested and rolled out in order to ensure successful implementation.

### ***Stage 1: Establishing the need for change***

This stage involves identifying and articulating the need to change so as to help people understand why changes are required. The rationale for change is thus included along with the consequences of not changing. Gathering the supporting facts, advocating and defining the need for change helps in underlining the reasons for change.

### ***Stage 2: Developing and disseminating a vision of the change***

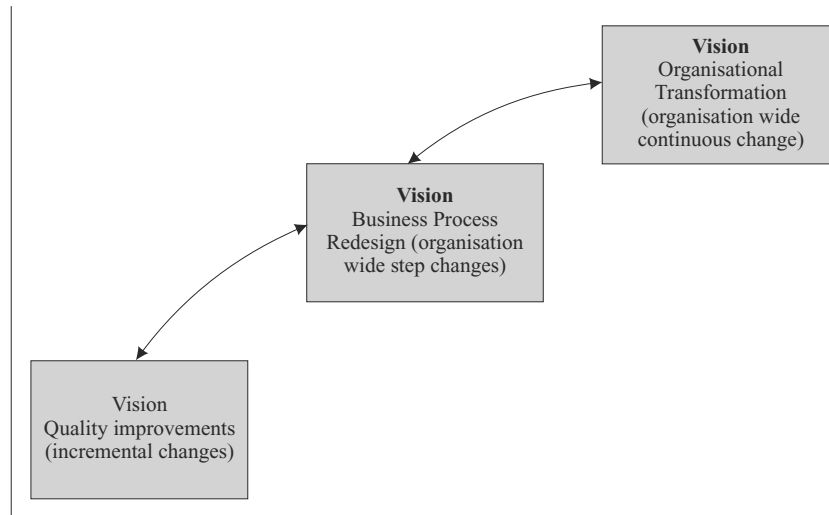
This stage is imperative for establishing the organisation's picture as a consequence of a successful change process. People at this stage require a clear vision of where the organisation seeks to go and hence the vision needs to be expressed in a way that allows for all organisational members to understand and relate to it and see their roles in achieving it. The vision thereby must be attainable and who get involved in developing it depends on the scope of the change.

A vision for wide organisational efforts is developed by senior leaders and more narrow visions are developed at the division or operating unit levels as shown in Fig. 3.5.

The development of the vision must be followed by discontinuation or change throughout the organisation so that management and employees can understand and accept it. A number of methods may be used ranging from announcements to an interactive and personal approach. A combination of the two approaches—"cascading" the vision is used most of the time.

### ***Stage 3: Diagnosing/analysing the current situation***

The current processes of the organisation are analysed and diagnosed and the observations are compared with the desired change as per vision. With the help of numerous techniques and tools, this stage may be accomplished and is characterised by the broad applications of various diagnostics and analytical exercises (such as cost benefit analyses, cycle time analyses). The analysis helps to build a comprehensive picture of the current processes/areas of the organisation being examined. It helps in three ways:



**FIG. 3.5** Developing Vision for Organisational Change

Source: Adapted from Galpin, T. (1996). *The Human Side of Change: A Practical Guide to Organisation Redesign*. San Francisco: Jossey-Bass.

- (i) It highlights processes that can be improved by streamlining, eliminating, consolidating and automating (This often leads to the next two stages—generating ideas and making recommendations).
- (ii) The data may be used to support the need for change.
- (iii) The information can be used as a baseline data when assessing the impact of changes that are later implemented.

The analysis stage is the time to initiate the elements of grassroots changes in the processes by involving employees/seeking their assistance in data collection, participation in survey, interviews, focus group discussions or meetings.

#### **Stage 4: Generating change process recommendations**

At this stage, ideas are raised to improve, eliminate, combine and develop new processes. Foraying into creativity, best practice comparisons and benchmarking are often sources for operating in new ways. Employees should be involved to add to the creativity through participation in written surveys, interviews or focus groups, thereby reinforcing the process of grassroots change.

#### **Stage 5: Detailing recommendations**

This stage includes consideration of details such as costs, hardware and software availability, and training needs. It is in this stage that the merits of the ideas are evaluated on the basis of their cost effectiveness, implementation time and technology availability.

**Stage 6: Pilot testing**

At this stage, grassroots changes become essential since improvements are tried out within the organisation. Pilot testing might not encompass the entire process but is often useful in fine tuning improvements before making organisation-wide changes.

**Stage 7: Preparing recommendations for roll out**

Here the feedback obtained during the previous stage is used to finalise recommendations for rollouts. This period may also be used to develop a more 'market ready' product for the organisation.

**Stage 8: Rolling out changes**

At this stage, a roll out schedule must be developed, materials and equipment lined up as it would facilitate conducting training as grassroots change gains paramount importance. Options here range from spread out multi-phased process (which extends over time to a 'kick off') characterised by a short time frame as all affected areas of organisation go online at once (Galpin, 1996).

**Stage 9: Measuring, reinforcing and refining changes**

This stage involves consolidating the grassroots changes through measurement, reinforcement and refinement in order to achieve the intended results. Refinements are based on obtained feedback and are essential for enhancing the effectiveness of implemented changes and achieving the desired results.

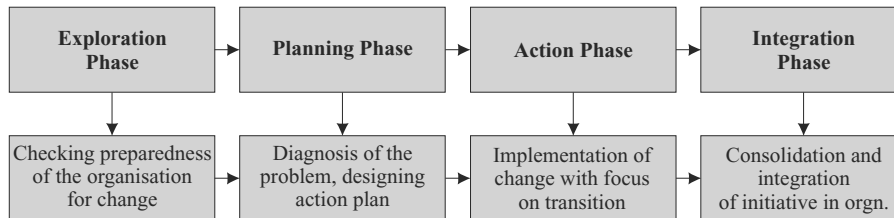
**Integrative Model for Planned Change**

Bullock and Batten (1985) gave forward the integrative model to describe both the temporal states and the change processes involved in planned change. The integrative model for planned change is based on the principle that organisations exist in different states at different times. In view of this, planned change can take place from one state to another. There are four phases in this model ranging from exploration phase to integration.

**Exploration phase**

In this phase, the organisation explores whether it is prepared for specific change and whether it can commit its resources toward such change. This change process is often initiated by organisational members who are aware of the need for change. Hereby a search process begins wherein organisation development resources and assistance are sought followed by consultation of an organisation development expert. The change requirements are then assessed mutually by the consultant and the organisational members. The members make an assessment about the expert's capabilities and the consultant assesses the organisation's sense of commitment and readiness for change, and the availability of necessary resources. During this phase both sides settle the

terms of the work and clarify mutual expectations, cost and time factors and the rules of the consulting relationship so as to develop a collaborative relationship.



**FIG. 3.6** Bullock and Batten's Integrative Model of Change

Source: Developed from Bullock, R.J., & Batten, D. (Dec. 1985). It's Just a Phase We're Going Through: A Review and Synthesis of OD Phase Analysis. *Group and Organisational Studies*, 10, 383-412.

### ***Planning phase***

The planning phase involves diagnosis of the problem wherein the organisation collects vital information so as to analyse the functioning of the organisation, the sources of the issues/problems and to understand the resources that are committed toward organisational development. Here the consultant and the members work together to set goals for change and design action plan to bring about organisational change and improvement. The proposed changes require the approval of key decision-makers so that there is no problem faced at a later stage. Besides, the key decision makers have an overall perspective about the future strategies.

### ***Action phase***

In the action phase, the changes delineated in the planning phase are put into action and the processes required for transition are implemented. This stage focuses on transition of the organisation from the current state to a target state. For effectiveness of the initiative, the change activities are monitored and evaluated intermittently to assess the progress so that corrective measures could be taken to achieve the desired results.

### ***Integration phase***

On successful implementation and stabilisation of the change initiative in the previous phase, this phase aims at consolidation and integration of the initiative in organisational functioning. This is achieved by various reinforcements such as regular feedback, rewards and incentives. With successful institutionalisation of change, the contract with the organisation development expert is brought to a close. Also, plans are drawn to ensure that the new behaviour is maintained.

## Schein's Model of Change

Building further on Lewin's basic model of change, Schein (1987) extended the model to include newer concepts. The model has been explained below:

### **Unfreezing**

For Schein, unfreezing is the process of creating motivation and readiness for change. Unfreezing consists of three processes to generate change:

#### ◆ *Disconfirmation*

Broadly speaking, disconfirmation occurs when organisational members experience a need for change that, in turn, motivates them to embrace change. Schein believed that all forms of learning and change start with some form of dissatisfaction or frustration generated by data that disconfirm our expectations or hopes. Disconfirmation, irrespective of its source, functions as a primary driving force in the quasi-stationary equilibrium. Senge (1990) supports Schein by maintaining that some disequilibrium based on disconfirming information is a pre-requisite.

Disconfirming information however, might be ignored, dismissed or denied validity. For change to occur, the disconfirmation must arouse certain degree of survival anxiety. Survival anxiety means to have the feeling that change is necessary for one's needs, goals or ideals to be met. These goals, ideals or needs are set by the individual for oneself.

#### ◆ *Induction of Guilt or Survival Anxiety*

Induction of guilt or anxiety involves the perception and establishment of a gap between current dissatisfactory state and the desired future state. In order to feel survival anxiety or guilt, one must accept the disconfirmation as valid and relevant.

Most of the time, one is unable to do so as a result of learning anxiety. By learning anxiety, Schein means a feeling wherein if one allows him or herself to enter the learning or change process, one admits to him or herself and others that something is wrong or imperfect and that the individual will lose effectiveness, self esteem or even his identity. Learning anxiety, according to Schein, is the fundamental restraining force that can go up in direct proportion to the amount of disconfirmation leading to the maintenance of the equilibrium by defensive avoidance of the disconfirming information. Therefore, the key to bringing about change necessitates effective dealing of learning anxiety as this process would create a sense of psychological safety for the learner.

#### ◆ *Creation of Psychological Safety or Overcoming of Learning Anxiety*

This means providing an environment in which people feel safe enough to experience disconfirmation and induction. Schein explains that unless people feel psychologically safe and have survival anxiety, there will not be any disconfirming of the information and people will stick to their views and no change will take place.

According to him, “*The key to effective change management, then becomes the ability to balance the amount of threat produced by disconfirming data with enough psychological safety to allow the change target to accept the information, feel the survival anxiety, and become motivated to change*”.

### **Cognitive restructuring/redefinition**

Cognitive restructuring is the process by which a motivated learner learns something new, with reference to his thought processes, feelings, values and attitudes. The new information can have several impacts:

- ◆ *Semantic Redefinition*

Different meaning of words, that is learning words that can mean something different from what one sometimes assumes.

- ◆ *Cognitive Broadening*

Broader interpretation of a given concept, which means learning that a concept can be interpreted much more broadly than what one may assume.

- ◆ *New Standards of Judgment or Evaluation*

Different anchors of judgments and comparisons, that is learning that the anchors of judgments and comparisons are not absolute and there can always be other alternative anchors at any given point of time.

This new information invokes these impacts which are then absorbed through one of these mechanisms: positive or defensive identification with a role model or scanning the environment using a trial and error process (Schein, 1968).

### **Imitation and positive or defensive identification with a role model**

When the learner has become motivated to change that is unfrozen, and is open to absorption of new information, cognitive re-definition occurs. Acquisition of new information occurs through conversational processes wherein one realises that a concept may be interpreted in different ways than one’s own and hence one can adopt new perspective(s) that facilitates change. A common example would be brainwashing.

Socialisation processes recognise similar mechanisms as the key to apprenticeships; to mentoring and to meeting various other formal group-based indoctrination programs that the organisations use. The mentor is often both a source of psychological safety and the role model to facilitate cognitive redefinition (Schein, 1968; Van Maanen & Schein, 1979).

Defensive identification is a rare process that occurs when the learner is a captive in a hostile environment in which the most salient role models are the hostile captors. Though unfreezing creates the motivation to learn, the direction of learning cannot be controlled or predicted. The direction of learning depends on the nature of information and the saliency and influence of the role models. Hence, this model attaches a lot of value to the kind of role model available for learners.

However, if there is an absence of good role models or one wants to learn in a more genuinely creative way, the other possibility in such situations is scanning.

◆ *Scanning: Insight or Trail and Error Learning*

Here the learner searches, or scans by reading, talking to people, hiring consultants and so on so as to gather new information that provides solution to the problem. In such a situation, the new information might give the learner a feeling of being psychologically safe and he/she might experience a spontaneous insight to the solution. Change agents look forward to such experiences in the learners as such solutions are self-invented by the learner and hence are most reliable and stable for the learner himself.

Once some restructuring has taken place, these newly formed mental categories are tested with the new behaviour pattern that eventually leads to a period of trial and error. This leads either to reinforcement of the new categories or paves the way for a new cycle of disconfirmation and search.

◆ *Personal and Relational Refreezing*

The critical focus in refreezing is to remember that the new behaviour must be, to a certain degree, congruent with the rest of the learner's personality and behaviour patterns. Or else, it will bring into effect new rounds of disconfirmation, unlearning the things one has learned. Personal refreezing involves taking the new, changed way of doing things and fitting it into one's total self-concept. For personal refreezing to occur, it is advisable to avoid identification and encourage scanning. Relational refreezing involves integrating the new behaviour in interactions with significant others and the best way to do is to train the entire group that holds the norms that support the old behaviour.

## Action Research Model

Assuming that planned change is a cyclical process, this model proposes that organisations, in order to change, need to undertake research initially so as to have adequate information that may guide their future action. The results of the action are then assessed to provide information to guide further action and this cycle is repeated as an ongoing process. The eight steps elaborated by Cummings and Huse (1989) under this model are:

◆ *Problem Identification*

At this stage, a key executive senses the existence of problem(s) that can be alleviated with the help of an organisation development (OD) practitioner.

◆ *Consultation with an Expert*

Once the problem(s) has been sensed, it is understood that there is a solution to such problem(s), the help of an OD expert is sought.

◆ *Data Gathering and Preliminary Diagnosis*

Using various tools such as interviews, questionnaires, organisational-performance analysis, data is gathered by the OD consultant. The consultant works in collaboration with organisational members.



◆ **Feedback**

The gathered data is passed on to the key client/group to determine the strengths and weaknesses of the area under study, with the consultant providing the client all relevant and useful data.

◆ **Joint Diagnosis of the Problem**

After discussing the feedback, the group focuses on additional relevant research that might be required. The results of this additional research are then summarised and submitted to the group again so that they are validated for further diagnoses and identification of problem(s).

◆ **Joint Action Planning**

The consultant and the management team jointly agree on problem-solving methods. Depending upon the cultural, technological and work environment, specific courses of action are taken in order to solve the problem(s). At this stage, the time and cost of the intervention is also taken into consideration.

◆ **Action**

This is the stage at which the actual change from its present state to its desired state takes place and may involve installation of new methods and procedures, reorganising structures and work designs, or reinforcing new behaviour.

◆ **Data Gathering after Action**

New data is gathered again so as to determine the amount of change that has taken place vis-à-vis the effects of the action. This affirms the cyclical nature of the process. Further feedback is sought and based on this; situations are re-diagnosed and new action taken. Apart from bringing about change, this model helps the organisation in developing general knowledge that may be useful and applied across other situations.

## **MODEL OF EVOLVING MANAGERIAL INTERPRETATIONS OF CHANGE**

This model proposed by Isabella (1990) focuses on cognitive side of organisational life and has highlighted interpretative processes associated with organisational phenomena. This model is a departure from other models that view change as an organisational and managerial action to situations or events (Van de Ven, 1980). It is based on a collective interpretational portrait of key events, while at the same time acknowledging that enacted realities include multiple and varied realities (Smircich & Stubbart, 1985). Isabella used an interview data from 40 managers about past key events in organisations and explored how managers collectively viewed events over time and how in turn, these viewpoints affected the change process.

The model can be described as a sequence of four distinct stages through which interpretations progress—anticipation, confirmation, culmination, and aftermath. Each stage comprises a predominant frame of reference, interpretative task and construed reality. It is interesting to note that the process of transition starts with a trigger event and personalisation of the trigger moves one from one stage to another. The individual tries to analyse what the event meant to him, his job and in general.

In its various stages, the model attempts to capture the collective construction of events by managers and focuses on identification and description of the frames of reference they share during specific changes. The model, however, does not concentrate on detailing actions taken as a result of interpretations or on their direct effects on other's interpretations. Also, it neither details on the description of the interactional processes through which individuals come to share meaning.

Isabella (1990), on the analysis of data, found that “the process of managerial interpretation consists of rhythmic shifts in a construed reality as an event unfolds” (p. 31). Such a finding was in line with previous researches (Weick and Daft, 1983) that asserted the constant changes in construed reality as a result of new facts coming into light and new questions being asked.

The research work that underwent this model outlined the particular cognitive patterns that accompanied the change process. The model went on to suggest that the fundamental stages of change as outlined by Lewin (1947)—unfreezing, moving and refreezing—are accompanied by the interpretive tasks of assembly, standardisation, reconstruction and evaluation. It also emphasised that frames of reference are the predominant sense making devices for the organisations during the change process, as they act as the logic behind the cognition, that activation of these frames of reference organise the comprehension of event based situations.

When change occurs, an in-frame of reference is replaced by a conventional frame of reference, which makes way for amended viewpoints that act as evaluative frame of reference. “Initially, while people anticipate an event, they pull pieces of information together into a frame-in-progress. In preparation for the occurrence of change, they view the event from conventional viewpoints that allow them to know both what will change and how it will change, thus reducing uncertainty. Once the event has arrived, the thrust of cognition starts making sense of the new situation, always in comparison to the old, in the form of an amended or reconstructed frame of reference. Finally, refreezing seems to be associated with a broadening perspective and general learning about what the event meant and the end result is an evaluative frame of reference” (Isabella, 1990, p. 33).

Hence, unformed and tentative viewpoints become well-constructed and well-processed viewpoints for the collective interpretations of key events. As the individuals attempt to gather the fullest understanding of an event by moving through all the interpretive stages, they formulate an overall meaning for the event that has been enriched by the stages. While adding complexity to the research, the question of “What does an event mean?” leads to determination of a process of going through a series of interpretative stages as the most substantial conventional viewpoints are a result of a previous interpretive cycle that attempt making sense of a situation through all the four stages. The research underlying the model also pointed out that collective construed realities include both emotions and cognition, whereby personalisation of trigger events adds an affective dimension.

	Stage 1	Stage 2	Stage 3	Stage 4
Interpretive Stage	ANTICIPATION	CONFIRMATION	CULMINATION	AFTERMATH
Construed Reality	Rumours, scattered information and observations	Conventional explanations; references to past similar events	Double exposures; symbols	Consequences; strengths and weaknesses; winners and losers
Interpretive Task	Assembly	Standardisation	Reconstruction	Evaluation
Predominant Frame of Reference	In-progress	Conventional	Amended	Evaluative

**FIG. 3.7** Evolving Interpretation of Key Events

Source: Adapted from Isabella, L.A. (1990). Evolving Interpretations as a Change Unfolds: How Managers Construe Key Organisational Events. *Academy of Management Journal*, Vol. 33, No. 1, 7–41.

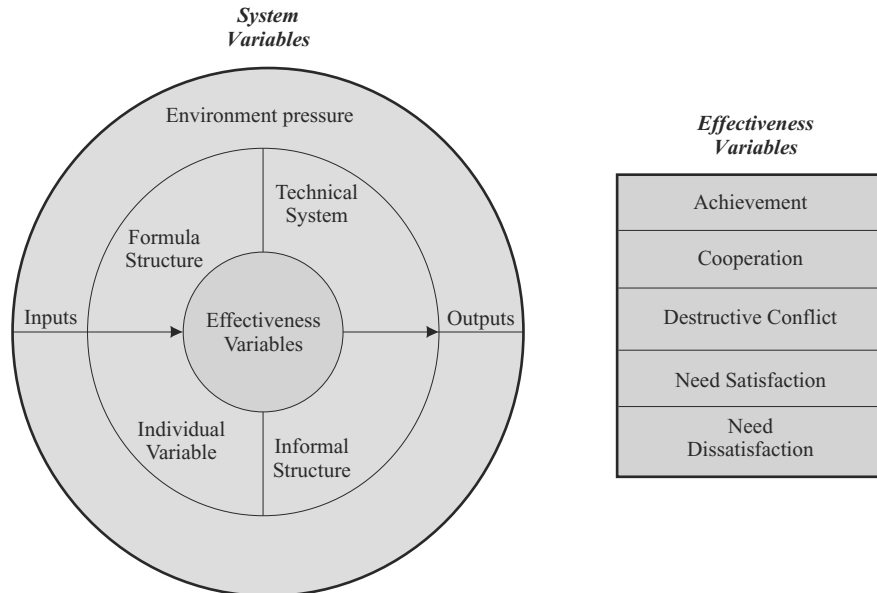
The model and the associated research provide a new perspective for resistance to change as well as implications for leadership actions during events. It suggests that instead of viewing resistance to change as obstacles to be overcome, they may be seen as inherent elements of the cognitive transition that occur during change.

## CONTENT BASED MODELS

Content-based models focus on the substance of changes in the organisation. A couple of models fall in this category. Hunt's (1972) model for understanding and analysing change, attempts to identify system and effectiveness variables in the organisation that affect its state of equilibrium; Burke and Litwin's (1992) content model of organisational performance, attempts to predict individual and organisational performance and deals with organisational conditions and resultant effects; and Burke and Trahan's (2000) discussion on discontinuous change and change capable organisation.

### The Dissipative Equilibrium Model of the Organisation

This model was proposed by Hunt (1972), who viewed organisation as rational action system which is characterised by system variables and effectiveness variables. Thus according to this model each organisational system is designed to achieve certain objectives, whose attainment is measured in terms of effectiveness on certain parameters. Also, the organisation always seeks to attain equilibrium and these variables; (the system and effectiveness variables) are two sets of parameters that are involved in determining such an equilibrium. Consequently, any change process or resultant change involves these two sets as explained in Fig. 3.8.



**FIG. 3.8** Hunt's Dissipative Equilibrium Model of the Organisation

Source: Adapted from Hunt, J W (1972). *The Restless Organisations*, John Wiley & Sons, Australasia Pvt. Ltd.

### **System variables**

These include the formal and the informal structures of the organisation, the technical systems and the external pressures acting on the organisation in addition to the individual variable.

#### ◆ *Formal Structure*

It refers to the arrangement of resources in such a way that there is a coordination between the organisational members' activities (divided and specialised) and their interpersonal relationships in order to pursue organisational objectives. The following characteristics define the construct further:

- Dissection of organisational objectives into goals
- Planned and controlled coordination of members' divided activities
- Arrangement of personnel into such divisions

Summarily, it can be said that the formal structure of an organisation aims at constraining and directing organisational behaviour.

#### ◆ *Informal Structure*

The formal structure usually imbues organisational members' values, beliefs and attitudes collectively. In addition to such collective cognition, there are other values, beliefs, attitudes and constraints that give rise to an organisation's informal structure that is much loose and unstructured and defines the relationships among the members. Members interact, make their own decisions, develop groups and cliques and thereby attempt to compensate for the limitations in the formal structure.

In other words, it can be said that the emergence and existence of the informal structure in an organisation is a result of the formal structure narrowness since it only engages a small part of the individuals' performance possibilities as an internalised value system.

◆ *Technical System*

In any organisation, there exists a relationship between the organisational members' work and the organisational goals. Such a link is provided by an action system and a technical system that is a part of the action system. This includes the tool and machine system and the physical work constraints and relate to the procurement, disposal and adaptation of resources. The technical system may have an enabling or disabling/constraining effect of members' attitudes and behaviour.

◆ *External Pressures*

As organisations are open systems, these are often subjected to pressures generated from outside. Such pressures are experienced in the form of communications between the members and the non-members. Examples include complaints, and customer service. Different organisations face different types of external pressures and each organisation adjusts its boundary in relation to the pressure it faces. The complexity in the formal structure usually provides an organisation with mechanisms to handle environmental complexities.

◆ *Individual Variables*

The organisation is basically a collective of its members' role performances. It encompasses the formal values, technical or physical influences, external demands as well as the demands of its individual members. An individual joins an organisation to fulfill certain needs. These needs define the individual variable and its strength is manifested in the individual's motivation in satisfying his needs.

### ***Effectiveness variables***

These include the variables of achievement, cooperation, destructive conflicts, and need satisfaction and dissatisfaction.

◆ *Achievement*

Achievement can be understood at two levels—organisational and individual levels, though these two levels are not mutually exclusive. At the organisational level, achievement may be understood in terms of its relationships with technical systems and cooperation. The technical system is designed in a way that increases the individual member's efficiency and his ability to work toward the achievement of organisational goals. Organisational goal achievement also requires cooperation among the organisational members. At the individual level, need satisfaction drives individual's level of motivation that in turn, fuels more effective performance thereby resulting in greater possibility of organisational goal fulfillment.

◆ *Cooperation*

Achievement of goals often leads organisational members to become aware of the organisational effort, which is a result of organisational members' shared values and belief systems. Such kind of shared systems pave the way for cooperation between members. In other words, perceived goals' interdependencies lead to cooperation.

◆ *Destructive Conflict*

Conflict arises as a result of perception of conflicting goals among the organisational members. In addition, organisations are often structured into departments, each of which has its own goals and all departments taken together; contribute to the organisation's goals. Thus, there is always a possibility within an organisation, such that different departments may experience conflict between their respective goals and dissection of goals provides a focus for conflict development.

◆ *Need Satisfaction*

It is in order to satisfy certain needs that an individual works in an organisation. The stronger his needs, the greater the motivation in his role performance. The effort the individual expends as a result enhances his role performance and thereby results in greater satisfaction of the needs that lead him to become a member of the organisation.

◆ *Need Dissatisfaction*

Formal structural hierarchy within an organisation causes its members to become aware of the disparities that exist within the organisation with respect to their salary structure, status and the like.

Hunt carried out empirical studies to test the validity and utility of his model, to further identify the interactions between the specific variables and to assess the strength of such interactions. Such efforts aid selection of the intervention chosen by the change agent in a way that these most closely appropriate and precipitate the desired outcome in the organisation. Independent research based on empirical data reinforces Hunt's model further (Quinn, 1978; Kasperson, 1985). Hunt's model hence provides an intuitive and conceptual framework for analysing change and applies to research that may examine the wide and multifaceted change process across organisations in addition to the more limited contingency models.

### **Burke-Litwin Model of Organisational Performance and Change**

The Burke-Litwin (1992) model adopts the open system approach towards an organisation. In this model, the external environment serves as the input dimension and the individual and the organisational performance serves as the output dimension. The other remaining components in the model refer to the primary throughput dimensions. The feedback loop links the input with the output; and the arrows are bi-directional (organisational outputs—products and services affect the external environment and

that forces in the external environment affect performance directly). For example change in the government policies or market conditions will affect organisational outcomes and vice versa.

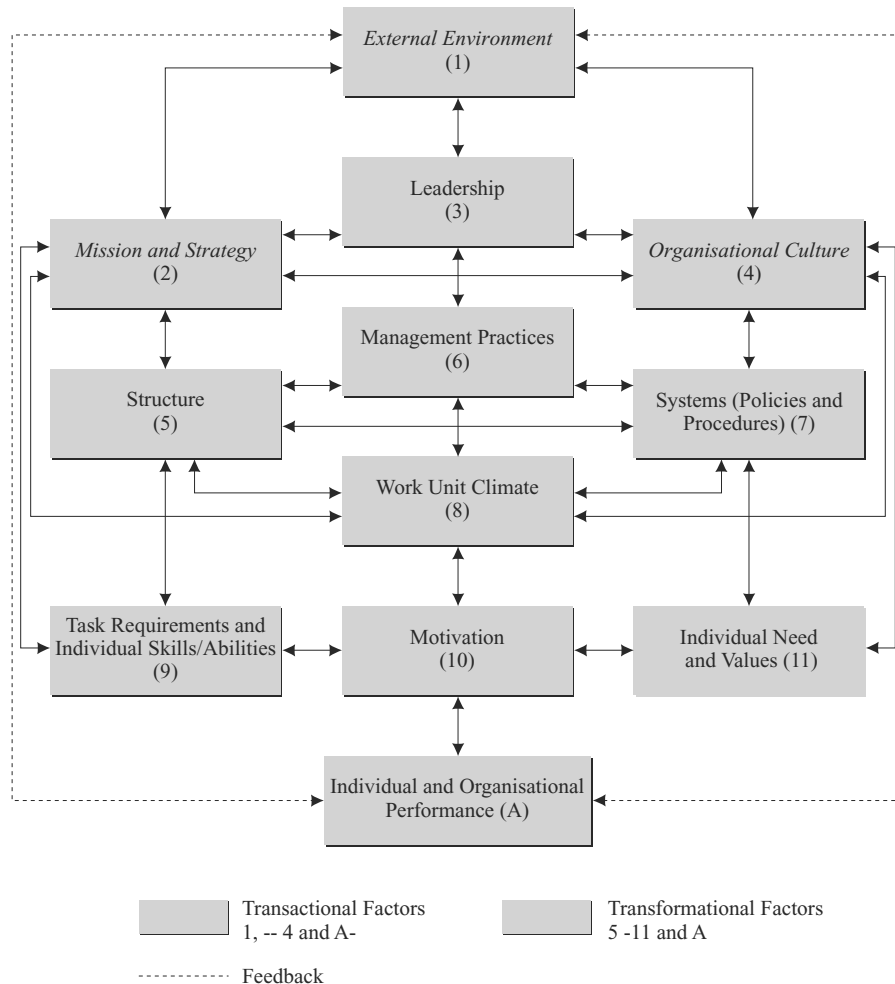
The model includes 12 components critical for organisational understanding and analysis. The dimensions can be seen as belonging to different levels—large system level (variables such as mission, strategy, leadership and culture); group/local work unit level (variables such as climate); individual level (variables such as individual needs and values, task requirements and individual skills, and motivation). The bi-directional arrows signify the open system principle of multiple impact, that is, change in one affects the others. Explaining further, Burke and Litwin assert “. . . *Organisational change, especially an overhaul of the company business strategy, stems more from environmental impact than from any other factor.*”

They are of the view that transformational factors comprising mission, strategy, leadership and culture play a more important role when large scale organisational change is to be brought about. Also, mere pronouncement of the strategy by the leader is not sufficient for effective organisational change, it needs to be supported by culture change, its alignment with mission, strategy and leadership behaviour. Change in organisational mission affects the total system whereas changing structure, may or may not affect the total system. It depends on where in the organisation a structural change takes place.

### **The ‘Drivers’ of Organisational Transformation**

The model’s underlying assumption is that a company is an organic entity and is made up of many individual components, each of which potentially plays a role in change efforts. Factors such as leadership, organisational mission, strategy and culture shape and drive an organisation’s life in broad “big-picture” ways thereby playing transformational roles in the life of an organisation. At the same time there are variables like a company’s structure, management practices, systems (technology) that help people conduct their jobs and factors like employee motivation, needs, job fit and work unit climate—that influence how work gets done on an actual everyday basis. These factors influence organisational and individual performance at a “transactional” level. Successful change requires keeping both transformational and transactional variables in mind, and using one (or a combination) of them to shape and sustain change.

In Fig. 3.9, the boxes in the top half (components 1–4) represent the transformational factors. The changes occurring here are caused by direct interaction with external environmental forces and as a consequence require significantly new behaviour from the organisational members. Changes in any of these boxes brings about discontinuous and revolutionary changes in the organisation and affects the entire organisation—the deep structure of the system and require a visionary leadership.



**FIG. 3.9** The Burke-Litwin Model of Organisational Performance and Change

Source: Adapted from Burke, W. W. (2002). *Organisational change: theory and practice*. Thousand Oaks, CA: Sage Publications.

The various components of the model have been described as under:

### **External environment**

These refer to forces or variables outside the organisation that influence the organisational performance such as political and economic conditions, government regulations, market conditions, customer behaviour and satisfaction and changing technology.

### **Mission and strategy**

Mission refers to the organisation's ultimate purpose or primary goals. In short, it is what the organisation stands for. Strategy refers to the 'how' or the process through which the mission is to be accomplished. Organisations talk about vision and mission.



While vision concerns future and refers to a dream or aspiration; mission relates to the present and is related to the core competency of the organisation.

### ***Leadership***

Providing directions being the core responsibility, leadership roles include responsibilities of persuasion, influence, serving followers, and acting as a role model. Though leadership often overlaps with management practices, these have definite differences as well. Leadership is related to vision, using one's influence, persuasive communication skills, recognising people through praise and providing opportunities to learn new skills. Management deals with setting objectives, task accomplishments, using the organisation's resources efficiently and effectively and rewarding people using extrinsic factors such as monetary rewards and elevation in status.

### ***Culture***

Organisational culture refers to the way things are done in an organisation and the manner in which these norms and values are communicated and explicitly or implicitly followed. Culture implies to the rules that one follows, both explicitly and implicitly as one conforms to the norms and one's beliefs.

The components 5–11 and A (in Fig. 3.9) refer to the transactional factors—these are concerned with day-to-day operations of the organisation and with respect to change, deal with continuous improvement, that are evolutionary and selective in nature.

### ***Systems***

Systems are concerned with policies and procedures that are designed to aid and support organisational members with their job and role responsibilities.

### ***Climate***

According to Burke (2002), the term climate describes the collective perceptions of members within the same work unit.

### ***Task requirements and individual skills/abilities***

This refers to the degree of congruence between the requirements of one's job, role and responsibilities and the knowledge, skills and abilities of the individual holding the job.

### ***Individual needs and values***

This is concerned with the degree to which one's needs are met on the job and the degree of congruence between what the individual organisational member believes is valuable and what the organisation stands for. The two components—task requirements and individual needs and values—influence motivation significantly.

## **Motivation**

Motivation is a natural state for humans. Motivation results when certain needs are aroused and these continue to persist until some degree of satisfaction has been attained. It is hence important to remember that the goals that are important for the organisation also correspond to individual needs.

## **Individual and organisational performance**

It refers to the output, that is, the outcomes and results of all the activities that are responses to the external environment (input).

According to the Burke–Litwin model of change, planned change flows from top (external environment) to bottom (performance). The arrows that point downwards are given more causal weight. Thus, with respect to organisational change, external environment has the greatest impact. Inside the organisation, the transformational factors have the greatest impact. According to the model, the external environment first affects the leadership. These are the senior executives and key decision-makers who determine the mission and strategy, or bring about change in these; and in part shape the organisation's culture.

Summarily, it may be said that the Burke-Litwin (1992) model presented in Fig. 3.9 predicts individual and organisational performance and thus, deals with organisational conditions/causes and resultant effects. The Burke-Litwin model is accompanied by a 150-item diagnostic questionnaire and provides an opportunity to explicitly distinguish between the transformational and transactional factors that need long as well as short-term attention. This model may be viewed as a diagnostic content (content, implies the organisation's long-term relationship to its environment that defines its overall mission, character and direction) model of organisational performance and change (Armenakis and Bedeian, 1999).

According to Burke and Trahan (2000), change is no longer a linear or incremental process; rather it is rapid, discontinuous and exponential in both nature and impact. As Burke and Trahan (2000) put it, "*Witnessing the multiplier effects and quantum leaps in how business is conducted, as technology reduces international capital transfers to computer keystrokes, as it connects markets (both mature and emerging) in instantaneous, never-before imagined ways.*"

In addition to rapid technological changes, other forces like turbulence in emerging economies, business consolidation in mature industries, political instability in many countries, and scientific discoveries such as nano-technologies, and cloning have led to radical redrawing of how the business is being conducted, making way for generation of unexpected business opportunities and unprecedented business volatility. Chaos and convergence being the undercurrent of our living in recent times, companies, these days, often seek partnerships, or restructure themselves so as to tackle factors of shifting capital flows, changing customer demands, and the need to find new markets for their products. One can also observe the phenomenon of convergence taking place, as the boundaries between various previously discrete industries are becoming blurred.

In response to such situations, Burke and Trahant came up with the concept of ‘Business Climate Modeling’ to analyse the key variables in the current hyper dynamic business environment. As outlined by these researchers (Burke and Trahant), the underlying principles of business climate modelling include the following:

1. In the present business environment, a company ought to be willing to accept chaos or at least “bounded instability” in its industry, the global economy, and its own market place as part of the reality of doing business.
2. The present global economy is in a flux with constant state of growth and expansion, which is characterised by both incremental change and long-term systemic transformation.
3. The present is connected and interdependent: One may take the examples of countries, market, capital, companies and customers. Therefore, in order to understand the forces at work in today’s business environment, one must take a climatic perspective.
4. In the long run, linear thinking will kill an individual.
5. Hierarchies are not important. The effort should be focused on creating an organisation that is built for speed and for customers.
6. Organisations ought to develop “organisational intelligence” about the constantly shifting business environments in which they operate.
7. There is shift in business from being about “transactions” to being about “value-added” interactions with customers.
8. In the present scenario most products and services result into commodities, customer care becomes the only true and lasting differentiator (Burke and Trahant).

Companies that subscribe to the above model in business are what Burke and Trahant refer to as ‘change capable’. These have both business savvy and have organisational resources to continuously adapt themselves in response to changing business and market place conditions. As described by Burke and Trahant (2000), change capable organisations also:

- ◆ Use circumstances of marketplace turbulence to enhance organisational learning, improve best practices and leverage knowledge of customers and competitors.
- ◆ Allow service-to-customers’ drive their organisational structure.
- ◆ Leverage the traits of both charismatic and instrumental leadership to successfully drive change initiatives.
- ◆ Ensure that teamwork takes root as a core work value.
- ◆ Use multiple metrics to monitor and gauge success with change.
- ◆ Successfully manage both the hard (metrics and goals) and soft (people and performance) aspects of change projects.
- ◆ Ensure that there is synergy around people, systems and technology.
- ◆ Make sure employees understand what change means for them.

- ◆ Create explicit two-way employment contracts with employees to ensure these have the motivated workforce needed to succeed. Burke and Trahan (2000).

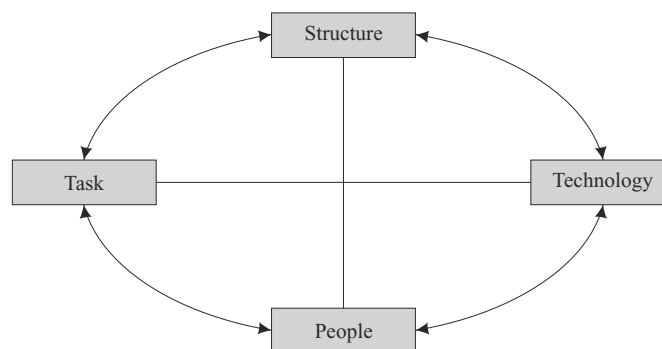
## INTEGRATION OF CHANGE MODELS

Taken alone or together, these perspectives do not provide a comprehensive or integrated understanding of the organisational change process that is useful for managers who find themselves in the position of planning or implementing change.

As effective consulting for organisational change must focus both on content and process, the organisational frameworks presented in the following pages help to integrate content (that is, what to change) and process (that is, how to bring about the change) aspects of organisational change in a more applied manner. These models are grounded in both theory/research and change consulting practices. Some of the integrated change models are as follows:

### Leavitt's Organisational Systems Model

Harold Leavitt (1965) gave forward his diamond shaped model of organisational systems with the premise that organisations are interdependent multivariate systems. According to him, to analyse change is to pay close attention to its four major components: task, people, technology and structure. By 'task', Leavitt implied the organisation's purpose such as providing a service or manufacturing a product etc. People included all those individuals who carry out the task. Technology involved all kinds of tools, machinery, information technology/computers, etc. and structure implied sub-components such as workflow, decision-making authority, communications, etc. within an organisation.



**FIG. 3.10** Systems Model

Source: Adapted from Leavitt, HJ (1965). Applied Organisational Change in Industry. In March, J.G.(Ed.) Handbook of Organisations. New York: Rand McNally.

Leavitt's (1965) model, however, did not entirely adopt the open-system view of the organisation, represented only the transformation process, and did not account or explain the input and output in the organisational systems.

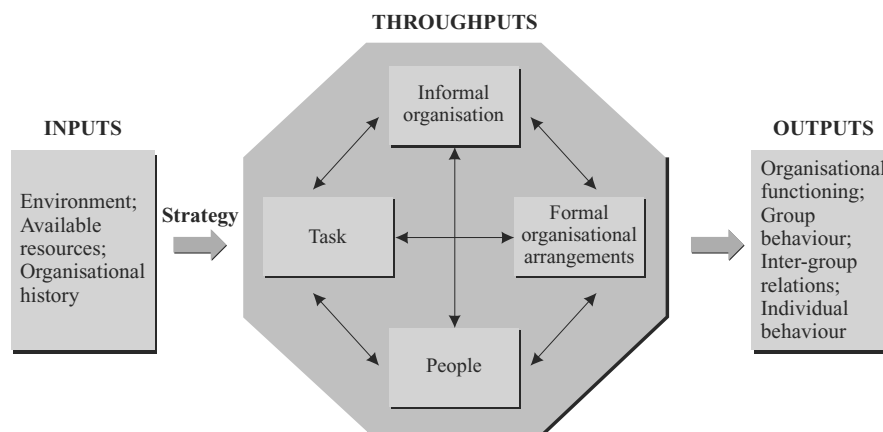
The following models view organisation as an open system and represent an integration of both content and process of organisational change.

### The Nadler-Tushman Congruence Model

Nadler and Tushman (1977) gave this model based on the following assumptions:

- ◆ Existence of organisations as open systems
- ◆ Being open system organisations are influenced by the environment around and influence the environment by their outputs

Hence, the model can be understood as having three parts: inputs, throughput or the transformational process, and outputs.



**FIG. 3.11** The Nadler-Tushman Congruence Model

Source: Adapted from Nadler, D.A., & Tushman, M.L. (1977). A Diagnostic Model for Organisational Behaviour. In Hackman, J.R., Lawler, E.E., & Porter, L.W. (Eds.). *Perspectives on Behaviour in Organisations*. New York: McGraw Hill.

### Inputs

Assuming that inputs to an organisational system are relatively stable, Nadler and Tushman (1977) described four inputs to the organisation:

- ◆ Environment
- ◆ Resources within the reach of the organisation
- ◆ Organisation's past (history)
- ◆ Strategies that were initially developed and have got refined over time

These inputs to the organisation explain the behaviour of members of the organisation and also act as constraints as well as opportunities for action. The input components have been described as under.

1. The **Environment** in the Nadler-Tushman model has been categorised into two—the large parent systems and the rest of the outside world. These include governmental regulations, competitors and the marketplace in general.
2. The **Resources** here include capital, raw materials, people, technologies and other elements such as company name, logo and brand, which may have premium value in the market.
3. The past **History** of the organisation influences the type of employees and their recruitment, policies and decision-making styles, and is an extremely important variable in understanding an organisation.
4. The **Strategy** refers to the process of deciding how the organisation's resources are optimally utilized within the setup for effective functioning of the organisation. Strategy involves identifying environmental opportunities and assessing the organisation's resources so as to capitalise on these opportunities. In view of Nadler and Tushman (1977), all organisations have some strategies. However, it is a different matter whether these are by design and are formal or are unintentional or informal.

### **Outputs**

Nadler and Tushman (1977) have classified outputs into four categories—system functioning, group behaviour, inter group relationships and individual behaviour and effects. Systems functioning may be assessed through the organisation's attainment of its desired goals, its utilisation of its resources and its coping with changes in its environment over time. The other outputs are behavioural in nature and are related to:

- ◆ Performance of groups/units within the organisation
- ◆ Extent of communication, differences/conflict resolution and collaboration among these units
- ◆ Behaviour of the individual in terms of turnover, absenteeism and good performance

### **Throughputs**

The four major interactive components that constitute throughput or transformation process, wherein inputs are changed into outputs include people, tasks and jobs, managerial structure and all relations of individuals, groups and subsystems.

### **The concept of congruence**

Nadler and Tushman (1977) have gone beyond the description of the model's components and relationships to give the concept of 'fit'. As defined by Burke (2002), "*fit is the measure of the congruence between pairs of inputs and especially between the components of the transformation process*" (p.186). Further, Nadler and Tushman went on to contend that inconsistent fits between any pair would lead to less than optimal performance with respect to both the organisation and the individual. They hypothesized that the better the fit, the more effective the organisation will be. They furthered three diagnostic steps:

**Table 3.1** Nadler and Tushman's Thoughtful/Transformation

Task Component	Individual Component	Organisational Arrangements	Informal Organisational Component
The job and its inherent characteristics	The differences and similarities among employees	Formal mechanisms handled by the management to direct and control behaviour	Social structure within the organisation
The dimensions of the degree and kind of interdependence among and between performers	Specifically demographic data	To organise and accomplish the work to be done	Grapevine
Skills and levels	Skills and professional levels operational structure	Organisation's managerial and operational structure	Organisation's internal policies
Type of information required for task performance	Attitudinal variables	Work flow and design	Informal authority-information structure

Source: Developed on Nadler and Tushman's model, Op. Cit.

1. **System Identification:** This involves diagnosing whether the organisation is autonomous, subsidiary, divisional or a unit of some larger system. It also involves taking into account the system boundaries, memberships, tasks and its relationship with other units of the system.
2. **Describing the nature of the critical variables:** This involves information about the input and component dimensions, and the kind of outputs that are desired.
3. **Diagnosis of the state of fit:** It constitutes the most significant step, which involves two related activities—determining fits between components, and the links between the fits and organisation outputs. To determine the fits between components, sufficient gathering of data and analysis is imperative. In order to diagnose the latter, change agents must concentrate on the outcome of diagnosis of the fits between different components and their behavioural consequences on the set of behaviours associated with outputs. This helps in identifying certain critical organisational problems and the addressing of these problems induces changes in the system, following which the system is monitored and evaluated using the feedback loop.

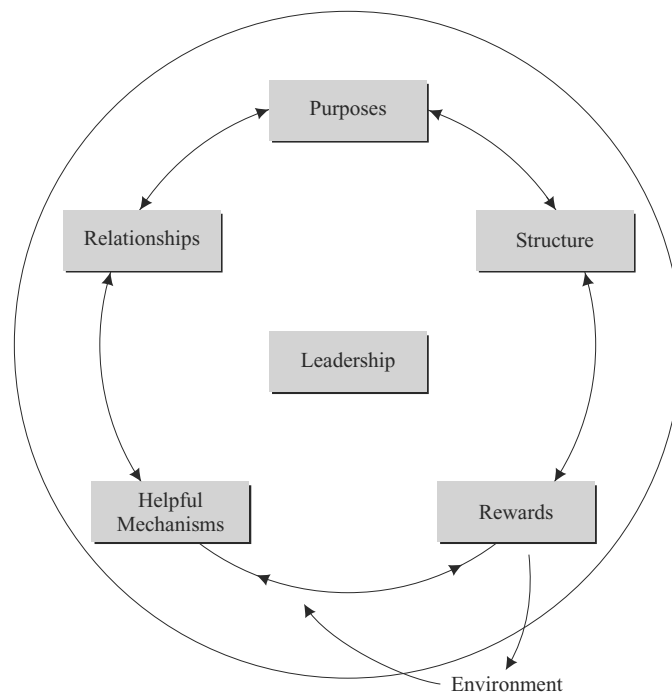
In spite of the comprehensive and sophisticated nature of the model, it has been critiqued on the following basis:

- ◆ The organisational dimensions have not been weighted on the basis of their centrality.
- ◆ No means have been recommended for determining the congruence, the level of congruence or their degree of desirability.

### Weisbord's Six Box Model

Marvin Weisbord (1976) introduced the six-box model with focus on the organisation as a whole and advocates viewing an organisation from both formal and informal perspectives.

The circle encompassing the boxes as seen in Fig. 3.12 represents the external environment. He cautioned against paying too much attention on one particular box. The bi-directional arrows depict the input and output representations. According to Weisbord (1976), it is important to understand both the formal system (the structure), and the informal system (the culture) of an organisation. All the six boxes, hence, have an informal and a formal aspect to them. For example, the structure may be represented formally using an organisational chart of authority and accountability and network that may be the informal aspect of the structure. Similarly, authority could be formal as shown in the organisation chart or could be in the form of unwritten rules. Weisbord emphasised the importance of the gap between the formal and the informal and called for action to reduce the gap (this action represents the process side), so as to function effectively. Each box in this model is meant to ask questions to diagnose the gap. The boxes are represented by purposes, structure, rewards, helpful mechanisms and relationships, which have been explained.



**FIG. 3.12** Weisbord's Organisational Model

Source: Adapted from Weisbord, M.R. (1976). Organisational Diagnosis: Six Places to Look for Trouble With or Without a Theory. *Group and Organisation Studies*, 1, pp. 430–447.



### **Purposes**

What is the degree of clarity in the organisational members' minds regarding the organisation's mission? What is the extent of support by them for the organisation's mission?

### **Relationships**

Weisbord discussed relationships in three fold: between individuals, between and among departments, units and groups, and between the person vis-a-vis his job. He stressed on the quality of these relationships, which are essential before the models is applied for managing and dealing with conflict.

### **Structure**

This deals with the adequacy and fitment of the internal structure with the organisation's mission.

### **Helpful mechanisms**

The idea behind this is to find out what are the processes or procedures in the organisation that help organisational members in doing their work and which are the ones that block their work?

### **Rewards**

Is there a gap between the organisation's formal rewards and punishments and the belief of organisation members actually believe they are rewarded or punished for?

### **Leadership**

The leader's main responsibility is to overlook and supervise the effective functioning of all the boxes and to maintain a balance among them. The strengths of the model are two—the model gives due importance to leadership, which represents the coordinating function and the model is useful for organisations with less sophistication with respect to their systemic thinking and the larger complexities of organisational dynamics.

However, Weisbord's model has been criticised on the following points:

- ◆ **Oversimplification:** The model is too simplified and in real life situations, organisations are too complex to be represented by only six categories.
- ◆ **Insufficiency:** Deeper and more complicated diagnoses require more detailed model.
- ◆ **Inadequacy:** The relationships between 'purposes' and other boxes with exceptions to relationships and structure are inadequately explained.

### **Tichy's TPC (Technical, Political, Cultural) Framework**

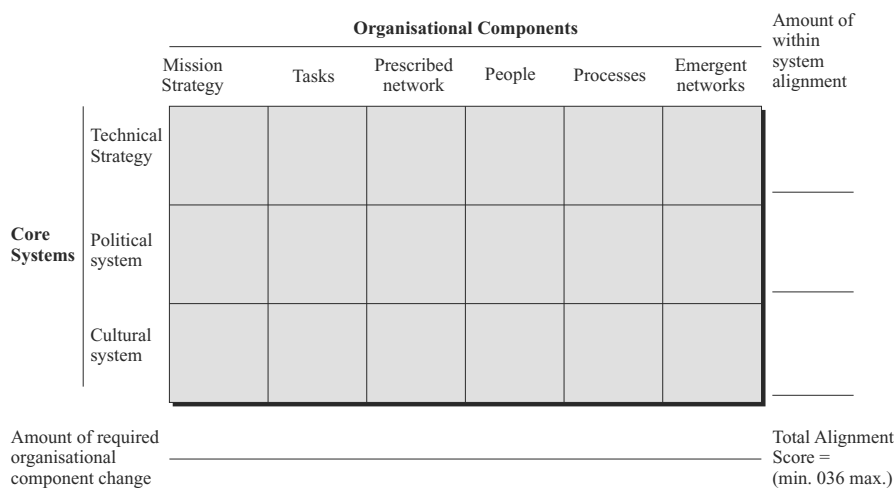
Tichy's (1983) framework has clear focus on organisational change. What provides uniqueness to Tichy's model is the 'TPC'—technical, political and cultural framework

that he has integrated into the model. Technical, political and cultural represent the three basic systems that encompass and cut across the nine levers discussed later.

According to Tichy, these three primary systems are the dominant systems essential for understanding organisations as such and for comprehending organisational change in particular. The technical system being based on scientific data has highly rational perspective; the political system represents power dynamics and cultural system provides common values and norms or “cognitive schemes” (Tichy). According to him, management of change is pervasive throughout the framework and dealing with only one or two of these systems at a time will adversely affect organisational performance and effectiveness.

Within this framework, he has suggested nine change levers—the organisation’s external environment (input), Mission and Strategy (this model combines the mission and the strategy), Engaging the relevant interest groups, Task (new tasks as a result of change), Prescribed networks (that is organisation’s formal structure), Organisational processes (communication, problem solving, and decision making) People and Emergent networks (that is the organisation’s informal structure) (cf. Burke, 2002). Thus in this model organisational effectiveness depends on the characteristics of these levers, their interrelationships as also on the alignment of these components with the functioning system of the organisation.

The 6 × 3 TPC matrix provides a comprehensive framework for diagnosing organisational change where these systems juxtapose with the change levers. Data is collected for diagnostics purpose for each cell of the matrix (Fig. 3.13). Data collected for each cell ought to be informative about the degree of change needed for adequate alignment. Across the matrix, the alignment is within a system, and down the matrix,



**FIG. 3.13** Tichy’s TPC Matrix

Source: Tichy, N.M. (1983). *Managing Strategic Change: Technical, Political and Cultural Dynamics*. John Wiley & Sons, Inc. New York. Reprinted with permission of John Wiley and Sons, Inc. New York.

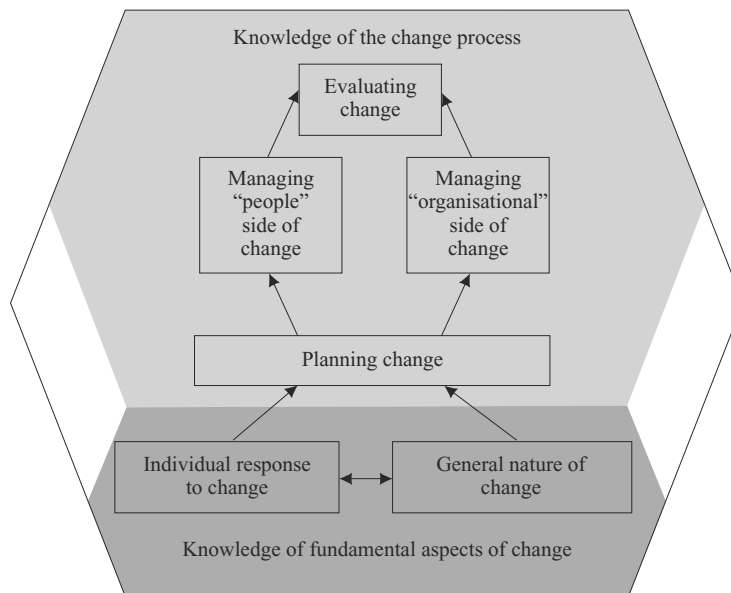
the alignment is between systems. Tichy (1983) argued that these systems must be aligned with levers and each with every other for effective change to occur.

Despite providing critical components for conceptualising and implementing organisation-wide change, Tichy's model has been found to ignore people dimension and issues relating to them during organisational analysis. However, Tichy has confessed skimming over the psychological aspects of change.

### The Managing Change Model

The Managing Change Model (Burke, 1988; Burke and Spencer, 1990; Burke et al., 1991, 1993) offers an integrated perspective. This framework combines the strengths of various theoretical perspectives and incorporates important issues involved in evaluating the overall effectiveness of the change process. The model consists of the following dimensions:

- ◆ *Individual response to change*: concerning the nature, prevalence and utility of resistance to change.
- ◆ *The general nature of change*: concerning whether effective large system change is evolutionary or revolutionary in nature and the characteristic patterns that typify change efforts in organisations.
- ◆ *Planning change*: concerning the causes of change in organisations, articulation of the vision, how to get from the present to the future, and barriers to effective transitions.



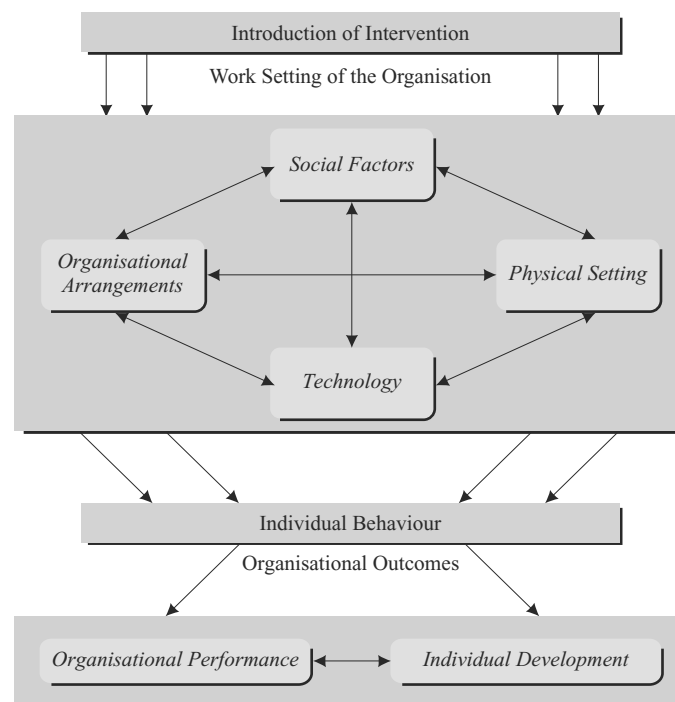
**FIG. 3.14** The Managing Change Model

Source: Adapted from: Siegal, W., Church, A.H., Javitch, M., Waclawski, J., Burd, S., Bazigos, M., Yang, T.F., Anderson-Rudolph, K., Burke, W.W. (1996). Understanding the management of Change: An Overview of Managers' Perspectives and Assumptions in the 1990s. *Journal of Organisational Change Management*, Vol. 9, No. 6, 1996, pp. 54–80.

- ◆ *Managing the people side of change*: concerning how, when and how much to communicate about change within the organisation, and psychological issues related to transition.
- ◆ *Managing the organisational side of change*: concerning the design and structural issues of systemic and long-term change efforts.
- ◆ *Evaluating the change effort*: concerning indicators of change effort's effectiveness.

### Model of the Dynamics of Intentional Organisational Change

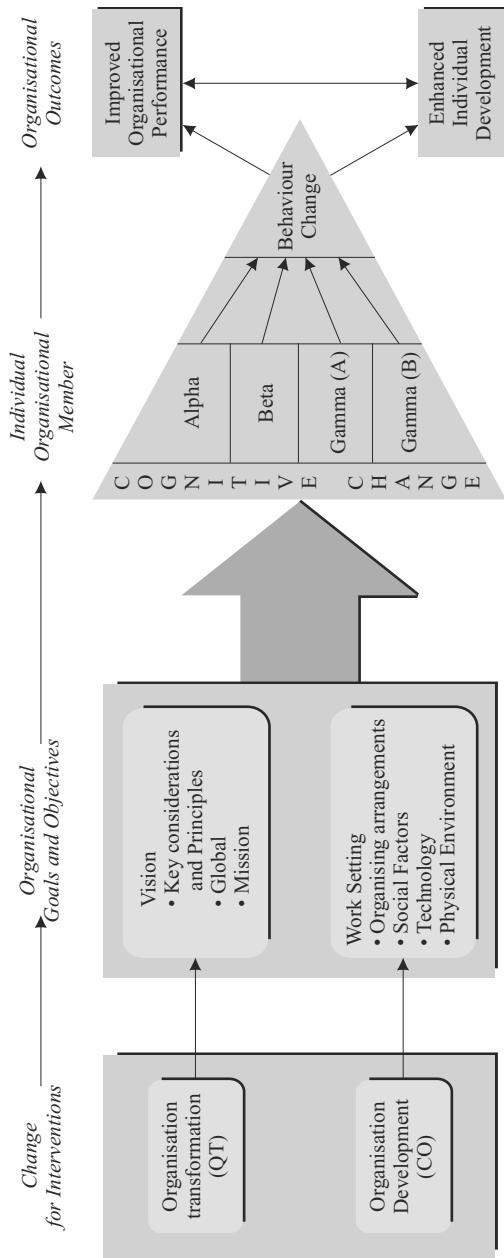
This model was developed by Porras (1987) and later extended by Porras and Silvers (1991), Porras and Robertson (1992). After reviewing literature on organisational development and change, they forwarded a model on planned change that proposed a process of organisational change. Their framework begins with organisational interventions which affect certain variables. These, in turn, affect individual behaviour and thus improve organisational performance, in addition to enhancing individual development. This model drew on Porras' earlier model but re-cast in terms of change processes.



**FIG. 3.15** The Theoretical Model of the Dynamics of Intentional Organisational Change

Source: Adapted from Robertson, P.J., & Seneviratne, S.J. (1995). Outcomes of Planned Organisational Change in the Public Sector. *Public Administration Review*, 55 (6): 550.

The model in Fig. 3.15 depicts the organisational setting, as composed of four major interrelated subsystems, which are:



**FIG. 3.16** Planned Process Model of Organisational Change

Source: Adapted from Porras, J.I., & Silvers, R.C. (1991). Organisation Development and Transformation. Annual Review of Psychology, Vol. 42, pp. 51-78.

- ◆ **Organising Arrangements:** these refer to the formal elements of the organisation that provide the necessary coordination and control for the organisational activity.
- ◆ **Social Factors:** these include the characteristics of organisational members, their patterns and processes of interaction, and the organisational culture.
- ◆ **Technology:** these include factors directly associated with the transformation of organisational inputs to outputs.
- ◆ **Physical Setting:** these refer to the characteristics of the physical space in which organisational activity occurs.

Porras and Robertson (1992) further worked on this model and elaborated it by viewing the process as occurring in three phases:

- ◆ Planned change interventions create changes in characteristics of the organisation itself;
- ◆ Because the organisation provides the context or work setting within which individuals behave, appropriate changes in this context will lead individuals to change their behaviour;
- ◆ These individual behavioural changes impact organisational performance, individual development and the key organisational outcomes.

In the revised model, they asserted that for organisational change to occur, organisational members must alter their on-the-job behaviour in appropriate ways, based on the belief that behaviour is significantly influenced by the nature of settings in which it occurs (Porras & Robertson, 1992, p. 724). The present model was a straightforward and linear depiction of the process of organisational change. The process begins with intervention that is to affect an organisation's vision, purpose, and mission, and/or an intervention toward changing work setting aspects. These interventions affect the members' thought processes and mental sets, which may be at one or multiple levels called alpha, beta and/or gamma. This leads to behaviour change thereby leading to improved performance and enhanced individual development. Alpha change refers to some variation in the existing condition which is measurable, beta change is a modified view of this change and gamma change is quantum shift in the way that a specific phenomenon is conceptualised (Van Tonder, 2004).

Using Porras' initial model, Robertson and Seneviratne (1995), in their meta-analytic study evaluated the impact of planned change interventions on seven categories of organisational variables and compared the outcomes of planned organisational change in public and private sectors. Table 3.2 contains specific elements that comprise each dependent variable category.

Their findings suggest that organisational change interventions in both public and private sectors are comparable and through planned change organisational performance could be improved. However, it was more difficult to implement change in public sector organisations.

**Table 3.2** Specific Variables Measured in the Studies included in the Meta- Analysis

Category of Factors	Parameters	Public Organisations	Private Organisations
Organisational Factors	Organising Arrangements	Goal characteristics Job clarity Organisational structure Rewards Evaluation process	Goal clarity Organisational structure Operational strategy
	Technology	Job design characteristics Task assignments Material and equipment	Job design characteristics Utilization of resources
	Physical Setting	Adequacy of facilities Privacy	Adequacy of facilities Access to workers
Socio-Psychological Factors	Organisational Performance	Productivity Efficiency Customer satisfaction External assessment Absenteeism Accidents/injuries	Profit Productivity Efficiency Quality External assessment Absenteeism Turnover Grievances Employment level
	Social Factors	Intrinsic motivation Job involvement Organisational commitment Growth need strength Group cohesiveness Group support Interpersonal trust Communication climate Goal congruence Conflict resolution approaches Supervisory behaviours Supervisor style Participation in decision making	Intrinsic motivation Job involvement Alienation Commitment to objectives Growth need strength Quality of relationships Organisational support Trust Patterns of influence Open communication Role conflict/ambiguity Conflict resolution approaches Supervisory behaviours

*Contd...*

Contd...

		Quality of inter-group relationships Organisational climate	Supervisor style Superior-subordinate relations Participation in decision making Quality of inter-group relationships Organisational climate
<b>Individual Factors</b>	Individual Behaviour	Performance Job Behaviour	Performance Job Behaviour
	Individual Development	Work related satisfaction	Work related satisfaction Quality of life Inter-role conflict Self-Development

Source: Adapted from Robertson, P.J., & Seneviratne, S.J. (1995). Outcomes of Planned Organisational Change in the Public Sector: A Meta-analytic Comparison to Private Sector, *Public Administration Review*, 55 (6): 550.

## The Punctuated Equilibrium Model

By the end of the previous century, the punctuated equilibrium model of organisational transformation emerged as a prominent theoretical framework for characterising and investigating organisational change in its basic sense. According to the Blackwell Encyclopedic Dictionary of Organisational Behaviour (1995), the term “punctuated equilibrium” belongs to the field of biological evolution. Natural historians Niles Eldredge and Stephen Gould (1972) proposed and postulated the concept of punctuated equilibrium as an alternative to the dominant, Darwinian gradualist view of evolution.

Gersick (1991) in her article compared models from six domains—adult (Levinson, 1978, 1986), group (Gersick, 1988, 1989), and organisational development (Tushman and Romanelli, 1985), history of science (Kuhn, 1970), biological evolution (Gould, 1980, 1989), and physical science (Prigogine and Stengers, 1984)—to explicate the punctuated equilibrium paradigm and to show its broad applicability for organisational studies. She gave forward the following commonalities among these six theories that constitute an overall punctuated equilibrium model.

- ◆ Gersick posits that systems evolve in spurts, followed by periods of equilibrium as underlying structures permit only incremental change. Again it is followed by periods of revolution that bring about drastic change in the underlying structures. Thus the model envisages alternation of periods of equilibrium and revolution called “punctuated equilibrium”.
- ◆ With a view to differentiate punctuated equilibrium models from traditional systems Gersick summarised the commonalities again by highlighting that systems have a unique history, which do not subscribe to evolution through a

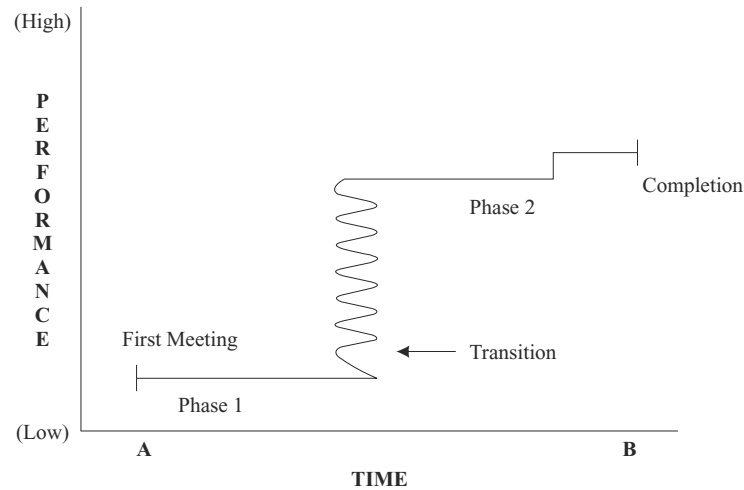


gradual blending from one state to the next. Also, it is not always true that that these evolve from lower to higher states/stages or definite ends.

- ◆ Drawing similarities among the six theories Gersick found that there is common deep structure which underlies human systems. Deep structure is a network of fundamental, interdependent “choices” based on which an organisation and its departments are set up. Thus the deep structure not only maintains configuration (structure) of the organisation but also transacts resources with the environment.
- ◆ Explaining further commonalities among the six theories, Gersick highlights the phenomenon of equilibrium or inertia maintained by deep structures to preserve themselves against internal and external disturbances and later exercise their choice to move along a chosen path incrementally to make adjustment with environment.
- ◆ Revolutions for relatively brief periods have also been covered by the abovementioned six theories. These have been referred to as transition periods, radical reorientations, and bifurcation. During these periods the deep structure of the system disintegrates and a new deep structure is formed and it closes with group agreement on some concrete goal that forms the basis of moving forward. Revolutions differ in their magnitude and their outcomes are not predictable as these depend on interactions of historical resources of the systems with current events which may or may not be appropriate.

Romanelli and Tushman (1994) while discussing the punctuated equilibrium model of organisational transformation explained organisations evolve through relatively long periods of stability (equilibrium periods) with relatively short periods of discontinuous change (revolutionary periods). The latter substantively disrupt established working patterns and provide the basis for new equilibrium periods.

With the core purpose of predicting the patterns of fundamental organisational transformation, theorists propounding “punctuated equilibrium” assume that the common state of activity in an organisation is to maintain equilibrium. Organisations, on the basis of prevalent environmental conditions and initial managerial decisions at the time of founding, establish an initial pattern of activity. In due course, inertial forces set in within the organisation along the forces of institutionalisation, causing the organisation to develop coherent systems of shared understandings that support continuation of the existing established state. However, it is a well-known fact that organisations exist in a dynamic environment and history of most organisations have recorded occasional punctuations caused by dramatic exogenous shocks. These include radical innovations in technology, volatility in the social and political scenario, major changes in governmental regulation, economic and financial crashes. Such environmental punctuations help in reducing the pressures of organisational inertia, and alter organisations’ tendencies to change and survive after change.



**FIG. 3.17** The Punctuated Equilibrium Model

Source: Developed on Romanelli, E. & Tushman, M.L. (1994). Organisational Transformation as Punctuated Equilibrium: An Empirical Test. *Academy of Management Journal*, Vol. 37, No. 5, 1141–1166.

The punctuated equilibrium model of organisational transformation explains this phenomena by emphasizing radical and discontinuous change in most or all of organisational activities so as to break the strong inertia that has gripped the organisation. In their effort to empirically test the organisational transformation as a punctuated equilibrium, Romanelli and Tushman (1994) in their study hypothesized the following which provides us with a brief overview of the model.

According to them most of the organisational transformations are short and discontinuous and are concerned with all key domains of organisational activity. However, small changes that take place in different domains of an organisation do not collectively lead to fundamental transformation. When there is major decline in short term performance or there has been sustained decline in performance over the years, the probability of revolutionary transformation increases. The same has been assumed when there are large scale changes in the external environment revolutionary transformation has also been linked with the appointment of a new chief executive officer (CEO). However, if a new order does not take charge relatively fast, the vested interests prevailing in the organisation will obstruct the transition process and the organisation would revert to the old form.

They examined the life histories of 25 minicomputer producers that were founded in the US over a three-year period from 1967–1969 and studied their activities from public documents. The researchers, in their study, found that organisational transformation occurred most frequently according to the patterns described by the punctuated equilibrium model. In their view an organisation is significantly more likely to undergo a revolutionary transformation when environmental conditions are changing dramati-

cally and its CEO has been replaced (p. 1158). They concluded that revolutionary transformation is the most frequently adopted mode of fundamental transformation.

## Summary

This chapter presents a wide range of models of change developed over the years. The two approaches to organisational change include the top-down approach: the classical paradigm, and the bottom-up approach: the system paradigm. The models of change have been classified into three broad categories: process-based models, content-based models and integrated models.

The process-based change models include (i) Lewin's model of change, (ii) planning model of Lippitt et al., (iii) Galpin's model of change management process, (iv) Bullock and Batten's integrative model for planned change, (v) Schein's model, and (vi) action research model of Cummings and Huse. The chapter also discusses the model of evolving managerial interpretations of change by Isabella. The content-based models, that have been discussed, are: (a) dissipative equilibrium model of the organisation proposed by Hunt, and (b) Burke-Litwin model of organisational performance and change dealing with drivers of organisational transformation involving external and internal factors. The third grouping of models has been labelled as 'the integration of change models' which include (i) Leavitt's organisational systems model, (ii) Nadler-Tushman congruence model, (iii) Weisbord's six-box model, (iv) Tichy's Technical, Political, Cultural (TPC) Framework, (v) Managing change model of Burke, Burke and Spencer and Burke et al., (vi) Porras's model of dynamics of intentional organisational change, and (vii) Gould's model of punctuated equilibrium. This chapter provides a comprehensive coverage of salient change management models for academics and practitioners.

## Questions

1. Describe process models of change management.
2. Elucidate parameters of strategic change in Galpin's model.
3. Compare Lewin's model with Schein's model and highlight similarities and differences.
4. Discuss the various variables involved in Dissipative Equilibrium Model of organisational change. How are these related to the organisational effectiveness?
5. What are the transactional and transformational factors in Burke-Litwin Model of organisational performance and change?

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# 4

## Organisation Development

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### INTRODUCTION

Organisation development (OD) is a professional field where social action is in sync with scientific inquiry. OD addresses a wide range of subjects such as organisational change, its tools and techniques, and effects of change and factors which lead to its success. Over the years, various definitions of OD have been put forward. Beckhard (1969) defined OD as an effort that is “(i) planned, (ii) organisation-wide, (iii) managed from the top, (iv) to increase organisation effectiveness and health through (v) planned interventions in the organisation’s processes using behavioural science knowledge”.

Michael Beer (1980) defines OD as “a system-wide process of data collection, diagnosis, action planning, intervention, and evaluation aimed at (i) enhancing congruence among organisational structure, process, strategy, people and culture, (ii) developing new and creative organisational solutions, and (iii) developing the organisation’s self-renewing capacity agent using behavioural science theory, research and technology”.

According to Brown and Harvey (2006) *OD consists of change, collaboration, systems, performance, humanistic and scientific features.*

OD has also been defined as “a system-wide application and transfer of behavioural science knowledge to the planned development, improvement and reinforcement of the strategies, structures and processes that lead to organisation effectiveness”—(Cummings and Worley, 2007).

### WHY ORGANISATION DEVELOPMENT?

Organisations face rise in complexities and uncertainties which are affecting their sustenance and survival. The complexities and uncertainties arise from economic and socio-political factors, technology, change in consumer preferences and behaviour, shift in market, cultural shifts, shifts in HR trends, environmental disasters and outbreak of diseases. To adapt to ever-changing conditions, an organisation is required to undertake constructive and proactive measures through OD. Rothwell, Prescott and Taylor (1998, 2008) identified six key factors that impact organisations. These factors



are: globalisation, changing IT/ICT, continuous cost control, speedy changes in market, knowledge capital, rise in pace and magnitude of change.

### **Globalisation**

Globalisation has opened opportunities for organisations to access new markets and get cheap or alternative resources. Organisations face changes due to difference in business environment, regulations, new government(s), adjustment to new cultures, consumers' behaviour and economic and socio-political environment. Along with opportunities and challenges of globalisation, there are other negative events which have spillover effects, such as the economic meltdown, social unrest, environmental disasters, outbreak of epidemics and collapse of corporate organisations. A recent challenge was the global meltdown of 2008, started off in the USA due to the sub-prime crisis. The meltdown shook the banking and financial industry in the USA. Many institutions had filed for bankruptcy, which led to loss of jobs and sudden rise in unemployment, loss for investors, and slowing down of the consumer demand. The spill-over effects over other economies included loss of business, closure of subsidiaries, rise in unemployment, fiscal losses, rise in inflation, decline in consumer consumption and putting new investment plans on hold.

Similarly, the earthquake in Japan (2011) caused a major disaster resulting in loss of lives, economic break-down, outbreak of epidemics, and leakage of nuclear radiation from the Fukushima nuclear plant, and psychological breakdown of Japanese people. Countries to which Japan exports have concerns regarding traces of nuclear particles in food items. The auto industry in many countries that is dependent on Japanese manufacturers for auto components suffered in the earthquake aftermath. Fears regarding nuclear radiation continued to linger among neighbouring countries, as there have been frequent reports of radiation leakage from nuclear plants located at Fukushima off Tokyo.

### **Changing IT/ICT (Information Technology/Information Communication Technology)**

Technological changes are taking place rapidly, redefining traditional business models. Due to technology, changes have taken place in the nature of work, processes and procedures, knowledge management, cost reduction and accessibility to consumers/customers and vice-versa. Technology has enabled quick collection and easy storage of information from multiple sources. Thus collection, analysis, manipulation of data and its utilisation are resulting in reduction in production cost, innovation in product/service/process, increase in value and quality. IT/ICT has brought about the following positive changes at the workplace: telecommuting, working from home, networking, availability of real-time information across levels thereby reducing centralisation of power, knowledge sharing, decentralisation and quick decision-making, and saving of space, time and resources. The negative aspects of these changes are: high work pressures, increase in competition, fear of information leakage, hacking and misuse of IT/ICT resources, downsizing, de-layering and restructuring.

### **Continuous Cost Control**

Organisations face competition from within the industry, complementary or unrelated industries and non-traditional business models which affect their profit margins. Cost control of the organisation's overall operation is the key to increase and sustain profit margins. Organisations continuously experiment, innovate and conduct research on processes, products and services to enhance the potential of their human resource and overall organisational competitiveness.

### **Speedy Changes in Market**

Changes in market occur rapidly due to shift in consumers' demands, tastes and preferences and introduction of new product/service offerings by competitors.

### **Knowledge Capital**

Knowledge capital is crucial for organisations to survive change. Human resource is the knowledge capital of an organisation and it depends on the talent, creativity and innovativeness of the human resource and the organisation's capabilities to unleash the potential of knowledge capital to gain competitive edge in new product/service, processes, and new markets. Innovation paves the way for formation of networks, strategic alliances and virtual corporations. Organisations have augmented flexibility, encouraged large-group interventions and opened space for research and innovation to cultivate and sustain the knowledge capital and capabilities.

### **Rise in Pace and Magnitude of Change**

The pace and magnitude of change is so fast that it is challenging organisations across the globe to respond strategically in real time. Table 4.1 summarises triggers of change and their impact in the form of opportunities and challenges.

## **FIRST-GENERATION ORGANISATION DEVELOPMENT**

Evolution of OD dates back to the 1940s. Over the years, six major approaches to OD have emerged which constitute the first-generation OD. These approaches are explained in the following sections.

### **Laboratory Training or Training Group (T-Group) Approach**

Training group also known as T-group is small and unstructured. In T-group, participants learn through their own interactions dynamics of interpersonal relationships, personal growth, leadership and group processes. This was the first people-level approach in OD. Kurt Lewin and his staff at the Research Centre of Groups Dynamics, MIT began experiments in the summer of 1946 when the Connecticut Inter-racial Commission and the Committee on Community Interrelations of American Jewish Congress sought assistance in research on training community leaders. This led to the development of the first T-Group. Based on Lewin's research, the following conclusions were drawn about

<b>Table 4.1</b> Impact of key change factors on an organisation		
<b>Triggers for Change</b>	<b>Opportunities</b>	<b>Challenges</b>
<b>Globalisation</b>	<ul style="list-style-type: none"> <li>• New markets</li> <li>• Cheaper alternative resources</li> <li>• Global/international expansion</li> </ul>	<ul style="list-style-type: none"> <li>• Complex consumers</li> <li>• Economic, cultural and business adjustments</li> <li>• Social unrest</li> <li>• Economic meltdown</li> <li>• Political upheavals</li> <li>• Epidemic outbreaks</li> </ul>
<b>IT</b>	<ul style="list-style-type: none"> <li>• Networking</li> <li>• Telecommuting</li> <li>• Real-time information</li> <li>• Knowledge sharing</li> <li>• Speedy processes and procedures</li> <li>• Time and space saving</li> <li>• Easy availability of resources</li> <li>• Increase in profit margins</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid technological obsolescence</li> <li>• Misuse of IT/ICT</li> <li>• Hacking</li> <li>• Information leak</li> <li>• Downsizing</li> <li>• Delaying</li> <li>• Restructuring</li> <li>• Maintaining consistency and continuity in cost control</li> <li>• Competition</li> </ul>
<b>Cost control</b>	<ul style="list-style-type: none"> <li>• Opportunity to be innovative</li> <li>• Scope for creativity</li> <li>• Competitive edge</li> </ul>	
<b>Changes in market</b>	<ul style="list-style-type: none"> <li>• Scope for new products</li> <li>• Opportunity for offering new services</li> </ul>	<ul style="list-style-type: none"> <li>• Shift in consumer demand, tastes and preferences</li> <li>• Competition</li> </ul>
<b>Knowledge capital</b>	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Creativity</li> <li>• Networks</li> <li>• Strategic alliances</li> <li>• Virtual corporations</li> </ul>	<ul style="list-style-type: none"> <li>• Flexibility</li> <li>• Creating open space for creativity</li> <li>• Sustaining a culture of knowledge capital and capabilities</li> <li>• Enhancing competence of human resource</li> </ul>
<b>Rate and magnitude of change</b>	<ul style="list-style-type: none"> <li>• Competitive edge</li> </ul>	<ul style="list-style-type: none"> <li>• Challenges to respond strategically</li> </ul>

T-group experiments: (i) Feedback on group interactions was rich learning experience. (ii) Group-building process had the potential for learning, which could be transferred to actual situations.—(Bradford, 1967)

Based on experience of this research, the Office of Naval Research and the National Education Association provided financial support to set up the National Training Laboratory (NTL) which carried out further work and also offered a Basic Skill Group Programme in 1947. Success of the Basic Skill Group Programme enabled the NTL to receive support from the Carnegie Foundation in 1948 and 1949. Three major trends regarding laboratory training emerged in the 1950s: (i) Emergence of regional laboratories. (ii) The Basic Skill Group Programme sessions (which were conducted only in summers, were made available round the year) and (iii) T-groups. These were used in industry and business set-ups and NTL members were increasingly being involved in such programmes.

Pioneering work on T-group in industry was conducted by Douglas McGregor at Union Carbide, Herbert Shepherd and Robert Blake at Esso Standard (now Exxon Mobil), McGregor and Richard Beckhard at General Mills and Bob Tannenbaum at TRW Space Systems Kleiner, 1996). These developments led to coining of the term 'Organisation Development' (French 1985). Gradually T-group techniques came to be known as team building techniques for organisations and today T-group is the most common and institutionalised form of OD.

### **Action Research and Survey Feedback Approach**

This is the second type of OD approach. In this approach, OD follows a sequence of processes viz. (i) data collection, (ii) feedback on data, (iii) planning for action, (iv) implementation of action and (v) follow-up data collection. Kurt Lewin was involved in the development of this approach which led to OD's emergence as a practical field of social science. Contributions in this field began in the 1940s with studies conducted by John Collier, Kurt Lewin and William Whyte who concluded that research should have close link with action which would enable organisational members to manage change. The other classic work was of Lester Coch and John French (French, 1985) on overcoming resistance to change which also facilitated the development of participative management in order to encourage employee participation in planning and management of change (Coach and French). Other major researches include studies of Whyte and Hamilton (1964) of Chicago's Tremont Hotel and Collier's (1945) efforts on application of action research techniques to improve race relations when he was the Commissioner of Indian affairs).

Joint efforts were initiated between members of organisations and social scientists to collect data on the functioning of individual organisations, analyse these to ascertain causes of problems and devise and implement solutions. The resultant outcomes were: first, the members of an organisation could use the research for themselves to guide own action and change; and secondly, social scientists had the opportunity to gather new knowledge which could be applicable elsewhere.

In 1947, after Lewin's death, the Research Centre for Group Dynamics at MIT shifted to Michigan and entered a tie-up with the Survey Research Centre as part of the Institute for Social Research and was headed by Rensis Likert, the pioneer of

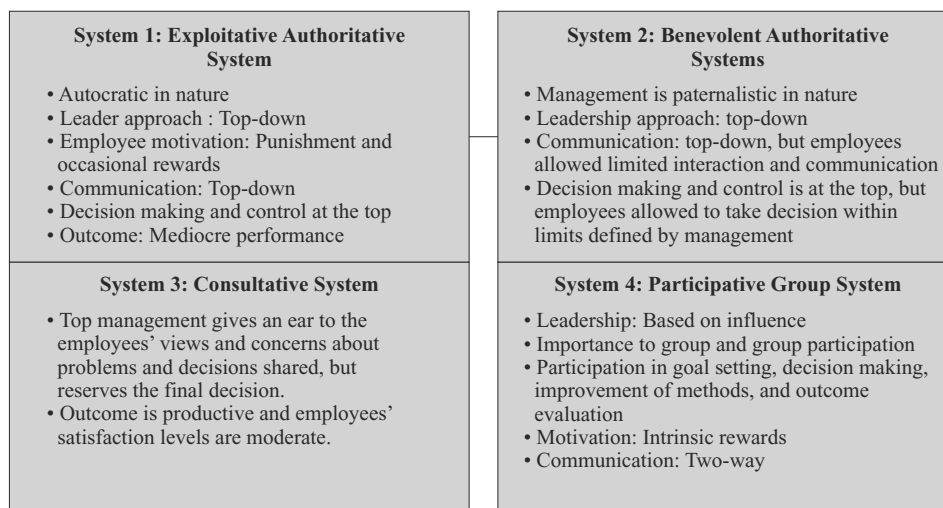
Likert Scale (French, 1985). The Institute's earliest study was conducted by Likert and Floyd Mann. It was a company-wide survey conducted to assess the attitude of both management and employees at Detroit Edison (Mann, 1962). Findings of the study were reported to the top management and also conveyed across the organisation. Feedback sessions were conducted with supervisors and their direct subordinates to discuss the data collected from the research. Researchers felt intuitively that it was a strong process for change despite lack of substantial evidence. Likert and Floyd repeated the survey-feedback method, based on which many findings were derived that led to its extensive application in a variety of situations.

### Normative Approach

Normative approach is a shift from T-group and action research. It has belief in the human relations approach as an effective way of managing change and is the third type of OD approach. Likert's participative management and Blake and Mouton's managerial grid illustrate the normative approach to manage change. According to Likert (1967) there are four types of management systems:

- (a) Exploitative Authoritative Systems
- (b) Benevolent Authoritative Systems
- (c) Consultative Systems
- (d) Participative Group Systems

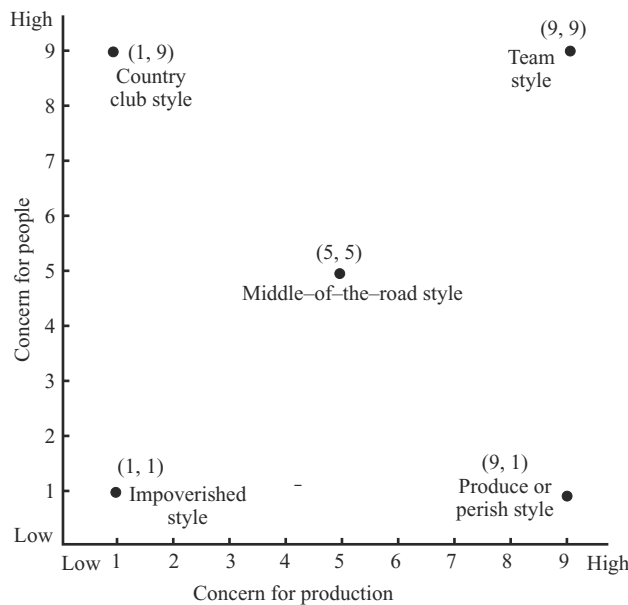
Figure 4.1 contains a brief description of the characteristics of Likert's four types of management systems.



**FIG. 4.1** Likert's four Types of Management Systems

Source: Adapted from Likert, R (1967). *The Human Organisation: Its Management and Value*. New York: McGraw-Hill.

Another normative approach was developed by Blake and Mouton (1964). Known as the Managerial Grid (Fig. 4.2), it is based on research about managerial and organisational effectiveness. Data was gathered on organisational excellence from 198 organisations across the United States, Japan and Great Britain (Blake, R. and Mouton, J., 1968). Based on research, two obstacles to organisational excellence were identified as planning and communication. The Managerial Grid is based on two parameters—concern for production and concern for people, through which an individual’s managerial style can be identified. Production concerns include task achievement, creative ideas, quality decisions and workload measurements. People concerns include an individual’s worth, working environment, level of involvement in work, remuneration and incentives and relationships. These dimensions are measured on 1–9 scale. The 1, 9 managers are those who have the lowest concern for production and the highest concern for people. Just opposite is the case of 9,1 managers. According to Blake and Mouton, the effective managerial style is 9,9 scale, that is, equal concern for both people and production. This style is effective to overcome communications barrier to corporate excellence.



**FIG. 4.2** The Managerial Grid

Source: Blake, R. and Mouton, J. (1964), *The Managerial Grid*. Houston: Gulf. Source: <http://www.odportal.com/leadership/fastlearner/grid.htm>, accessed on June 10, 2011.

### Socio-technical and Socio-clinical Approach

This is the fourth type of OD approach which focuses on productivity and Quality of Work Life (QWL) which emerged in two phases. The first phase on productivity emerged

in the 1950s in Europe and later in the 1960s in the USA. The early practitioners from Great Britain, Ireland, Norway and Sweden had developed work designs with the aim of better integration between technology and people, based on the research of Eric Trist and his colleagues of the Tavistock Institute of Human Relations, London (Eden, 1988). The QWL programmes involved participation from both the union and the management in the design of work which resulted in work designs that gave employees high levels of discretionary power, variation in task, and feedback on performance. QWL programmes led to the discovery of self-managed team, a form of work design. When QWL migrated to the USA, a variety of concepts and techniques were mixed, which led to two different definitions. First, QWL was defined as people's reactions, particularly in the context of individual outcomes related to job satisfaction and mental health. Another definition of QWL was in terms of specific techniques and approaches which are used for improvement of work (Taylor, Landy and Kamath, 1972). This phase lasted till the mid-1970s in the USA. Thereafter, the nation's attention got diverted to urgent issues like inflation and rising energy costs.

From 1979 onwards the second phase had begun and QWL saw resurgence due to increased international competition faced by the USA at its home turf as well as abroad. International competitors provided quality goods at low price, especially the Japanese companies due to their quality oriented-management practices. This resurgence expanded the focus from work design to other features like reward systems, work flow, management styles and physical work environment which affect the employee's productivity and satisfaction. This expanded focus led to large-scale and long-term projects which focused on both individual employees and groups and also added the critical dimension of organisational efficiency. QWL and the productivity approach together gained popularity. The quality circle concept became popular among many companies. In the USA, large corporations like General Motors, Ford and Honeywell and unions like the United Automobile workers, the Oil, Chemical and Atomic workers, the Communications workers of America, and Steel workers, who experimented, practised and gained the benefits of QWL were eager to popularise the concept. This second phase of QWL continues to exist under the names Employee Involvement, TQM (Total Quality Management) and Six Sigma.

### **Organisation Culture Approach**

Organisation culture is the fifth type of OD approach. A *Business Week* article in 1980 brought forth the concept of organisation culture and popularised it among managers and executives who were looking for competitive edge. This article highlighted the importance of organisational values and alignment between the strategy and the organisation culture for success with examples of AT&T, IBM and PepsiCo (*Business Week*, 1980). OD practitioners who study an organisation's culture are known as organisational anthropologists (Smircich, 1985). Schein (2004) defined organisation culture as "a pattern of shared basic assumptions that was learned by a group, as it solved problems of external adaptation and internal integration that has worked well

enough to be considered valued". In view of the above it was "to be taught to new members as the correct way to perceive, think and feel in relation to those problems". Culture consists of symbols and shared rules and norms that comprise a collective mindset in an organisation. The concept of organisation culture caught attention from 1982 through two popular books *In Search of Excellence* by Peters and Waterman (1982) and *Corporate Cultures* by Deal and Kennedy (1982). These two books propagated the importance and criticality of organisational culture for any corporate. Peters and Waterman in their book highlighted the cultural values of successful companies of those times, while Deal and Kennedy argued that the productivity and profits of an organisation can be improved by bringing change in its culture through changing values. Change in values can be attained through reinforcement, storytelling, use of different languages and communication styles and different decision making styles. As this concept gained popularity, OD practitioners became interested in strategies which could lead to change in the organisational culture and the concept of culture dominated in academic literature. However, this concept had its share of criticism too. From the OD practitioner's viewpoint, symbolic and cultural observations are strong sources of data; if these are studied in depth, potential hindrances to change can be identified.

### Strategic Change Approach

This is the sixth classification of OD approaches, which grew rapidly in the 1980s and 1990s. Strategic change is also known as change management. Organisations had begun to face complexities and more uncertainties from within and from environmental factors (technological, economic, political and social). Organisations had begun to witness rapid and intricate changes. These trends led to the birth of the strategic change approach in OD and the planned change process was encouraged at the organisation level (Buller, 1988; Worley et al., 1996). Strategic change involves improvement of alignment between an organisation's environmental factors and its strategy and design (Worley et al., 1996; Rajagopalan & Spreitzer, 1997). Beckhard's use of the open systems planning was the first application of strategic change (Beckhard and Harris, 1987). According to Beckhard, based on an organisation's core mission, the demands of environmental factors and the organisation's responses to these demands can be gauged and performance can be improved. Various strategic change models have emerged, and each of these recognises the fact that strategic change occurs at several levels in an organisation, and change in culture is driven from the top management and has considerable impact on performance. Strategic approaches have been extended to acquisitions, alliance formation and network development (Marks & Mirvis, 1998). To undertake strategic change, an OD practitioner has to be familiar not only with OD but also with competitive strategy, finance, marketing, team building, action research and survey feedback.

Table 4.2 summarises the evolution of organisation development approaches.



**Table 4.2** Evolution of Organisation Development Approaches (1940s–1990s)

OD Approaches	Origin Years
Laboratory Training/T-Group Approach	1940s
Action Research and Survey Feedback Approach	1940s and 1950s
Normative Approach	1950s
Socio-technical and Socio-clinical Approach	1950s
	1960s
	1970s
Organisation Culture Approach	1980s
Strategic Change Approach	1970s
	1980s
	1990s

## SECOND-GENERATION OD—ORGANISATIONAL TRANSFORMATION (OT)

The second-generation OD approaches emerged due to radically changing situations, especially since 1980s/1990s, with the beginning of globalisation and liberalisation. The environment became increasingly ‘disorderly’. The USA had begun to experience radical changes through technological innovations, mergers and acquisitions, leveraged buyouts, bankruptcies, stories of success, changes in law, shift in consumer behaviour and much more. From the 1990s onwards, many economies of the world adopted liberalisation and globalisation. Globalisation and liberalisation paved the way for many new corporate organisations to emerge, and established corporate organisations got an opportunity to spread their wings to tap new markets. India opened its economy in 1991. Continuous shift is noted in the nature of organisations and the organisation behaviour for accommodating and adapting to the requirements of the changing environment. These changes have created a shift in the field of OD.

OT has evolved out of the practices of the first-generation OD to meet those needs which were not satisfactorily addressed in OD’s theory and practice. According to French et al. (2011), organisation transformation is the second-generation OD as it has its roots in traditional OD (first-generation OD). Organisation transformation emerged from the persistent uncertainties and changes which call for attention of OD scientists and practitioners towards emerging concepts, interventions and areas of application. The term ‘organisational transformation’ (OT) was first noted in *Transforming Work (1984)* by John Adams. He wrote: “I became committed to working on the problems and potentials .... in the context of work and organisations. I began referring to this work as Organisational Transformation (OT) in contrast to Organisation Development (OD) (in which I have been trained in graduate school in the 1960s).”—(Fletcher 1990).

Research conducted during late 1980s concluded that the environmental conditions were changing constantly and there was need for large-scale, transformative changes within organisations which called for new approaches to organisation theory and practice (Owen, 1984; Levy and Merry, 1986; Hayes & Watts, 1986; Kilmann and Covin,

1988; Beers and Musser, 1988). The research literature was focused on societal changes which in turn affected the organisations. Kilmann and Covin (1988) stated that OT is a consequence of new global economic perspective. Levy and Merry (1986) defined organisational transformation as: *“Second-order change (organisational transformation) is a multi-dimensional, multi-level, qualitative, discontinuous, radical, organisational change involving a paradigm shift”* .

It continues to use techniques like action research and socio-technical systems. OD practitioners and scientists like Nadler and Tushman (1989) refer to ‘transitions’ on one side and ‘frame bending’ on the other side. The principles of effective frame bending include initiating change. The second phase includes content of change and leading change and the third phase includes achieving change (Nadler and Tushman 1989). Similarly, Goodstein and Burke (1991) have distinguished ‘fine tuning and fundamental large scale change in an organisation’s strategy and culture’. Other studies from Barczak, Smith and Wilemon (1987), and Bechard and Pritchard (1992) have differentiated organisational transformation from incremental change.

### **Areas of Organisation Transformation**

Organisation transformation is very demanding and takes place on a large scale which affects multiple spheres of an organisation. OT focuses on visioning and futuristic approach, learning organisation, culture, awareness and management of diversity, teams and team building, quality, spiritual aspects in an organisation and the like.

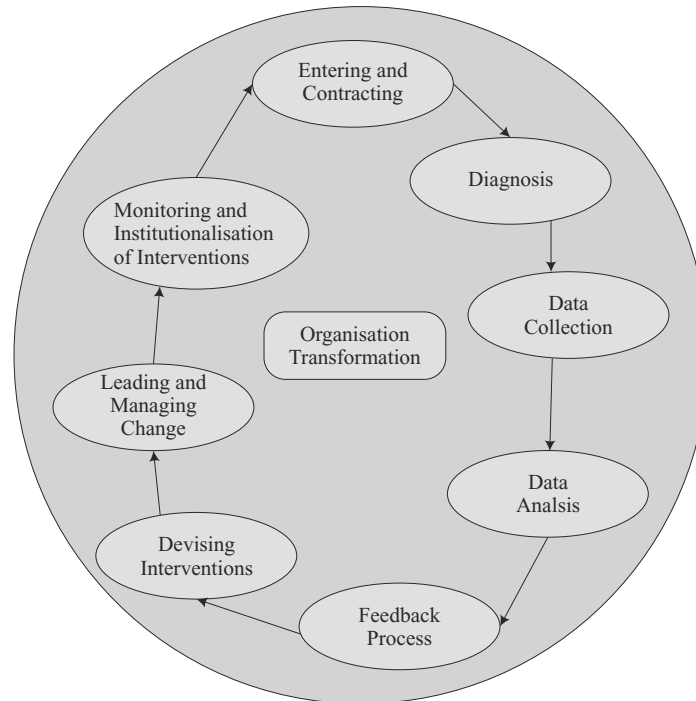
The detailed description of organisational transformation will be provided in Chapter 5.

## **PROCESS OF ORGANISATION DEVELOPMENT**

An organisation which intends to undertake organisation development has to undergo a process that consists of these sub-processes: (i) Entering and contracting (ii) Diagnosis (iii) Data collection (iv) Data analysis (v) Feedback process (vi) Devising interventions (vii) Leading and managing change (viii) Monitoring and institutionalisation of OD interventions (Anderson, 2010; Cummings & Worley, 2007; Brown & Harvey, 2006). Figure 4.3 depicts the process of organisation development.

### **Entering and Contracting**

Members of the organisation identify or sense new opportunities or improvements or need for change in vision or impending problem(s) for the organisation, a department or a unit. In such situations, the organisation needs to undertake the OD process. An OD practitioner could be from within or outside the organisation. Prior to entering into a contract with an OD practitioner, these steps need to be taken: clarification on organisational matters, identifying suitable organisation members, selecting an OD practitioner, developing a contract and setting the ground rules. The steps are discussed below (Anderson 2010; Cummings & Worley, 2007; Brown & Harvey, 2006).



**FIG. 4.3** The Process of Organisation Development

Source: Adapted from Anderson, 2010; Cummings & Worley, 2007; Brown & Harvey, 2006.

### ***Clarification on Organisational Matters***

Detailed presentation is made on problems like lack of team cohesiveness, matters related to product or service, decline in market share, issues with suppliers or partners, and departmental or inter-departmental conflicts. OD consultant would collect some preliminary data based on the problems presented to get a better insight. This preliminary data collection would take one or two days.

### ***Identifying Suitable Organisation Members***

Identifying members of the organisation who can influence and make change effective is a complex process. The organisation has to critically identify the suitable members. If any important member is left out, this would have negative impact on the change process.

### ***Selection of an OD Practitioner***

Selecting an OD practitioner, whether from inside or outside the organisation, is a catch-22 situation. According to Cummings and Worley (2007) the organisation can ask the OD practitioner to submit a proposal based on the problems presented. Along with the review of the proposal, there are other parameters that are considered while

selecting the OD consultant. Gordon Lippit (1972) listed these parameters as: sound interpersonal skills, focus level on problem, clarity of role in solving the problem, and whether association with any professional body. References also play an important role in facilitating the selection of the OD consultant. An OD practitioner should have a mix of these characteristics: technical soundness, technology savvy, amiable personality, interpersonal skills, and competency as an instructor.

### ***Developing a Contract***

The organisation i.e. the influential members chosen for the change and the OD consultant enter into a contract to take forward the OD process. If an internal OD practitioner is chosen then it would be more of an informal affair and vice versa for an external consultant. Contracting enables to put forth explicitly the expectations of both the client and the consultant from the OD process, the resource requirements, time frame required and ground rules for working (Weisbord 1985). The ground rules address matters of confidentiality, involvement of the practitioner in personnel and interpersonal matters, terms and conditions for contract termination, and whether the consultant would make recommendations or only enable managers to make decisions.

### **Diagnosis**

This sub-process involves prima facie understanding of the organisation's problems, which can be facilitated by (i) sources of knowledge and (ii) experience of the OD practitioner to decide upon the information required. Sources of knowledge include books, research papers, white papers and articles that address OD and its processes. The OD practitioner's experience is also a wealth of practical information.

The organisation is an open system which is affected and influenced by its surrounding environment (Cummings and Worley, 2007). Organisational diagnosis or study can be undertaken at the following three levels (Anderson, 2010; Cummings & Worley, 2007):

- ◆ Organisation level
- ◆ Group level
- ◆ Individual level

Figure 4.4 depicts the organisation-level diagnosis model.

### ***Organisation-level Study or Diagnosis***

The organisation-level study is a macro study. The OD practitioner has to study the organisation's environmental factors, macro-economic factors, and critical components for change which drive the change initiative strategically towards the organisational-level performance. The organisation-level diagnosis model is adapted from Weisboard's six-box model (1976), Nadler and Tushman's congruency model (1977), Galbraith's star model (2002), Kotter's organisation dynamics model (1978) and work of Cummings & Worley (2007).

## BOX

### Environmental and Macro Economic Factors

The organisation is affected mainly by two factors—environmental and macro-economic market forces. The environment includes: political, economic, social, technological, legal and ecological (PESTLE analysis). The market forces include: supplier power, buyer power, threat from substitutes, threat from new entrants and competition (Michael Porter's Five Forces Model, 1985, 2008). Porter's Five Forces model includes identification of 5 fundamental competitive forces:

- ◆ Barriers to entry
- ◆ Threat of substitutes
- ◆ Bargaining power of buyers
- ◆ Bargaining power of suppliers
- ◆ Rivalry among the existing players

Some economists considered 'government' as the sixth force and added it to this model afterwards.

Along with its sensitivity to the external environment, the organisation has to consider market forces which have influence on its strategic orientation. If the uncertainty level is high in the environment, it would be challenging for the organisation to design its strategic direction and vice-versa. The OD practitioner needs to collect information on the environmental and market forces and also assess their level of complexity and the rate of change before finalising the intervention.

Here are some real-life examples of the environmental and macroeconomic factors affecting an organisation: The US government has declared that if the US companies outsource IT work outside the country, they will not get tax benefits (political factor). This decision has been a critical concern for majority of the Indian IT and ITes companies which are dependent on exports, and this has strategic implications. The companies and PSUs, owned by the Indian Government, have decided to give more IT projects to the Indian IT companies (political factor), which is a positive sign, especially after the global meltdown. Currency fluctuations negatively affect the profit margins of IT companies, and the Indian IT and ITes companies have cost advantage over US based outsourcing companies (economic factor).

Also, the Indian IT and ITes companies face threat from other outsourcing hubs like the Philippines and China, as these countries have cost advantage (threat from substitutes). There is a highly intense competition among rivals in the Indian IT industry due to commoditised offerings, low price differentiation, and high industry growth (competition among rivals). The bargaining power of consumers is high, as a large number of IT companies are vying for IT projects.

Source: Chaudhari et al., 2009.

### **Organisation-level Throughputs**

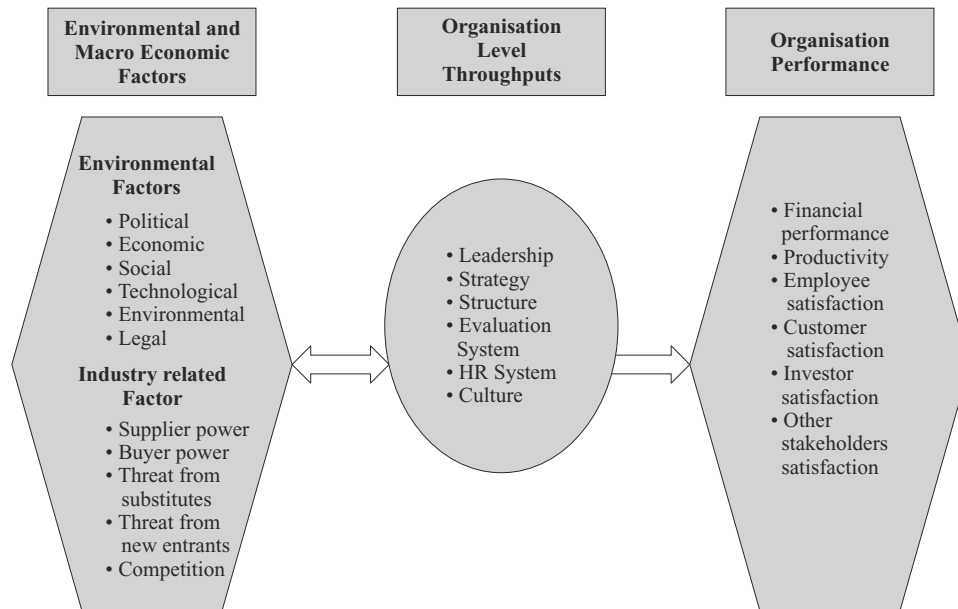
The crucial throughput components for an organisation to drive its strategic orientation include leadership, structure, strategy, technological capability, human resource (HR) systems and performance evaluation systems.

**Leadership** Leadership is like a flag mast on the ship of organisation. Thus the leader's abilities and actions influence and drive the organisation. Moreover, leadership facilitates synchronisation of critical elements of an organisation, viz., structure, strategy, technological capability, HR systems and evaluation systems.

Ratan Naval Tata has been the Chairman of the Tata Group. His leadership competencies have put the Tata industries on the global map through acquisition of Corus, an Anglo-Dutch steel company, acquisition of Jaguar and Landrover and acquisition of Tetley by Tata Tea, and other major Tata innovations such as Tata Ace (mini-truck), Tata Nano car and Tata Swatch (water purifier). These major initiatives were undertaken because of Ratan Tata's visionary leadership, integrity, entrepreneurial qualities and clear articulation of vision and strategy Source: Bhattacharya, 2006. Source: Saini, M (2008), <http://organisationalexcellence.files.wordpress.com/2008/03/microsoft-word-tata-group.pdf>, accessed on 30 January 2011

**Strategy** It is the roadmap or plan of an organisation regarding how to make utilisation of its available resources to gain competitive advantage (Porter, 1985). Vision, mission, goals, strategic intent and policies of functional areas of management describe an organisation's strategy in depth. The vision statement defines the future of the organisation. The mission statement defines its long-term purpose, array of products and/or services it plans to offer, its target market and social responsibility and benefits through the organisation. The goals enable to set standards, priorities and guide lines for management decision-making. The core values of the Tata group which are the foundation of doing its business include integrity, understanding, excellence, unity and responsibility (Tata Group, <http://www.tata.com>).

**Structure** Structure represents the method an organisation uses to accomplish its tasks. It comprises division of tasks, coordination of tasks and alignment with technology. The structure of an organisation can be bureaucratic or flat or matrix type based on various functional areas of management. The mode which an organisation uses to coordinate the tasks of its various sub-units is called integration which is achieved through plans and its schedules or budgets or assignment of special roles such as project manager/integrator officer or creating cross-departmental teams. The level of integration required in a structure is dependent on the degree of uncertainty in the environment, the level of differentiation in the structure and the extent of interdependence between departments.



**FIG. 4.4** The Organisation-level Diagnosis Model

Source: Adapted from Weisbord's six-box model (1976), Nadler and Tushman's congruency model (1977), Galbraith's star model (2002), Kotter's organisation dynamics model (1978) and Cummings & Worley (2007).

**Technological capability** The depth and breadth of technology usage in production, workflow, communication and execution of tasks and its alignment with other components for strategic orientation describe an organisation's technological capability. If the level of dependence on technology is high, it involves considerable co-ordination. Two features of the technological capability which influence other components include interdependence and uncertainty (Gerwin, 1981). Technical interdependence refers to how different parts of a technological system are connected or related with each other. Technical uncertainty refers to the amount of information required to be processed and decision making in task performance.

**Human Resource (HR) System** It comprises recruitment, training and development, individual performance appraisal, rewards and incentives. The HR system reflects the organisation culture and influences the skills, attitude, behaviour and performance of the organisational members. For example, one of the assessment tools used by HR system is called 360-degree feedback. Through 360 degree feedback, the organisation gathers data on how an individual applies his knowledge, skills, values and other competencies for the benefit of the organisation and which of these areas need further development.

**Evaluation Systems** Through evaluation system, data is gathered on tasks performed by individuals and groups in the organisation. The gathered data is evaluated through systematic techniques and feedback is provided to respective individuals and groups.

It helps to assess performance levels, identify limitations and suggest measures for performance improvement to respective individuals and groups. Each organisation has its own unique evaluation system.

**Organisation Culture** Organisation culture represents values, basic assumptions and norms shared within the organisation, which act as a guide for the organisation members in their thinking process, action, strategy and decision-making. It is an outcome of the organisation's history, environment and choices made in the context of structure, strategy, technology, evaluation systems and HR systems. However, it can become a constraint in situations of change, as it is most difficult to change than other components. It can hinder or facilitate any change initiative. Understanding the organisation culture is crucial to get insights into its performance or effectiveness.

### ***Organisational Performance***

The results of an organisation can be measured at three levels— financial performance, productivity and satisfaction of the stakeholders. Financial performance indicators include profits, sales, return on investment (ROI) and earning per share (EPS). Productivity parameters include efficient utilisation of employees, wastage level of resources employed, rate of errors in product or service, quality level, and units produced on hourly basis or the effectiveness of the service provided. The stakeholders whose satisfaction levels are measured include employees, customers, investors and others. The employee satisfaction can be measured by survey, the customer satisfaction can be gauged in terms of market share and customer feedback and the investor satisfaction could be considered in terms of share price and dividend.

An organisation's strategic orientation can be known through alignment between environmental and market forces and its various critical components that are used to manage resources to attain the desired organisational performance. If there is a high level of uncertainty in the environment and market forces then the level of complexity within the organisation would be high.

For example, the environmental, economic, regulatory, social, ecological, political and technological factors which affect a company differ in the level of uncertainty depending upon the industry. Thus, for a particular company, bound by regulations governing all the companies in that sector, the level of uncertainty would be low. But it has been observed that the uncertainty level is high in the technology-based industry, as new technologies are developed and rolled out continuously, so also new modes of service delivery. Thus technologies get obsolete rapidly. Besides, competition comes from other technological sources. For example mobile technology is being used for internet access, photography, music recording and banking thus intensifying competition for the existing technologies in these sectors. The economic environment faces a high level of uncertainty due to currency fluctuations and fluctuations in exports of IT/ITes services.

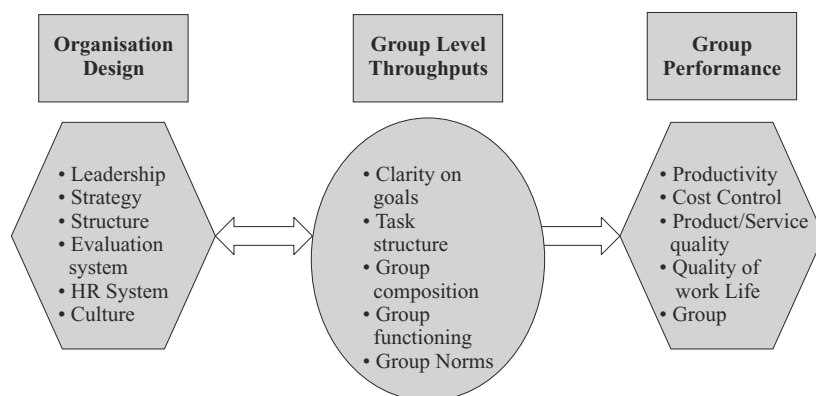


## Group-level Study or Diagnosis

The group-level diagnosis includes *organisation design*, *group level throughputs* and *group performance*. This model is adapted from Ledford, Lawler and Mohrman's (1988) group design model, McCaskey's (1997) framework for group analysis, Hackman and Morris' (1975) task group design model and Cummings and Worley's (2007) group diagnosis model.

Figure 4.5 depicts the group-level diagnosis model.

1. **Organisation Design:** It comprises leadership, strategy, structure, technology, HR system, evaluation system and culture. All these put together form the input at group level. A group is embedded in the larger orbit, that is, organisation. Strategy defines how the group would contribute to the organisation's overall strategy. The extent of technology usage would indicate the group characteristics. Evaluation and reward systems play a crucial role in determining the group functioning (Ancona and Caldwell, 1992; Mohrman et al., 1995).



**FIG. 4.5** The Group-level Diagnosis Model

Source: Adapted from Ledford, Lawler and Mohrman's (1988) group design model, McCaskey's (1997) framework to analyse groups, Hackman and Morris' (1975) task group design model and Cummings and Worley's (2007) group diagnosis model.

2. **Group-level Throughputs:** These components include clarity on goals, task structure, team functioning, team composition and norms.

*Clarity on goals:* Clarity on goals means the level of understanding among group members regarding the goals. Group members should have the same level of understanding regarding goals. Goals should be challenging and measurable which could be monitored and evaluated.

*Task structure:* Task structure specifies how the group's work is designed. Two important dimensions of task structure are: *coordination* of the tasks and *regulation* of task-oriented behaviour among members (Slocum, J. and Sims, H. 1980). The coordination dimension determines the extent to which team tasks are structured to encourage effective interaction among the group members.

Coordination is crucial for groups in which members are highly interdependent on each other for performance of their respective tasks. The regulation dimension focuses on the extent to which the group members are able to control their own task behaviour and are free from external control. Self-regulation is possible when the group members are given discretionary power in goal setting, planning and procedure for the assigned task.

*Group composition:* Each group member is unique on dimensions like demographics, education, experience, skills and capabilities, which impact the individual's behaviour in a group and between group members. Differences in social and individual needs can determine whether the group membership would be satisfactory or stressful (Hackman and Oldham, 1980).

*Group functioning:* Group functioning is the basis of group life. It relates to relationship between members and the quality of relationship—the factors which affect team performance. If there is a high level of competition and conflicts among members, it would result in lack of support among members which affects group functioning negatively. But if the quality of relationship is high priority and concern for task is low, this would also result in negative outcome. Group functioning involves advocacy and inquiry; coordination and evaluation of activities; encouragement to each other, harmonisation, compromises; setting standards and observation—these would help maintain team cohesion (Dyer, 1994).

*Group norms:* It is about the members' beliefs regarding how the group should perform its tasks and inclusion of acceptable performance levels (Cummings, 1981). Norms for the group get formed through interaction among members and these guide the group behaviour. Once members agree upon group norms, these would be followed routinely.

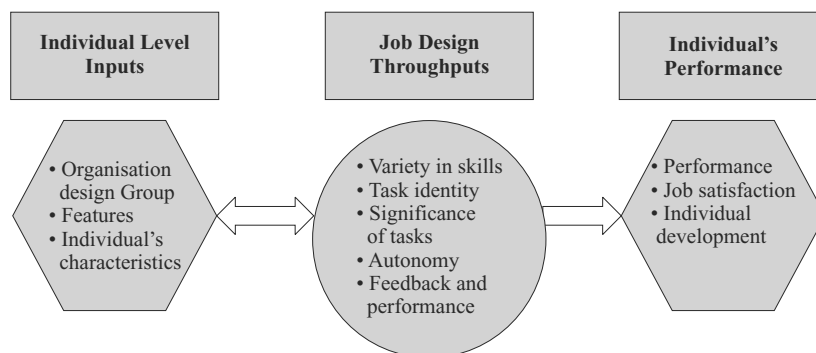
3. **Group Performance:** Performance or result of a group or groups is measured on two aspects—(i) performance and (ii) quality of work life.
  - (i) *Performance:* It is measured in terms of cost control, quality of output, productivity levels, creativity and innovativeness of the group.
  - (ii) *Quality of work life:* The quality of work life of group members can be assessed on parameters like work satisfaction, group coordination and commitment to the organisation.

The outcome of a group task is dependent on the alignment and strategic fit between the organisational design and the group design. If an organisation's technology features lead to creation of interdependent tasks then coordination among group members can be promoted through task structures, group composition, functioning and norms. However, if technology features lead to creation of independent tasks, the group design components should encourage individual task performance (Cummings, 1978; Slocum and Sims, 1980). In the context of relative technological uncertainty, which would require high amount of information processing and decision making, the group design should encourage self-regulation among the group members.

### **Individual-level Study or Diagnosis**

To conduct study at the individual level, macro-level aspects also need to be considered. An individual and his/her job receive inputs from the organisational design, the group design and individual characteristics. The throughput components at this level include individual's task identity, variety in skills and capability, significance of task, autonomy and feedback. The combination of input factors and job components would result in an individual's performance, job satisfaction and personal development. The individual-level diagnosis model is adapted from Herzberg's (1968) job enrichment model, Hackman and Oldham's (1980) job diagnostic survey, and Cummings and Worley's (2007) individual-level diagnostic model.

Figure 4.6 depicts the individual-level diagnosis model.



**FIG. 4.6** The Individual-level Diagnosis Model

Source: Adapted from Herzberg's (1968) job enrichment model, Hackman and Oldham's (1980) job diagnostic survey, and Cummings and Worley's (2007) individual level diagnostic model.

**1. Inputs at Individual Level:** The inputs at individual level include organisation design, group design and individual characteristics. Organisation design and group design components which influence job design have been discussed above. Individual characteristics include age, educational qualifications, aptitude, skills and experience. The group design reveals what are an individual's tasks and how these are structured and coordinated with other group tasks. The group composition influences the type of individuals get attracted to fill the vacant positions. Group norms guide the type of jobs to be created within the group, and clarity on goals enables individuals to prioritise their tasks.

An individual's characteristics impact job performance and the extent of reaction to the job design. An employee's needs and expectations affect his/her job responses, that is, motivation levels. Motivation to work depends on an individual's expectation that he/she would be able to perform his/her job well and fine performance level would result in valuable outcomes (Lawler III, 1973).

- 2. Job Design Throughputs:** The OD practitioner needs to study the various job design throughput components for the individual-level study within the organisation (Hackman and Oldham, 1980).

*Variety in Skills:* This study involves understanding a range of skills required by an individual to perform the assigned job. The production line jobs require limited variety in skills, as these are repetitive jobs. In the context of professional jobs, multi-skilled individuals are required. Over the years the need for variety in skills has increased, as the nature of jobs is getting more complex and demanding.

*Individual's Task Identity:* An individual's task identity means the degree to which the task is visible, measurable and identifiable from the beginning till completion.

*Significance of the Task:* The significance of a task has an impact both on the individual on the other people. At the individual level, it impacts the motivation level and there is concern as to how it benefits or affects others.

*Autonomy:* Autonomy to an individual to perform his/her job is determined by the degree of discretionary power and independence provided to decide upon the timeline, work plan and procedure. Assembly-type jobs have low autonomy, as work schedule and process are to be planned as per the production targets. Individuals in R&D organisations have higher level of autonomy as it facilitates development of innovative and creative product/service/ process. In R&D jobs higher level of autonomy is essential because only it can bring innovativeness and creativity from the organisation will benefit in the long-run.

*Feedback:* Feedback on employees' performance is essential to get an insight into their performance level and the areas which need further improvement. These five dimensions put together constitute job enrichment. Jobs which have higher level of variety in skills, task identity, significance of the task, autonomy and feedback are enriched jobs.

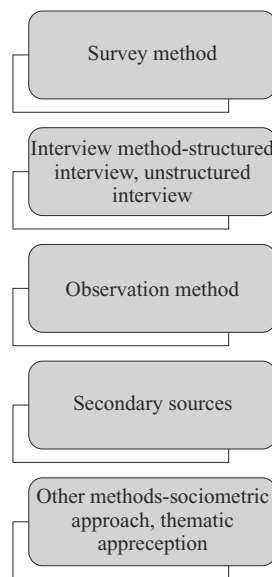
- 3. Individual's Performance:** An individual and his/her job is embedded in a larger orbit, that is, organisational design and group design. Thus it is essential to align job design with macro-level aspects. Highly differentiated and integrated organisations and groups permit their members to self-regulate their behaviour to fit into their respective jobs. Bureaucratic organisations and groups rely on external control and have low concern for job design throughputs. There needs to be alignment between individual characteristics and job design. Individuals with high growth needs would have preference for enriched jobs while individuals with low need for self-learning and dependent on directions would fit routine jobs.

## Data Collection

After getting the first-hand information about the organisation and its groups and individuals, the OD practitioner proceeds for data collection. Prior to data collection, the

OD practitioner has to ensure that he/she establishes relationship with the concerned individuals and groups. This not only facilitates data collection but also helps gather quality information. There are four methods that are useful for data collection in the OD-diagnosis process: (a) Survey (b) Interview (c) Observation Method (d) Secondary Sources (Nadler, 1977; Cummings & Worely, 2007; and Brown and Harvey, 2006).

Figure 4.7 depicts various methods of data collection.



**FIG. 4.7** Data-Collection Methods

### **Survey Method**

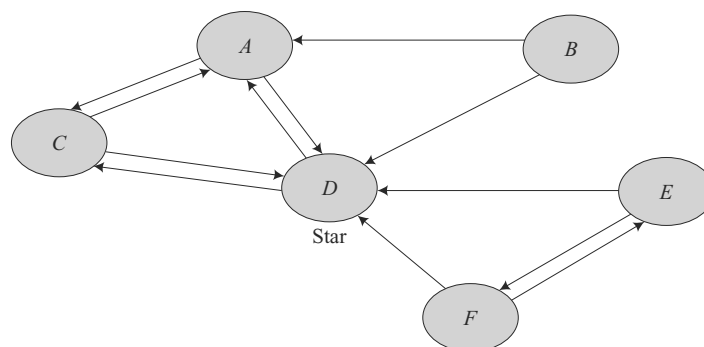
It is considered to be an efficient method as it follows a standard procedure and can be administered to a large number of people simultaneously. Quick data feeding and analysis with appropriate technique can be done, especially with analytical packages like SPSS and AMOS. Whether a standardised or tailor-made questionnaire should be used depends on the problem to be studied and the unique features of the organisation, groups and jobs. In the West, there are well-known research organisations like the Institute for Social Research at the University of Michigan and the Centre for Effective Organisations, University of South California, which develop questionnaires useful for data collection in the OD diagnosis process. The Survey of Organisations Questionnaire and the Michigan Organisational Assessment Questionnaire are considered to be reliable and valid (Ledford & Worley, 1987). Other instruments include Weisbord's Organisational Diagnostic Questionnaire, Cameron and Quinn's Organisational Culture Assessment Instrument, Dyer's Team Development Survey and Hackman and Oldham's Job Diagnostic Survey (Margulies & Wallace, 1973). In India, either the questionnaires are tailor-made or standardised tests are developed indigenously by test developers

and researchers or adapted from elsewhere. These are used by HR managers, OD consultants and global/Indian consulting firms.

The survey method has some limitations: limited amount of data is gathered depending on the number of questions, the scope for further probing or clarification is restricted and the OD practitioner is unable to provide personal attention to each individual, which often leads to less honest or incomplete or diplomatic responses. These limitations make it difficult to extract quality information using the survey method.

### 1. Other Instruments

(i) *Socio-metric Approach*: This instrument is used for data collection on one or more groups in an organisation. Jacob Moreno (1953) had developed this quantitative instrument to obtain data on the network of interrelationships within groups on certain dimensions. Questions asked in this instrument help collect data on choices and preferences within a group. For example, ‘Who do you prefer to work with?’ or ‘Who helps you the most in technical problems?’ Such questions help the OD practitioner understand the structure and patterns of interactions. The results are plotted on a sociogram (Fig. 4.8). The most preferred individuals are called *stars* and those who have low or no choices are known as *isolates*. If individuals choose each other, it is known as *mutual choice*. And, if one individual chooses another but is not preferred by the other individual, it is called *one-way-choice*. Based on the data gathered, if it is found that three or more individuals choose each other, it is known as *clique*. Existence of such sub-groups may indicate lack of relationship and coordination within the group. Results of this instrument help understand the quality and level of relationship among group members and probable problems which can hamper group tasks (Brown and Harvey, 2006).



**FIG. 4.8** Sociogram

(ii) *Thematic Apperception Test*: This test is used to measure the intensity among the organisation members in aspects of achievement, power and affiliation motivation (McClelland, 1961). There are OD practitioners who make use of drawings and collages

made by members of the organisation to gather data on the organisation's environment (Fordyce and Weil, 1971).

### **Interview Method**

Interview is another method which is widely used in the OD diagnosis process. Interviews are conducted on individual or group basis and can be structured or unstructured. Benefits of using the interview method are: it is flexible and adaptive and can be used in variety of situations it provides an opportunity for two-way communication which facilitates probing to get in-depth information, especially subjective data that can be missed out or be incomplete in the questionnaire method. Interviews are conducted in two formats—structured and unstructured.

- 1. Structured Interview:** This format of interview resembles the questionnaire method and is based on structure and functioning of the organisation, that is, organisation design, group design and job design. For example, if the interview is being conducted for group design, the questions would be structured around goals, group norms and relationship quality among group members based on the outcome of the study conducted at the group level. The questions could be open-ended or close-ended. Open-ended questions allow the respondent to answer in an unconstrained and free manner. An open-ended question could be: What do you think about group cohesion and coordination? The close-ended questions are answered only in 'yes' or 'no'. For example, 'Are you satisfied with team norms?'
- 2. Unstructured Interview:** Unstructured interview begins with broad questions and as it proceeds, it narrows down to specific questions which are based on the respondent's answers. The direction of the interview is chosen by the respondent with little guidance and support from the interviewer. For example, in an interview regarding job design, the questions would begin with: What tasks are to be performed under the assigned job? What educational qualifications are required? What aptitudes are essential in an individual to perform that job? What difficulties are faced in performing the task?

Compared to the individual interview, the group interview can save time, and individuals get opportunity to build on others' responses. A popular mode of group interview is focus group (Krueger, 1994). In this interview mode, individuals from different functional areas are called upon to discuss their views and suggestions to address a major problem, like decline in the market share of the company's product. The focus group interview helps gather data in an economical way and develop in-depth and broad understanding on the matter. The quality of data gathered would depend on the relationship and trust built between the interviewer and the group. Group interviews can also be conducted in the unstructured mode.

There are certain limitations in the interview method. Interviews consume a lot of time, especially if these are conducted on individual basis. There are chances of biases from the interviewer or the interviewee, which can affect the quality of the data

gathered. The biases from interviewer's side can be in the type of questions asked and the nature of interaction which can either encourage or discourage the respondent from providing honest and in-depth information. As interview takes place face-to-face, the respondent may have some level of discomfort from disclosing information due to the fear or bias at the individual level.

### **Observation Method**

In this method, the OD practitioner observes behaviours and interactions of organisational members. Observation can take place in two ways. First, the OD practitioner gets *involved* with the group under diagnosis. Second, the practitioner opts for the *detached observation* wherein he/she is not part of the group and observes behaviours and interactions from a far-off place and may use video camera or other recording devices. Observations are made on how individuals take up their tasks, their responses and reactions to different situations and norms and their attitudes. During these observations, the OD practitioner looks for discrepancies or inconsistencies in behaviours. Some practitioners may use sociogram to plot communication flows and processes in group meetings or interactions. To enhance the soundness of the data collected, the OD practitioner can make comparison between the observed behaviour and the reported behaviour. Benefits of this method are: It is free from biases which are found in the self-report data; it facilitates direct observation and provides real-time data, and modifications can be made by the observers on what they choose to observe based on situations. The observation method can be structured or unstructured. If the observation is highly structured, chances of extracting reliable data are high.

The observation method has some limitations: In order to interpret the core meaning underlying the observations, codes need to be formulated to make sense of observations. Code formulation is a time consuming task. Biases can creep in observations, as the practitioner acts as an instrument for data collection. If the practitioner overlooks other aspects like time limit for observation, place and events, this could lead to highly biased data.

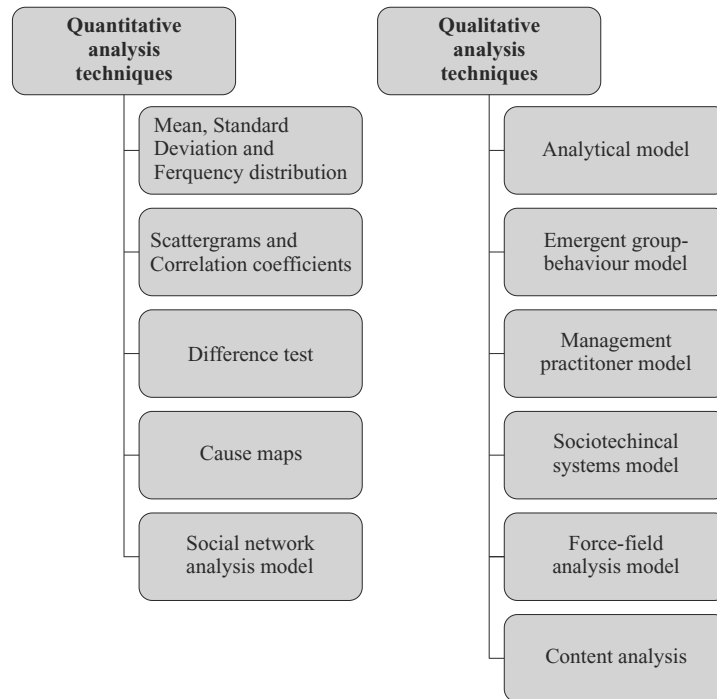
### **Secondary Sources**

Data required by the OD practitioner can be collected from secondary sources like company reports, records and archives. Secondary sources provide data on financial performance, figures on production and sales, records on employee absenteeism, grievances, minutes of the meetings, brochures, and correspondence with customers, suppliers and other stakeholders. These sources of information are free from biases of an OD practitioner and provide an objective view of the organisation's functioning.

### **Data Analysis**

Based on the type of data collected, the OD practitioner can analyse it using quantitative or qualitative techniques. Of the several techniques available for data analysis, some are discussed here briefly. Figure 4.9 depicts various data analysis techniques.





**FIG. 4.9** Techniques of Data Analysis

### Quantitative Techniques

Quantitative data can be analysed with the help of several techniques—from the simple standard instruments to highly sophisticated techniques like multivariate analysis.

1. **Mean, Standard Deviation and Frequency Distribution:** This is the most simplistic technique of analysis. The quantitative data collected from respondents on each item is computed using simple statistical techniques like mean, standard deviation and frequency distribution. The mean score represents the respondents' average score and the variability in the responses. However, these scores can be misleading regarding the responses. The mean score can be same even if patterns of responses differ. To get better results, standard deviation (SD) and frequency distribution are used. If the SD of a data is high, it means there is considerable disagreement for a concerned question and vice-versa. Frequency distribution means graphical display of data on the number of times a particular response was given.
2. **Scattergrams and Correlation Coefficients:** The OD practitioner can infer about the relationship between variables with the help of scattergram and correlation coefficients. *Scattergram provides visual representation of the relationship between two variables.* The diagram is constructed based on

identifying each case, that is, a person or an event at the intersection of its value for each of the two variables being studied. In a scattergram, three patterns can emerge regarding the relationship of variables—positive, negative and shotgun. The positive pattern represents that the relationship between the two variables is in sync. In the negative pattern, the relationship between the two variables is inversely related. In other words, when the value of  $X$  increases, the value of  $Y$  decreases. In the shotgun pattern, no relationship between the two variables is clear. The *correlation coefficient is a number which summarises data given in a scattergram*. Its values range between +1.0 and -1.0. The value of +1.0 means there is positive relationship between two variables and -1.0 implies negative relationship between two variables. Most relationships fall in between +1.0 and -1.0. The correlation coefficient with value 0 symbolises shotgun in a scattergram.

3. **Difference Test:** The difference test is used to compare a sample group against a standard or norm and find out whether that group is below or above the standard. This test can also determine whether the two samples are significantly different from each other. For example, the productivity level of IT engineers in a software development company is compared with the IT industry's average standard on productivity level. Another benefit of using this technique is to assess whether two or more number of group have differences on a particular variable such as job satisfaction. For example, the comparison between IT engineers and marketing personnel in a company on the job satisfaction variable. The difference test (t-score or z-score) can be conducted based on mean and standard deviation. If the difference score is bigger relative to the sample size and standard deviation of each group, chances are there that one group would be more satisfied than the other. The difference test score can also be used to determine whether a group's score on a particular variable remains the same or differs at two different points of time. Reliability and validity of the score depends on other factors like method of data collection quality of data and assumptions made by the OD practitioner.
4. **Cause Maps:** This model was proposed by Reed E. Nelson and K. Michael Mathews (Nelson and Matthews, 1989). *Cause Maps are mathematical representation of perceived causal relationship among variables*. The important variables (for example quality, morale, quantity, speed and frequency) are identified through group discussions. The respondents are asked to identify the causal relationship between variables and the results are built-in in a matrix of relationships.
5. **Social Network Analysis Model:** It is also a *mathematical representation on relationship between individuals or groups*. The analysis of causal make up of an organisation and specified interdepartmental relationships provide knowledge on important interdependencies.

### **Qualitative Techniques**

This section briefly discusses qualitative techniques like analytical model, emergent group-behaviour model, management practitioner model, socio-technical system model, force-field model and content analysis.

1. **Analytical Model:** The analytical model is also known as difference-integration model (Lawrence and Lorsch, 1969). It helps in understanding interdepartmental issues through a careful diagnosis of the organisation's problem areas. Through this model, analysis can be conducted for the following features of an organisation: (i) Departmental Structure, (ii) Members' orientation towards time, (iii) Quality of interpersonal relationship, (iv) Members orientation towards goals (Lawrence and Lorsch, 1969). The outcome of the analysis enable two departments to understand why there are differences between them and they can work together to overcome these differences.
2. **Emergent Group Behaviour Model:** This model is based on the works of George Homans and it analyses behaviour in a work group and interdependence between work-groups (Homans, 1950). As per this model, a complex pattern of behaviour which comprises of four components—activities, interactions, sentiments and norms—emerge from the set of behaviours and relationships that are necessary to function in a work group. There is another set of complex behaviours, that is, social behaviour or social activity in addition to work group behaviour which takes place while participating in group work. Social behaviours may or may not help in the discharge of work group duties. Information and observation on the four components, stated above, can help in diagnosing problem or problems among or within teams.
3. **Management Practitioner Model:** Terry Armstrong and Walter Wheatley (1989) developed this analytical model based on six factors: (i) Basic Planning—vision, mission and goals of an organisation (ii) General business practices—management system (iii) Finance—financial planning and management (iv) Advertising and promotion—awareness about the impact of advertising on sales (v) Market Research—information and awareness regarding consumers' demands, competitors' strategy and policies (vi) Human resource—whether strategy and policies for HR system are appropriate? According to Armstrong and Wheatley, if basic questions are asked for each of the six factors, it facilitates in identifying the organisation's problem.
4. **Socio-technical Systems Model:** This model was developed by Eric Trist and colleagues at the Tavistock Institute which analyses the interaction of the organisation's socio-technical system with its external environment (Emery, 1959). According to Trist and his colleagues, in every organisation there is a social system which comprises the network of interpersonal relationships and technological system that includes tools, tasks, and activities required to accomplish organisational goals. Both these systems (social and technological) are interrelated and interdependent. Analysis of this relationship helps in

understanding the nature of relationship and interdependence between their various subsystems with focus on feedback or lack of it.

5. **Force-Field Analysis Model:** This model is a general-purpose diagnosis technique and was formulated by Kurt Lewin (Lewin, 1974). According to this model, organisation behaviour is a dynamic balance of forces that work in opposite directions. In any situation, the organisation faces forces which encourage change as well as those which discourage change. The forces which restrain change and keep the organisation in a stable position are called *restraining forces*. Those forces which push the organisation for change are called *driving forces*. When these two forces are equal, the organisation remains in equilibrium and stable and this state is termed as *quasi-stationery equilibrium* by Lewin. This force-field analysis model assumes that at a given time the organisation is in equilibrium state. Change occurs when there is imbalance between the two restraining and driving forces.
6. **Content Analysis:** The content analysis technique summarises the qualitative comments into different meaningful categories. There are three major steps in the process of content analysis. In the first step, all the responses to a particular question are read in detail to gain insight into a range of comments and capture the recurring comments. The second step involves sampling of these comments and to form themes. For example, questions could be: *What do you like about the organisation?* Respondents may express liking for one or more of these organisational features: decentralised or flat structure, colleagues and bosses, tech-savvy environment, quick decision making and transparency. Decentralised or flat structure is classified under the organisation structure, colleagues and bosses are classified under social aspect, and tech-savvy environment, quick decision making and transparency are classified under the organisation environment. The third step is to put the responses under appropriate themes. The themes with the highest responses are considered to be the most mentioned (Krippendorf, 2004; Weber, 1990).

### **Feedback Process**

The feedback from the OD practitioner needs to be such that it influences the organisation to undertake change. The content of the feedback should be relevant, understandable, descriptive, verifiable, available on time and in condensed form. Following are the characteristics of a feedback process (Nadler, 1977, Cummings & Worley, 2007):

### **Motivation to Work upon Feedback Data**

It is important that the individuals in the organisation have the urge to work upon the feedback data. Only then the feedback can be fruitful. The support of the influential groups within the organisation is required so that people have the freedom to express their concerns on the feedback data and it could be owned by the client system. When there is lack of motivation, it can hamper the OD process at a critical stage.

### ***Agenda for the Meeting***

Setting the meeting agenda is essential so that the meeting moves in an appropriate direction rather than turning into a chaos and aimless discussions, especially in the context of the negative feedback data. The agenda can be provided by the leader.

### ***Proper Representation***

Proper representation of a group or groups is essential. The group can be cross-functional or may involve members from different hierarchical levels. If proper representation is not made then the outcome of the feedback process would not be effective.

Individuals with common problems can benefit from working together and should be included in the feedback meeting.

### ***Power Position***

Clarification on the power of a group or groups need to be made in the context of what changes the group can make, on which matters it can only recommend and on which issues it has no control. These clarifications can facilitate change. If the group is not given any power to make change then the feedback meeting cannot be a fruitful exercise.

### ***Support during Process***

Assistance is essential during the feedback process so that individuals in a group or groups can work together. If the feedback data is negative, group members may pose resistance. The OD practitioner through group skills can intervene and facilitate group members to remain focused on feedback discussions, problem solving and ownership of data.

- ◆ If the survey method has been employed in the OD diagnosis process, there should be top-down involvement from the initial stages of planning. (Nadler, 1977; Wiley, 1991; Church et Al., 1995; Folkman & Zenger, 1999; Cummings & Worley, 2007).
- ◆ The survey instrument should be administered to all the members across the organisation or to a representative sample if the size of the organisation is large.
- ◆ The OD practitioner should collect, analyse and tabulate the survey data, and suggest approaches to diagnosis and train the client staff to lead the feedback process.
- ◆ Feedback begins from the top and moves down the organisational hierarchy.
- ◆ In feedback meetings, there is opportunity to work together upon the data.

There are also some limitations in the survey feedback method, like uncertainty of purpose, chances of distrust if employees' doubts whether their responses will be kept confidential or not and the level of seriousness of the top management. If there are

disputable matters then there would be opposition to discuss them and this process causes disturbance in the organisation routine.

## **Devising Interventions**

Devising interventions in the OD process is critical, as there are various dynamic forces which affect change either positively or negatively. According to OD literature there are two types of risks which affect change: (i) Risks related to the change situation, and (ii) Risks related to the target of change (Cummings & Worley, 2007).

### ***Risks Related to the Change Situation***

These risks include willingness for change, capacity to change, culture of the organisation and capabilities of the change catalyst, that is, the OD practitioner.

- 1. Willingness to Change:** It depends on the sensitivity to pressures for change, level of dissatisfaction with the status quo, availability of resources for change and commitment from the top management. If the organisation's willingness level to change is high based on above mentioned factors then the interventions designed would be effective and vice-versa.
- 2. Capacity to Change:** This depends on the following factors: motivation to change, leading change, building support, ability to manage transition and sustaining change. When the top management and the organisation members have these characteristics then the intervention process would be easy. If there is lack of these qualities then prior to designing the intervention, the organisation members need to be trained in these qualities.
- 3. Culture:** The culture of an organisation as well as of the nation has influence on the organisation members' perspective and reaction to change. In the process of formulating interventions, cultural values and assumptions are essential to be considered (Hofstede, 1980; Johnson, 2001). For example, the team-building intervention designed for the marketing department of a company located in the UK would be different for the marketing department of its subsidiary offices located in India, China and Singapore.
- 4. Capabilities of the Change Catalyst:** The OD practitioner is the change catalyst in the OD process. His/her experience and expertise have an impact on the effectiveness of the intervention both in devising and implementing the intervention. If the OD practitioner notes any mismatch between his/her qualification and the qualification essential to devise and implement interventions, an ethical route needs to be adopted to solve this problem. To overcome the mismatch, interventions can be modified but should be suitable for the organisation or the OD practitioner should genuinely seek the assistance of another OD expert who can help devise and implement the intervention.

### ***Risks related to target of change***

These risks include organisational matters and levels in the organisation, that is, individual, group and the organisation itself.

- 1. Organisational Matters:** These include strategic, technological and structural, human resource and human process matters. These matters are the target for change and can support or hamper any change initiative. Moreover, these matters are affected by the external environment which is highly dynamic, competitive and uncertain. For each intervention, there are specific OD interventions, which are discussed in detail under the topic 'Interventions'.
- 2. Levels in the Organisation:** Along with organisational matters, levels in the organisation are also target for change. Interventions can affect individuals, groups, inter-group relationship and the organisation as a whole. For example, the interventions targeted at individuals have the primary impact at the individual level, while the other levels of the organisation experience the secondary impact.

### **OD Interventions**

The OD interventions can be classified as types: strategic, human resource management, people process, and techno-structural interventions. An organisation can choose interventions appropriate to its requirements and deploy them for its benefit (Cummings & Worley, 2007; Brown & Harvey, 2006).

### ***Strategic Interventions***

Strategic interventions enable the organisation to transform itself and to be able to link with the changes in the external environment. Strategic interventions take place at the organisational level. Some strategic interventions are described below.

- 1. Integrated Strategic Change:** This is a comprehensive OD intervention wherein business strategies and organisation systems have to be changed together to enable the organisation to respond to the disruptions from internal and external forces. The strategic change plan enables the organisation members to manage the transition process.
- 2. Merger and Acquisition:** The OD practitioner suggests the merger and acquisition intervention when two or more entities, having different competencies, would form a new competitive entity following their merger. Key issues like leadership, culture and human resources need to be addressed before dealing with the legal and financial aspects for smooth merger and acquisition and subsequent operation of the merged entity.
- 3. Joint Venture:** Two organisations form a joint venture to pursue common goals through sharing of resources such as intellectual assets, physical assets, human resource and technology. Prior to entering into collaboration, there is a process of finding a suitable partner and formulation of strategy and process for entering into the joint venture.

4. **Cultural Change:** The cultural change is required when there is a need or urge in the organisation to overhaul its values, beliefs, behaviours and norms to match these with the environmental and strategic requirements. Culture helps driving all the members in the same direction.
5. **Partnership:** Partnership is required when the organisation alone is unable to perform the tasks or solve problems. In such a situation, it forms a partnership with one or more organisations to perform a particular task or solve complex problems through an appropriate structure.
6. **Self-designed Organisation:** This intervention helps the organisation change its fundamentals. It is a highly participative process which involves multiple stakeholders to set up strategic directions and design and execute structures and processes.
7. **Organisation Learning and Knowledge Management:** The organisation learning intervention aims at enhancing the organisation's capability to grasp learning and develop new knowledge. On the other hand, the knowledge management intervention enables the organisation to use knowledge to enhance its performance. Together the organisation learning and knowledge management interventions facilitate continuous learning in the organisation.

### ***Human Resource Management Interventions***

The human resource management (HRM) interventions are those practices which facilitate integration of employees in the organisation. Some of these interventions are described below.

1. **Setting Goals:** As is clear from its name, this intervention aims at setting goals which are clearly understandable and challenging. Attempts are made to coordinate between organisational and personal goals in order to enhance the effectiveness of the organisation. The organisation members meet periodically to review work progress and to solve problems in order to achieve the organisational goals.
2. **Performance Appraisal:** Performance appraisal is jointly undertaken by the organisation and individuals to assess performance, achievements, efficiency and effectiveness. Performance appraisal tools like performance management system, 360-degree feedback and others are used in the process.
3. **Rewards:** Rewards are crucial for enhancing employees' performance and satisfaction. Rewards need to be innovative with a good mix of pay, promotion and fringe benefits.
4. **Career Planning:** This intervention is essential to improve the organisation members' quality of work life based on their qualification and aptitude. This intervention would enable the organisation to enhance its performance and growth.



- 5. Managing Diversified Workforce:** Workforce diversity is a critical matter for the organisation. It is essential for the organisation to address the varied needs of its diverse workforce. There is rise in the number of female employees, individuals from ethnic minority groups, and differently-abled individuals. Diversification narrows down the differences in culture, demographics and qualification. So the policies and actions of the organisation need to be sensitive the needs of the diversified workforce.
- 6. Employees Wellness:** The physical and psychological stress is a burning issue due to increase in competition and work pressures. These illnesses directly impact the employee's performance and also affect the organisation's growth. Interventions like stress management, health management, counselling and other employee wellness programmes, provided by the organisation, can help in preventing/mitigating the negative consequences. The employee wellness intervention helps employees, groups and the organisation in working and contributing effectively towards the organisational performance.

### ***People Process Interventions***

The people process interventions facilitate individuals to achieve organisational goals. Improvement and enhancement of the people processes help in improving the organisation's overall efficiency and effectiveness. These interventions are derived from the fields of psychology, sociology, group dynamics and human relations. Some of these interventions are discussed below:

- 1. Coaching, Training and Development:** This intervention helps managers and subordinates have clarity on roles and goals and overcome the stumbling blocks through coaching and training and development. Coaching, is often conducted on one-to-one basis between the OD practitioner and the employee. It focuses on personal growth and development and contributes towards improving the organisation's performance. Training and development is conducted to enhance skills and knowledge of all organisational members. The focus is on competencies required to perform their tasks.
- 2. Process Consultation:** The focus here is on quality of interpersonal relations and social dynamics of work groups. The OD intervention is required to diagnose the group problems and devise appropriate interventions to smoothen the group functioning. In groups, there are problems like lack of communication among group members, conflicts and ineffective norms. The OD practitioner facilitates group members to understand these problems and trains them to acquire the skills required to address these problems effectively.
- 3. Third-party Intervention:** This intervention addresses dysfunctional interpersonal relationships in the organisation. A dysfunctional relationship arises when there are conflicts in the context of work process and problems such as miscommunication. The third-party intervener facilitates the organisational members to resolve these conflicts through talks, bargaining and conciliation.

4. **Team Building:** This intervention is required to enable members to work together, diagnose group processes, identify and assess each member's role and formulate strategies to perform team tasks.
5. **Inter-group Development:** This intervention is designed for improvement of relationships in inter-departmental situations and among different groups in the organisation. The OD practitioner with appropriate intervention tools helps resolve inter-group problems and conflicts and works towards improving cohesion among various work groups.
6. **Large Group Interventions:** This intervention involves a wide variety of stakeholders who are called upon to discuss broader issues of the organisation like new vision, values, culture, new technologies and organisation structure to address critical problems and to take important decisions like mergers and acquisitions, reengineering and restructuring.
7. **Problem Confrontation and Problem-Solving Meeting:** Here organisational members are mobilised to identify a problem, work on the problem and set targets for resolving the problem. This intervention is put into use by the OD practitioner when there are stressful situations in the organisation.

### ***Techno-structural Interventions***

The techno-structural interventions are crucial, as these enable the organisation to adapt to the external environment and to improve the organisational productivity and effectiveness. These interventions represent a combination of technology and organisation structure (Table 4.3). These interventions have roots in the disciplines of sociology, psychology, socio-technical systems, engineering and organisation design. Some of the techno-structural interventions are discussed below.

1. **Structural Design:** The structural design interventions deal with the division of work in the organisation. These interventions are implemented with the intention of moving from traditional organisational structures like functional, matrix and SBUs (Strategic Business Units) to more integrative and flexible structures like network-based, process-based and flat organisation. The OD practitioner needs to design a unique structure for each organisation taking into consideration various internal and external factors, principal levels to be impacted.
2. **Business Process Reengineering:** This is a radical intervention in which the fundamental work process is redesigned for better linkage and coordination between various tasks. This intervention is undertaken to make the organisation respond fast and give efficient task performance. This intervention is often implemented through IT support and it enables employees to coordinate and control their work processes efficiently.
3. **Downsizing:** This intervention is deployed to reduce the cost through staff layoff. This is a sensitive intervention, as it affects individual employees and the whole organisation. This intervention needs to be planned sensitively. There

**Table 4.3** Categories of Interventions and Organisational Levels

Category of Interventions	Individual	Team	Inter-group	Organisation
<b>Strategic</b>				
Integrated Strategic Change				✓
Merger and Acquisition				✓
Joint Venture				✓
Cultural Change				✓
Partnership				✓
Self-designing Organisations		✓		✓
Organisation Learning & Knowledge Management		✓	✓	✓
<b>Human Resource Management</b>				
Setting Goals	✓	✓		
Performance Appraisal	✓	✓		
Rewards	✓	✓		✓
Career Planning	✓			
Managing Diversified Workforce	✓	✓	✓	✓
Employee Wellness	✓			✓
<b>People Process</b>				
Coaching, Training & Development	✓	✓		
Process Consultation	✓	✓	✓	
Third-part Intervention	✓	✓	✓	
Team Building		✓		✓
Inter-Group Development		✓	✓	✓
Large Group Interventions				✓
Problem Confrontation and Problem Solving Meeting		✓	✓	✓
Techno-structural				
Structural Design				✓
Business Process Reengineering		✓	✓	✓
Downsizing	✓	✓	✓	✓
High Involvement Organisation	✓	✓	✓	✓
Total Quality Management		✓	✓	✓
Work Design	✓	✓		
Technology	✓	✓	✓	✓

Source: Adapted from Cummings & Worley (2007) 'Type of Interventions and Organisational Levels' (Chapter 9) in *Organisation Development and Change*. South-Western, Thomson: New Delhi, p. 148, and Brown & Harvey (2006) 'OD Interventions: An Overview' (Chapter 8) in *An Experiential Approach to Organisation Development*. Dorling Kindersley (India), Pearson Education in South Asia: New Delhi. p. 252.

should be transparency in the entire process, and employees who would undergo layoff should be made aware of and prepared for the same.

4. **High Involvement Organisation (HIO):** An HIO is created with the aim of encouraging and increasing employee participation. Such organisations are built when the management and employees work together in all organisational areas: structure, policies, work design, management information system (MIS), physical system, performance and reward system.
5. **Total Quality Management (TQM):** It is a comprehensive intervention wherein employees are involved in a continuous process improvement and quality improvement in all aspects of the organisation. This intervention facilitates knowledge and skill enhancement of employees, improves the product/service quality to meet consumers' expectations, brings in highly precise processes for low or nil defects and aims at optimum utilisation of resources.
6. **Work Design:** These interventions are related to work design for groups as well as individuals. Approaches to work design are based on socio-technical, engineering and motivation fields. Work design interventions are designed for job enrichment, giving control and flexibility to employees for their respective tasks variation within the task and performance evaluation. In the context of work design, self-managed teams set their own goals, norms, process and communication in sync with organisational requirements and have minimal external control.
7. **Technology:** These interventions are designed to address technological and technical aspects diagnosed during the OD process. These interventions enhance the organisation's processes, technological and technical capabilities, resource optimisation, cost saving and performance.

### **Leading and Managing Change**

There are five elements which contribute to leading and managing change in the organisation. These elements are: (a) Motivation to Change, (b) Creating a Vision, (c) Developing Support, (d) Managing Transition, and (e) Sustaining the Change (Cummings and Worley, 2007).

#### ***Motivation to Change***

Motivation to change is essential for effectiveness and sustainability of change in the organisation. There should be compelling reasons to motivate employees and the organisation as a whole. Motivation to change can be induced when readiness for change is created in the organisation's environment by developing awareness for the need for change, comparing the current state of affairs with post-change scenario, and articulating the positive expectations from the change. Resistance to the change initiative can be overcome through communication, by understanding the concerns of different stakeholders and by encouraging the stakeholders' participation and involvement from the beginning till the whole transition is stabilised, and enabling them to accept change.

### ***Creating a Vision***

The vision of the change initiative gives a broad idea regarding the expectations from the change. The vision provides the values, purpose and direction for the whole change process. The organisational leadership has to play a key role in chalking out the vision for any change initiative. According to Collins and Porras (1994) there are two aspects related to creation of a vision for change, as described below:

- 1. To describe core ideology:** The core values and purpose of the change should be clearly defined and these would be relatively stable over time. These values represent and guide the organisation and are rooted in the organisation's history.
- 2. To foresee future:** This is specific to the change initiative. The foreseen future has the following elements: expected outcomes are bold and valuable, and expectations about the employees' performance and the organisation's performance are outlined. Another element, the desired future state, is articulated in detail. It gives an idea of what would be the organisation's position after achievement of the bold and valued outcomes.

### ***Developing Support***

Support from employees, work groups and other stakeholders is essential. The organisation has a political element created by various stakeholders, which can impact its routine working or any initiative. Different stakeholders have different needs and goals and they compete with each other for the limited resources available with the organisation. However, a balance is struck to maintain commitment to the organisation. So an initiative for change can threaten various stakeholders, especially the top management and employees in top-down hierarchical levels, which can result in political conflicts (Nadler, 1987). Each group in the organisation is concerned about the consequences of change and its impact on their power and influence.

To develop support, the following activities need to be undertaken: (i) **Assessing change agent's power:** The change agent would be a leader of the department which undergoes change or an OD consultant. By assessing the power base of the change agent, it can be determined how he/she can influence others. The change agent's source of power includes knowledge, personality and support from other organisational members and his/her position in the organisation (Greiner and Schein, 1988). (ii) **Identifying key stakeholders:** These are employees or groups within the organisation who are interested in the change positively or negatively, that is, they can support or thwart change. So it is essential to gather as much varied stakeholders as possible to push the change initiative and then decide how each of them will influence the change. (iii) **Influencing the stakeholders:** It implies directly communicating with the stakeholders or forming networks by bringing in various groups and powerful individuals who have direct link with decision makers. Another way is to use power strategy which means to use the formal system of the organisation to influence and communicate change.

### ***Managing Transition***

In this stage, the organisation learns to implement the required change to reach the foreseen future state. According to Beckhard and Harris (1987), there are three activities under this stage: activity planning, commitment planning and change management structures.

- 1. Activity Planning:** It is basically a road map for the series of activities and links between different activities which would be undertaken to ensure that the organisation reaches its goals and priorities for change.
- 2. Commitment Planning:** It involves identifying influential individuals and groups and formulating strategy to obtain their commitment to the transition process.
- 3. Change Management Structures:** These structures are specifically created for the change process and should include individuals who have capability to mobilise resources, pursue change, enjoy support and respect of the top management, act as change advocates and possess interpersonal skills to get along with different stakeholders. There are different management structures to manage transition (Beckhard and Harris, 1987)—A project manager is assigned the task of managing transition or a senior management level person manages the change initiative, or the change is managed with the organisation's existing formal structure along with routine operations, or the personnel from cross-functional areas come together to manage change, or leaders who emerged because of confidence and trust they have gained from employees and other groups are appointed to manage change, or a group is formed which represents people of the organisation whom the chief executive of the organisation consults to manage the change.

### ***Sustaining the Change***

Sustaining the change initiative is crucial to reach the predicted post-change state of the organisation. Sustaining the change is critical because, after the initial excitement, there are chances of going haywire because of difficulties in implementation of new ways. To sustain the change, the organisation should provide essential resources, build a strong support system for change agents, develop new competencies and skills through training and development or coaching, reinforce new learning and behaviours and maintain a steady path.

### **Monitoring and Institutionalisation of OD Interventions**

The monitoring of OD interventions involve making judgement whether the interventions have been implemented as proposed, if not, then identify the deviations. The measurement tools, discussed earlier, comprise both quantitative and qualitative techniques. The institutionalisation of OD intervention has the following framework: (a) Organisation Characteristics (b) Characteristics of OD Intervention (c) Process of

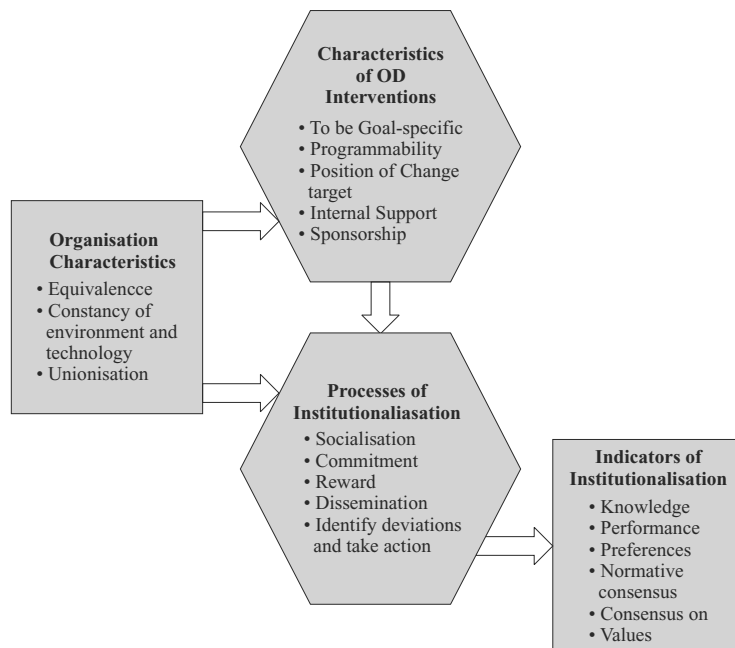
Institutionalisation (d) Indicators of Institutionalisation (Cummings & Worley, 2007; Goodman and Dean, 1982; Ledford, 1984). These are illustrated in Fig. 4.10.

### Organisation Characteristics

Organisation characteristics are based on the following three dimensions— *Equivalence*, *Constancy of Environment and Technology*, and *Level of Unionisation*.

1. **Equivalence:** It indicates the degree to which there is sync between OD interventions and organisation’s values, strategy, structure, environment and changes which take place (Ledford 1984). When the level of congruence between the OD interventions and organisational characteristics of equivalence (mentioned above) is high, institutionalisation of OD becomes smooth and easy. *For example, if an OD intervention encourages high level of employee participation but is implemented in an organisation with formalised and bureaucratic structures then this leads to discrepancies and the intervention does not result in the intended change.*

*Constancy of Environment and Technology:* It is the degree to which an organisation’s environmental factors and technology are changing. The change target needs to be either buffered from these changes or changes need to be tackled directly to facilitate the institutionalisation of OD intervention (Zucker, 1987).



**FIG. 4.10** Institutionalisation of OD Interventions

Source: Adapted from frameworks given in Cummings & Worley, 2007; Goodman and Dean, 1982; Ledford, 1984.

2. **Unionisation:** This refers to the level to which unionism exists in the organisation. Unions can support or thwart OD interventions, depending on how these affect them.

### **Characteristics of OD Interventions**

The characteristics of OD interventions play an important role in their institutionalisation. Some of these characteristics are discussed below.

1. **To be Goal-specific:** This facilitates change in behaviour and in effective implementation of the OD intervention. Change in behaviour can be reinforced and rewarded. *For example, the intervention to improve service quality is specific, with the intended change of providing timely and appropriate service.*
2. **Programmability:** It represents the extent to which characteristics of the interventions can be made specific (Mohrman and Cummings (1989)). *For example, in a job enrichment intervention, the target characteristics would be variety of tasks, independence of employee and feedback for performance.*
3. **Position of Change Target:** This is regarding the position of the change target in the whole organisation. Changes planned for a department can face countervailing forces from other groups, individuals and the organisation as a whole. The countervailing forces can affect the diffusion, speed of interventions and their effectiveness.
4. **Internal Support:** Internal support is needed to guide the change process on a sustained and long-term basis. The internal OD consultant can play a key role while external the OD consultant can only provide support for temporary period in the initial stages.
5. **Sponsorship:** Sponsorship is concerned with the presence of a powerful sponsor who can commence the OD intervention and allocate and legitimise resources for it.

### **Processes of Institutionalisation**

There are five processes for institutionalisation—socialisation, commitment, reward allocation, diffusion and identifying deviations and deploying appropriate interventions.

1. **Socialisation:** It is essential for communication of goals, norms and values related to interventions. The institutionalisation process requires a lot of communication and learning for which socialisation among organisational members becomes essential. Information is passed over to new members to reinforce goals, norms and values which form the basis of an intervention.
2. **Commitment:** Commitment should be to the process of intervention institutionalisation. To elicit employees' commitment, they should be given the required freedom to choose their behaviours freely, explicitly and publicly. But commitment is also required from the levels of the organisation.



3. **Rewards:** These are essential to reinforce new behaviours required in OD interventions. There can be two types of rewards—*intrinsic* and *extrinsic*. *Intrinsic* rewards are derived from the opportunities out of challenges, development and achievements found in changes in work. *Extrinsic* rewards are monetary and *infringe* benefits given for contributions in OD interventions and for change in behaviours by employees. The organisation needs to ensure that there is consistency between contribution towards interventions and rewards.
4. **Dissemination:** This means transferring of interventions from one system to another system to facilitate institutionalisation. Dissemination of interventions across the organisation leads to a wider support for new behaviours. The intervention process would derail if levels other than the target levels are not involved in the intervention. A wider spread of interventions creates normative consensus from other parts of the organisation.
5. **Identifying deviation and taking appropriate action:** The organisation needs to identify deviations in the intervention institutionalisation process and take appropriate action. The institutionalisation process may face destabilisation from forces like change in technologies, change in environment, opposition from any level of the organisation or department or unit, which can derail the intervention. The organisation requires mechanisms to detect these deviations and take corrective actions which are in sync with the intervention.

### ***Indicators of Institutionalisation***

There are five factors which can indicate the level of institutionalisation of OD interventions. These are: knowledge, performance, preferences, normative consensus, and consensus for values.

1. **Knowledge:** It refers to the knowledge of organisation members regarding the behaviours associated with an intervention. It indicates whether the members of the organisation have enough knowledge on how to implement new behaviours and are aware of their consequences.
2. **Performance:** It is the extent to which the organisation members actually execute the intervention behaviours.
3. **Preferences:** This means the extent to which the organisation members accept new intervention behaviours personally and not due to organisational or group pressures. Acceptance of new behaviours at the individual level can be assessed through positive attitudes towards the change and the intensity level among other members of the organisation.
4. **Normative consensus:** It reflects the degree to which the organisation members agree on organisational changes, the degree to which these changes have become part of the organisation's normative structure and the member's feeling whether they should support it or not.
5. **Consensus on value:** It refers to the consensus among organisational members regarding values and beliefs in the context of organisational change.

**Summary**

This chapter traces the emergence of the concept of organisation development (OD) and provides its perspective and relevance. The current practices of OD are a manifestation of the discipline's historical developments. These practices have evolved over the years with the changing needs of organisations. The six branches of traditional/first-generation OD have been discussed. These are: laboratory training approach, action research and survey feedback approach, normative approach, socio-technical and socio-clinical approach, organisation culture and strategic change approach. The T-group, action research, survey feedback approach and normative approach have strong value focus. The quality of work life approach focuses on employees as well as the quality of productivity. The culture approach considers culture to be critical for an organisation's performance and the strategic approach presents a holistic view including all the functional areas of management for the relevance of OD for organisations. From 1980s and 1990s onwards, this field has been influenced by globalisation, liberalisation and developments in the field of information technology, which have led to the emergence of the second-generation OD interventions. OD, once prevalent only in the USA and European countries, has lately spread across other countries which has led to development of new OD interventions and adaptation of traditional OD interventions to local needs (Sorensen Jr. et al., 1995; Chin, 1997; Jaeger, 1986).

The process of OD has been discussed in a comprehensive manner with the intricacies involved and the challenges and issues faced during each stage. OD has been discussed as a planned change process. Entering and contracting set the parameters for the successive phases of the planned change. The diagnosis phase involves the collaboration process wherein managers or the top management and the OD consultant jointly gather the essential data at the organisational, group, individual or job levels. In the data collection phase, through usage of appropriate techniques, attempt is made to gather quality data. The data collected is analysed through qualitative or quantitative techniques whichever is appropriate. The data analysis phase is a crucial phase. In this phase, based on the results of data analysis, feedback is provided by the OD consultant. Appropriate OD interventions are suggested in the next phase based on feedback. With the support of OD practitioner, the organisation undergoes the process of leading and managing change which depends on motivation to change, creating appropriate vision, developing support from within the organisation, managing the transition process, and finally sustaining the change momentum. The OD process ends with monitoring for any deviation in the intervention process and freezing the institutionalisation of OD interventions.

The second-generation OD or Organisational Transformation has been discussed in brief as detailed discussion will be provided in Chapter 5.

**Questions**

1. Why is organisational development (OD) called the first-generation change? Describe briefly various approaches under the purview of OD.

2. What factors need to be taken into consideration for diagnosis of change at the organisational level?
3. Elucidate the processes involved in the group level diagnosis for change.
4. What factors deserve attention while devising interventions?
5. How can change management be institutionalised?
6. Write short notes on the following:
  - (a) Strategic interventions
  - (b) People-process interventions

### Group Exercise

Carry out the following group exercise:

1. The facilitator may create a number of groups consisting of 7–8 members each.
2. Each group may identify an organisation in any sector and make a case for process change.
3. The facilitator may ask the group to discuss the macro-environmental factors which demand process change in the identified organisation.
4. Each group should make a list of factors in the organisation that support change and also to make a list of factors that obstruct change. These may be recorded on a plain sheet of paper with two columns.
5. Through the discussion, the students need to prepare a plan to resolve the issues for facilitating process change.
6. Each group may be asked to present their plan.
7. After the presentation, the faculty may give feedback on the group performance and relate these to the concepts discussed in the chapter.

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# 5

## Organisation Transformation

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### **INTRODUCTION**

OT can be defined as drastic and abrupt change to total structures, managerial processes and corporate cultures (McLagan, 2002; Leifer, 1989). A change can be called transformational, only when majority of the individuals in an organisation change their behaviour (Blumenthal and Haspeslagh, 1994).

Organisation transformation (OT) takes place in response to major changes in an organisation's environment and technology. It entails fundamental changes which lead to new paradigms for managing and sustaining an organisation. This change process often leads to innovations and continuous learning by members of the organisation to adapt to the changing conditions. OT emerged in the 1980s and 1990s when the wave of globalisation and liberalisation had just begun. In the 1980s, the USA had begun to witness radical changes due to technological innovations, mergers and acquisitions, leveraged buyouts, bankruptcies, success stories, changes in legal aspects and shift in the consumer behaviour. Similarly, other nations too had begun to witness radical changes as they liberalised their respective economies and adopted globalisation. India adopted liberalisation in 1991 (BBC News, March 2011). In India, several sectors were deregulated, such as telecommunication, banking and financial services, hotel industry, IT/ITes, oil and natural gas, automobiles and retail. Deregulation affected many organisations which were till then in safe cocoon. These organisations had to rejig their whole set-up, rethink their strategies and gear up to adapt to the change. Globalisation and liberalisation paved the way for many new corporate organisations to emerge, and provided the established corporate entities an opportunity to spread their wings to tap new markets. Rapid changes in technologies pushed organisations to their nerves while trying to keep pace with new technologies and to be innovative and agile lest they might face extinction. These changes have created a shift in the field of organisation development (OD).

### **EMERGENCE OF OT**

French et al., have referred to OT as 'Second Generation OD' (French and Cecil, 2011). Transformational change is also known as the second-order or gamma type of change

(Bartunek and Louis, 1988). The unrelenting uncertainties and continuous changes diverted the attention of OD scientists and practitioners towards emerging concepts, interventions and areas of application in OD. Organisation transformation has evolved out of the practices of traditional OD to meet those needs which were not satisfactorily addressed in OD theory and practice. OT continues to use techniques like action research and socio-technical systems from traditional OD. The term organisational transformation was first noted in John Adams' *Transforming Work* (1984). Adams' referred to OT in these words: "*I became committed to working on the problems and potentials ... in the context of work and organisations. I began referring to this work as Organisational Transformation (OT) in contrast to Organisation Development (OD) (in which I have been trained in graduate school in the 1960s.)*"—(Fletcher 1990).

Research studies in the late 1980s concluded that the environmental conditions were changing constantly, and there was need for large-scale, transformative changes within organisations, which called for new approaches to organisation theory and practice (Owen, 1984; Levy and Merry, 1986; Hayes & Watts, 1986; Kilmann and Covin, 1988). The research literature was focused on societal changes which, in turn, affected the organisations. Kilmann and Covin (1988) stated that OT is a consequence of new global economic perspective. Levy and Merry (1986) defined organisational transformation as: "*Second-order change (organisational transformation) is a multi-dimensional, multi-level, qualitative, discontinuous, radical, organisational change involving a paradigm shift*".—(Levy and Merry, 1986)

Several OD practitioners and scientists provided unique perspectives on OT differentiating it from incremental change (OD). Nadler and Tushman referred to 'transitions' (OD) on one side and 'frame bending' (OT) on the other side (Nadler and Michael, 1989). The principles of effective frame bending include 'Initiating Change' in the first phase. The second phase includes 'Content of Change' and 'Leading Change' and the third phase focuses on 'Achieving Change' (Levy and Merry, 1986). Similarly Goodstein and Burke distinguished 'fine tuning (OD)' and 'fundamental large-scale change (OT) in an organisation's strategy and culture' (Goodstein and Burke, 1991). Other studies from Barczak, Smith and Wilemon, and Bechard and Pritchard have differentiated organisational transformation from incremental change (Barczak, Smith and Wilemon, 1987).

## **TRIGGERS OF TRANSFORMATIONAL CHANGE**

An organisation would undertake transformational change only when it has a strong trigger which means it either experiences or anticipates threat to its existence (Grove, 2003; Sorensen, 2002; and Young 2002). Following are the triggers of transformational change.

### **Shift in Industry, Product Life Cycle and inside Organisation**

According to Tushman, Newman and Romanelli (1986), transformational change occurs due to at least three kinds of disruptions: discontinuities in industry, shift in the product life cycle and disruptions in the internal dynamics of the organisation. Discontinuities

in industry occur when there are drastic changes in political, economic, regulatory and technological conditions, which shift the fundamentals of competition. Shift in the product life cycle requires change in product strategies. Disruptions in the internal dynamics of the organisation, that is, shift in corporate portfolios and portfolio strategy or executive turnover. These disruptions push the organisation to overhaul its vision, mission, values, structures, strategies, systems and procedures.

### **Revolutionary and Complete Change**

The revolutionary and complete change implies that the design and culture elements of the organisation are overhauled and fundamentals are altered. This type of change is driven by the top management and may occur rapidly in order to overcome resistance and inertia in any form (Tushman, Newman and Romanelli, 1986). Especially when changes are effected in strategy, structure, process, technology, HR practices and work design, these need to be undertaken in a coordinated manner to reinforce new culture (Miller and Friesen, 1984). Various long-term studies on organisational evolution have highlighted the revolutionary nature of the transformational change (Tushman et al., 1986; Greiner, 1972). If organisations respond quickly to disruptions caused by the transformational change, they can gain the benefits of change faster and can have a competitive edge.

### **Demand for Paradigm Shift in Organising**

The gamma change involves discontinuous shifts in mental or organisational frameworks (Golembiewski et al., 1975). To enable members of the organisation visualise the paradigm shift, creative metaphors like 'learning organisation' or 'continuous improvements' are put into use. In the 1980s and 1990s, organisations had begun to witness radical changes in aspects of technology, quality and participation of human resource which led to shift in the organising paradigm, that is, transition from *control*-based to *commitment*-based organisations. Organisations became flexible and flat in structure; information and power of decision making was no longer confined to the top management; and decentralisation was implemented to make respective units/teams accountable for performance, increase employee participation and encourage team work.

The latest trends which would lead to another paradigm shift in organising include teleworking, de-routinisation of work, working from home, networking, social networking websites, working 24 × 7, rise in face-to-screen interactions, working across different time zones and cultures, awareness and concern for social responsibility and decline in employee loyalty.

### **Motivation by Top Management and Line Management**

Organisational transformation needs to be motivated by the top management and the line management, and it also *requires* their participation (Eisenbach et al., 1999; Waldersee, 1997). It is the top management which can take forward transformational change in a strategic way, and the line management can assist in its operational aspects. Research suggests that externally recruited senior executives are three times

more likely to initiate such change than the existing executive teams (Griener and Bhambri, 1989; Tushman and Virany, 1986). Three key roles of the executive leadership in the context of transformational change include *envisioning*, *energising* and *enabling* (Nutt and Backoff, 1997; Tushman et al., 1988).

### Constant Learning and Change

This form of change requires constant and considerable learning and innovations (Cummings and Mohrman, 1987). Learning is driven by the vision, values and norms of the organisation and occurs across levels within the organisation. Members of the organisation need to learn new behaviours to implement change and new strategic directions. This is a continuous process of learning new behaviours, evaluating their impact and making necessary modifications, if required. Individuals need to undergo the learning and unlearning process. Members of the organisation need to learn different ways of perceiving, thinking and behaving. However, the challenge remains with the organisation to manage continuous learning in an ever-changing and uncertain environment.

In the following sections, we will delve into various types of OT interventions.

## ANALYTICAL TOOLS AND TECHNIQUES

Strategic interventions are undertaken because business organisations have to continually make changes in order to operate, sustain and thrive in a dynamic and uncertain environment. Prior to undertaking a suitable strategic intervention for organisational transformation, appropriate techniques of analysis are put to use to understand the position of the organisation and its external environment. Some of the analytical tools and techniques are described in the following sections.

### Environmental Analysis Techniques

These techniques are used to scan the environmental factors affecting an organisation.

**SWOT (Strengths, Weaknesses, Opportunities and Threats)**—*Strengths*: These are the factors which represent an organisation's capabilities and give it a competitive advantage, for example, strong brand image, tech-savvy and high-quality product/service. *Weaknesses*: These factors are constraints which affect the competencies of the organisation as compared to its rivals, for example, weak in R&D, low credit rating, inefficient board and excess manpower. *Opportunities*: These are favourable conditions in an organisation's environment which help strengthen its position, for example deregulation, growth of consumerism or market reforms. *Threats*: These are the factors or conditions in an organisation's environment which pose risk or threaten an organisation's position compared to its rivals, for example, recession, inflation, social activism and political instability.

While performing the SWOT analysis of an organisation, the analyst should depend on verbal information, business intelligence and company records for gathering data/

information about the organisation (Glueck W. F. and Jauch L. T., 1984). The strengths are matched with opportunities and the competitive advantage is found through analysis. Presence of weaknesses may not necessarily be damaging.

**ETOP (Environmental Threat and Opportunity Profile)** This technique is a summarised version of environmental factors and their expected impact on the organisation. In this technique, the relevant environmental factors are listed and the importance of each factor is assessed. The next step is impact assessment wherein both negative and positive factors are considered. In the final stage, the importance and impact assessment of each factor is compared which results in a comprehensive overall picture.

### Industry Analysis Techniques

The industry level analysis can be undertaken through *Porter's 5 Force Model* and *competition analysis*.

**Michael Porter's Analysis** According to Michael Porter, the nature and extent of competition depends on these five forces: threats of entry, powerful suppliers, powerful buyers, substitute products and competition between rivals.

- (i) *Threats of entry*: These include economies of scale, brand identification or product differentiation, requirement of large investment, cost advantage of established organisations over new entrants, difficulty in creating distribution channels, government control over an industry through licensing and limited access to raw materials
- (ii) *Powerful suppliers*: Suppliers can be powerful when they enjoy monopoly and force buyers to pay higher price which will impact the latter's profitability. Switching cost is higher for the buyer. The industry in which the buyer operates is not important and there is lack of substitutes.
- (iii) *Powerful buyers*: Buyers have the power to force price reduction, demand higher quality or more service and encourage competition. Buyers become powerful when there is availability of substitutes and alternate sources of supply for the same product
- (iv) *Substitute products*: These products give competition in terms of price and limit the potential of an industry.
- (v) *Competition among rivals*: Diversity in competition, fixed costs, barriers in exiting the business.

The above-mentioned forces determine the attractiveness of an industry. The strong forces that impact profitability of an organisation are the determinants in formulating strategy.

The analysis using Porter's 5 Force Model helps an organisation understand the attractiveness of its industry and its own competitive position.

**Competition analysis** Competition analysis is conducted by organisations competing in an industry to get an insight into the competitor's future objective, current strategy, assumptions and capabilities and the resultant response of the organisation (Porter, 1980).



## Forecasting Techniques

Forecasting techniques are used to make estimates about future events likely to impact the organisation. Through this technique the future characteristics of an organisation's environment are predicted and decisions are made to enable the organisation to deal with the future. The well-known forecasting techniques are: *time-series*, *judgemental forecasting*, *delphi*, and *multiple scenarios*.

**Time Series Analysis** This is an empirical procedure in which historical trends are used to predict an organisation's sales or market share.

**Judgmental Forecasting** Employees, customers, suppliers and/or trade associations are the sources of qualitative information for future trends. Their views form the basis of judgemental forecasting.

**Delphi technique** In this forecasting technique, experts in the appropriate field of study are questioned independently about the probability of an event's occurrence. Responses from the experts are compiled and summarised and then sent to all the experts for their consensus. This process goes on until the experts agree regarding a predicted event.

Other forecasting techniques include expert opinion, dynamic modelling, cross-impact analysis, and demand/hazard forecasting (Bright & Schoeman, 1973).

## Internal Analysis Techniques

Internal analysis is conducted to identify and evaluate the strategic value of the organisation's resources. The techniques used for internal analysis include *SWOT*, *value chain analysis*, *financial analysis*, *key factor rating*, *functional area profile*, *resource development matrix* and *SAP*.

**SWOT:** As discussed earlier, the SWOT technique is used for internal analysis of an organisation, which enables a manager to know the strategic situation and bring synchronisation between internal resources, values and external environment. A good synchronisation maximises strengths and opportunities, and reduces threats and weaknesses.

**Value Chain Analysis (VCA)** The value chain of an organisation represents various economic value-adding activities such as product differentiation and cost cutting. Through VCA, a manager or analyst can identify the strengths and weaknesses of each activity in the value chain against those of competitors. The competitive advantage for a firm is created and sustained only when it is able to perform the most critical functions either more economically or better than its competitors (Porter, 1985).

According to Porter (1985), there are two types of value-creating activities—*primary activities* (inbound logistics, operations, outbound logistics, marketing and sales and service) and *secondary activities* (infrastructure, HRM and technology capabilities). To conduct VCA the procedure involves: identification of activities, cost allocation, identification of differentiating activities and examination of the value chain.

**Financial Analysis** Financial analysis is another method of analysing the strengths and weaknesses of an organisation. Different stakeholders use financial analysis for different purposes. Creditors use it to take decision on financial lending and investors use it to take investment decision. A finance manager uses financial analysis to assess the position of the organisation on various financial parameters.

**Key Factor Rating** This method considers the key factors that affect organisational functioning. Series of meetings, discussions and surveys are held to gather information on the key factors. The responses to questions on each function are examined closely to rate the key factors. Relative impact of each factor on a particular function is examined using mathematical models.

**Functional Area Profile and Resource Development Matrix** This technique was developed by Hofer and Schendel (1988) to do a comparative analysis of an organisation and its competitors' resource deployment position and focus of efforts. In this technique, the first step is to prepare a matrix of functional areas with common features, and the second step is to show deployment of resources and focus of efforts over a time period. This matrix indicates the standing of the organisation's key functional areas in relation to each other and also in comparison with its competitors. Based on the matrix, an analyst can find whether the organisation has been able to capitalise on its strength and also chalk out future expectations based on the current trends and past experience (Hofer and Schendel, 1988).

**SAP—Strategic Advantage Profile** In this technique, an organisation's strengths and weaknesses are identified in relation to critical success factors of the industry in which it operates. According to research, there are four major sources of critical success factors (CSF) in general. These sources are: industry characteristics, competitive position, general environment and organisational developments. Based on the CSF information, an organisation can develop its SAP. SAP provides a snapshot view of the advantages that are available to the organisation in key areas and their impact on its functioning. The checks include: to assess the competitive advantage that the organisation holds and for how long would it continue to hold, imbalances between the functional areas that need to be corrected, its strengths that need to be enhanced and updated and to have adaptability with changes in its environment for competitive edge.

## STRATEGIC INTERVENTIONS

Based on the results of internal and external analysis, an appropriate strategic intervention for the organisation is selected, which depends on the organisation's strategic objectives and mission. Strategic interventions can be classified into four categories: *product/service intervention*, *structural intervention*, *financial intervention* and *collaborative intervention*.

### Product/Service Strategic Interventions

Product/service strategic interventions are resorted to when the organisation seeks to increase sales, market share and profits. The organisation pursues these interventions

for its survival. Specifically, these interventions aim at obtaining economies of scale, encouraging talent and gaining market control.

**New Market Development** In this intervention, the organisation introduces its existing product/service to new markets. The new markets are identified within or outside the country. The organisation would have to expand its distribution channel to enter new markets or present slightly differentiated products for different price segments.

**Product Development** This strategic intervention concerns development of a new product or bringing the improved version of an existing product(s). To produce the improved version, the quality, features and style of the product are considered for modification. This strategic intervention is deployed to strengthen the loyalty of the already satisfied customers or to leverage the brand name.

*Example:* The Parachute brand from Marico for many years had only Parachute coconut oil marketed in a cylindrical shaped bottle. Thereafter, the company came up with a special packaging, a broad-mouthed easy-to-open lid solution for coconut oil which gets solidified in winters. Marico's latest product development is Parachute Advanced with herbal ingredients, which remains in liquid form even in winters.

**Innovation** This is a radical strategic intervention which leads to replacement of existing products/services or technology in an industry. Competitive advantage through innovation depends on competencies/knowledge advantage, management and strategy of innovation and culture.

*Example:* Innovations of pen drives and portable USB have replaced floppy disks.

### **Structural Strategic Interventions**

Some of the structural strategic interventions are diversification, turnaround, restructuring, mergers and acquisitions (M&A) and acquisition.

#### ***Diversification***

Diversification, a structural strategic intervention, is deployed to avert risks associated with single or limited products/services. Through diversification, the organisation ventures into multiple different industries, business or markets. Diversification can be into the same or different industries. The organisation plans to enter a new line of business to pre-empt potential competitors or to have an edge over competitors by entering the market as an early mover. This helps the organisation consolidate its position in the industry. The issues which arise out of diversification include neglect of existing business, lack of preparation while entering the new business, risk of diversification failure and competition. Prior to entering a new industry/market, the organisation needs to assess its competencies, strengths and weaknesses, and opportunities and threats of the industry/market.

There are two types of diversification strategies: (i) vertical integration and (ii) horizontal integration.

- (i) *Vertical integration:* Vertical integration strategy is deployed when the organisation plans to expand the scope of its operations within the existing industry through forward or backward integration. Here the organisation

acquires another organisation which is involved in the early stage (backward) or the later stage (forward) of the product process. Vertical integration can provide the following benefits of cost advantage, better co-ordination and control, reduction in the uncertainties of relying on external suppliers or buyers, creating entry barriers for competitors and gaining a competitive edge by protecting the organisation's technologies. Challenges include investment (if integration does not take place smoothly), negative effect of high fixed costs on profits and synchronisation of different skills and capabilities of the two organisations.

(ii) *Horizontal integration*: Horizontal or related diversification strategy is deployed when the organisation acquires another organisation which is in the same line of business. This adds new products/services to the organisation's kitty. This strategic intervention gives a competitive edge. Within horizontal integration strategy, there are two types of interventions—concentric diversification and conglomerate diversification.

(a) *Concentric Diversification*: In this intervention, the organisation diversifies into a related but distinct business. The new product/service would be a spin-off from the existing facilities, products and processes. The organisation plans for concentric diversification when it can leverage its existing distribution channel, marketing competencies, common customers and common brand name. The benefits expected from this strategic intervention include improved financial returns, leveraging the organisation's distinct competency for a related business and gaining market power by consolidation of its position.

*Example*: Departing from its exclusive focus on the biscuit segment, Parle Agro Foods in the recent years has diversified into health snacks through munchies with brand name *Hippo*.

(b) *Conglomerate Diversification*: This diversification is also known as unrelated diversification. This intervention is undertaken by organisations which operate in volatile industries and are subjected to rapid technological changes. Conglomerate diversification is opted for risk reduction and to enhance the firm's position in value creation.

*Example*: ITC (Indian Tobacco Company) ventured into unrelated diversification through packaged food business (Ashirvad *atta*), personal care products (Fiama Di Wills and Vivel) and ready-to-eat snacks (Sunfeast and Bingo)

### **Turnaround**

This structural strategic intervention is deployed to bring an organisation from the declining financial status towards profitability and to revive its overall health. Through this intervention, the organisation management undertakes pruning of the product line (i.e. hiving off unprofitable products), reduction of workforce, restructuring the distribution channel and upgradation of technologies and capabilities. Once organisation revives back to normalcy, the focus would be on growth strategy. *Example*: Steel Authority of India Ltd. (SAIL)

## **Restructuring**

Restructuring requires breaking down of old paradigms, old technology, old processes and procedures in the organisation. Restructuring is a radical form of change and requires the organisation to have a strong culture. In the process of restructuring, the issues considered for redressal include customer focus, reengineering, and changing organisational structure, culture and core business processes. Broadly, there are two methods of restructuring: *external* and *internal* (Mehta, 1997).

- (i) *External restructuring* takes place through asset-based restructuring and capital restructuring. Asset-based restructuring is undertaken through acquisition or merger, asset swaps or demerger. Capital restructuring can be leveraged through buy-outs or share buyback or conversion of debt into equity.
- (ii) *Internal restructuring* involves portfolio or organisational restructuring. Internal restructuring is undertaken after extensive diagnosis of the existing organisational scenario.

## **Mergers and Acquisitions (M&A)**

Mergers and acquisitions take place between two organisations which are usually of similar size. These two entities become one through combining the stock or cash or both, human resources and other capital and non-capital assets. M&A takes place either through acquisition or consolidation. In the acquisition-type M&A, a large organisation buys another organisation which may be of similar size or small size. In the consolidation-type M&A, both organisations dissolve their existing identities and form a new entity. M&A helps the two organisations combine their resources and efforts to enhance and expand the distribution network, expand the product line and leverage each other's R&D resources. The selling organisation would gain the benefits of rise in its stock value and growth rate, tax rebate, acquiring resources to stabilise operations and bridging the talent gap at the top level (Glueck and Jauch, 1984). However, mergers and acquisitions may not produce the expected results due to some stumbling blocks such as cultural clashes, lack of smooth integration, opposition from active shareholders over share valuation matters, large debt burden, managers' undue focus on acquisition and large size of the acquired organisation.

## **Acquisition**

In this form of structural strategic intervention, one organisation takes over another in order to have competitive edge over competitors and to achieve rapid growth. Acquisition can be friendly or hostile.

- (a) *Friendly acquisition*: An organisation acquires partly or wholly the equity capital of another organisation through mutual consent. Sometimes an organisation seeks out buyers or acquirers because of unavoidable circumstances brought about by lack of funds, small size, inefficiency to beat competition and decision to exit from the business.

- (b) *Hostile Acquisition*: This happens through partial or full acquisition of the equity capital by the acquirer without the consent of the acquired firm. This type of acquisition occurs in organisations where the stake of promoters is very low.

## Financial Strategic Interventions

Besides structural interventions, strategic interventions may relate to financial interventions too which are explained below.

### **Divestment**

Divestment is also known as divestiture or spin-off and it involves sale of a business unit(s) or business line which is no longer considered to be profitable and does not hold competitive edge for the organisation. Forms of divestment include direct sale of the concerned business unit or business line, leveraged buy-out (LBO) and spin-off. An organisation may go for divestment to have strong focus, unlock critical funds, invest in emerging technologies, revive financial health and hive off unviable projects.

*Example*: Glaxo divested its food division to Heinz after it took decision to focus on its core business, that is, pharmaceutical.

### **Liquidation**

Liquidation strategy is the last intervention resorted to by organisations when the turnaround or divestment strategic interventions prove to be unfeasible. Liquidation involves sell-off of all the organisational assets. This strategy is deployed when there are bleak chances of profitability and survival; accumulated losses have become unmanageable; and another organisation is willing to buy the firm for its benefits. Challenges to be addressed prior to deployment of liquidation include opposition from labour force, financial institutions, creditors and suppliers, as this move is against their interests, and will result in sacrificing their investment. In India, according to the Companies Act, 1956 liquidation can be undertaken in any of the following three ways — (i) compulsory winding under order of the court, (ii) voluntary winding up, and (iii) voluntary winding up under the court's supervision. There is facility of liquidator under this Act, who takes control of the company's assets, sells these off, pays the debts and surplus, if any, is distributed among the equity shareholders.

An organisation files for bankruptcy when it is unable to pay its debts and it can seek protection from court against creditors and from certain contract obligations until it regains financial health and stability. However, in case of liquidation bankruptcy, the liquidating organisation agrees to distribute its assets to creditors.

## Collaborative Strategic Interventions

Instead of liquidating the firm the firm may go for another strategic intervention which involves collaboration or alliance with another organisation. These are described below.

### ***Strategic Alliances***

A strategic alliance is a collaboration between organisations wherein they contribute their skills and expertise in a cooperative manner for an agreed upon project till its execution. The alliance partners learn from each other. A strategic alliance can also be in the form of a licensing agreement in which the licensor would transfer rights over patents/trademarks/technological know-how to the licensee for a royalty. Outsourcing, a form of strategic alliance, is practised in software, electronics, bio-tech, pharmaceuticals and other industries. Organisations enter strategic alliances for entering new markets, defining future industry standards, learning and applying new technologies and filling gaps in the product line (Pitts & Lei, 1997). The probable risks associated with strategic alliances include incompatibility between partners, drainage of knowledge/skills and high dependence on the strategic partner.

### ***Joint Ventures***

Joint ventures are deployed when two or more organisations come together and pool their resources for accomplishment of a task. This strategic intervention enables the organisation to undertake large scale projects which would have been difficult to execute single-handedly. Moreover, in joint ventures risks get distributed and managed effectively (Thompson & Strickland). The success of joint ventures depends on the venturing organisation's willingness to share technologies, resolution of cultural differences and synchronisation of operations.

### **Other Strategic Interventions**

#### ***Corporate Social Responsibility***

Corporate social responsibility (CSR) consists of activities undertaken by organisations to benefit the society and the environment beyond financial or legal obligations (vanMarrewijk, 2003). To discharge their CSR, many organisations have adopted triple-bottom-line philosophy, that is, profits, people and planet.

*Environment Management:* There is growing pressure on organisations to integrate in their business environment protection activities which comply with international and national regulatory frameworks. The companies which are proactive make use of environment-friendly innovative methods and technologies. Consumers too are keen to buy environment-friendly products and are ready to pay a higher price. The companies aggressively pursuing environment management strategies have a competitive edge. Environment management also gives cushion to corporate bodies against unwanted protests and penalties and helps in enhancing their image and competitiveness.

In the context of environment protection, the concept of 'green intellectual capital' was proposed by Chen (2008). Green intellectual capital is classified as 'green human capital,' 'green structural capital' and 'green relational capital' based on Ulrich's concept of human capital (Ulrich, 1998). Green human capital means employees possess knowledge, potential, experience, attitude, wisdom, level of creativity and commitment on environment protection and environment-friendly actions which enable a company to gain competitiveness. Green structural capital comprises organisation's capabilities,

commitments, knowledge management systems, information technology systems, databases, managerial institutions, operational processes, managerial philosophies, organisational culture, image of the company, patents, trademarks and copyrights for environment-friendly practices and environment protection. Green relational capital includes company's cumulative interactive relationships with customers, suppliers and partners regarding corporate environmental management for competitive edge. Through a study it was found that green human capital, green structural capital and green relational capital had positive correlation with competitive advantage for the firms. Investment in green human capital, green structural capital and green relational capital is beneficial for business growth.

## **OPERATIONAL INTERVENTIONS**

Operational-level interventions can be classified as core competency-based, inventory-based and quality-oriented interventions.

### **Core Competency-based**

The term 'core competence' was coined by Prahalad and Hamel (1990) and it was defined as "the combination of individual technologies and production skills that underlie a company's myriad product lines." If appropriate competencies are identified, they can serve as a competitive tool for the organisation.

### **Research and Development**

Research and Development (R&D) is becoming important for organisations to stay ahead in the competitive environment (Endres, 1997). Through research new knowledge is generated and is applied for developing new products or services. R&D can offer competitive advantage to organisations by introducing new or improved products in the market, improved production processes or manufacturing facilities which lead to cost reduction and new modes or improved ways of servicing for maximising customer satisfaction. In order to accelerate their growth in the competitive environment organisations have established special R&D departments and are making huge investments.

### **Process-based Interventions**

Process-based interventions include modernisation and indigenisation.

**Modernisation** Modernisation or technological upgradation is deployed by organisations for precision, better quality, consistency and refinement in the end product. Modernisation may be in the form of product change or process change or both.

**Indigenisation** Indigenisation is becoming very important for organisations, as it results in cost reduction, non-dependence on foreign technologies, assured control over supplies, tapping of creative and innovative knowledge available within the organisation or within the country and consideration for consumer/customer needs.



In India, a Technology Policy Statement (TPS) was formulated in 1983 with the objective of developing indigenous technologies. The objectives of the technology policy have been to attain technical competence and self-reliance, reduce vulnerability especially in critical areas and maximise utilisation of indigenous resources.

### Inventory-based Interventions

Effective and efficient management of inventories is critical for organisations, as it enables saving time, money and space which positively impact the overall organisational performance. Inventory-related interventions include JIT and EOQ.

**Just in Time (JIT)** JIT is an inventory planning technique in which the organisation's inventory level is kept to zero. This technique is based on the philosophy originally formulated by Toyota Motor Company, Japan, which is called Kanban, that is, purchase of raw materials by using a special card ordering form. In this technique, products are manufactured in the quantity and timeline as specified by customers in order to minimise inventory levels of raw materials and finished products. JIT is suitable for manufacturing organisations which produce standardised products and have consistent demand. JIT ensures smooth flow from the stage of purchase of materials till the final product.

**Economic Order Quantity (EOQ)** EOQ is an inventory management technique which enables to minimise the ordering and holding costs of inventories. General inventory management includes costs for ordering, holding, receiving, inspection for purchasing and receiving the inventory. The holding costs include costs associated with storage, insurance and maintenance of inventory.

### Quality-based Interventions

Quality is a crucial factor for both manufacturing and service organisations. There are eight quality dimensions to be considered in production: performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality (Gravin, 1987). In the context of services the quality dimensions are: time, timeliness, completeness, courtesy, consistency, accessibility and convenience, accuracy and responsiveness (Parasuraman et al., 1988). Quality is a dynamic concept which continuously adapts to the changes in market requirements (Hutchins, 1991). Across the world, companies are keeping a critical eye on quality and have inculcated quality initiatives to sustain themselves in fierce competition. The quality interventions are being further reinforced and encouraged through well-known awards like Malcolm Baldrige National Quality Award and Deming Prize.

According to Deming (1982) "*quality is a predictable degree of uniformity and dependability at low cost and suited to the market*". The fundamental principles of quality are based on the following four concepts: (i) customer delight, (ii) management by fact, (iii) people based management, and (iv) continuous improvement as suggested by Juran (1988), Feigenbaum (1983), Deming (1993) and Crosby (1994).

### **Total Quality Management (TQM)**

TQM is a popular approach to quality which is a strategic-level commitment from the top management of an organisation. According to Deming, TQM is, “a network of interdependent components that work together to try to accomplish the aim of the system” (Deming, 1994). The cornerstones of TQM are base decisions on facts, with focus on processes, continuous improvement, commitment and focus on customers (Bergman and Klefsjo, 1994). TQM should be viewed as management system which comprises of three interdependent components—values, techniques and tools (Hellsten and Klefsjo, 2000). TQM approach begins with the identification of the organisation’s core values. The next step includes identification of appropriate techniques that support the values and finally it is the tools which are effective in supporting the techniques. Through TQM, organisations aim for increased satisfaction of both external and internal customers.

### **Techniques of TQM**

**Quality Circle:** Quality circle is a group of employees from the same work area and doing similar type of work. These employees meet voluntarily for an hour periodically, either every week or once in a fortnight, to identify, analyse and resolve work-related issues within their own work area. The seven popular tools used in quality circle include stratification, check sheet, scatter diagram, histogram, Ishikawa/cause and effect diagram, Pareto and control charts (X & R charts). The benefits that an organisation can derive through quality circles are: development of mutual trust between management and workers in decision making, productivity improvement, rise in employment, continuous self-transformation, development of a culture of knowledge management, improved quality of products/services, higher safety, reduction in wastage, increased profitability, increased motivation and involvement of employees, better quality of work life, proactive work environment and sense of belongingness (Mukherjee, 2006).

**SQC:** Statistical Quality Control (SQC) is a process that is used to determine the number of units of a product to be inspected to calculate the probability that the total number of units meet the organisation’s quality standards. This method helps in limiting the inspection cost. However, the quality inspector needs to ensure that the number of units inspected gives an accurate measurement of the quality of the entire product lot.

**Kaizen Gemba:** *Kaizen* means improvement and *gemba* means workplace. *Kaizen gemba* can be defined as “the systematic organised effort to continuously improve the performance at the work area by individual efforts in a group who assemble periodically to discuss their work-related problems” (Mukherjee, 2006). The focus areas of this TQM technique are: improvement in methods, work content and quality; reduction in wastage, defects, rework and mistakes; economy of efforts; saving in time and power/energy/fuel resources; and effective utilisation of space, maintenance of machines, inventory control and housekeeping.

**Benchmarking** It is a systematic process wherein the search is for best practices, innovative ideas and very effective operational procedures which lead to superior performance. Organisations undertake a systematic study of best business practices, operating tactics and winning strategies of other individuals, teams or organisations based on which they enhance their own performance and make improvements (Bogan and English, 1994). According to Juran (1994), benchmarking is “a point of reference from which measurements and comparisons of any sort may be made.” Spendolin (1992) defined benchmarking as “a continuous, systematic process for evaluating the products, services and work processes of organisations that are recognised as representing best practices for the purpose of organisational improvement”.

Described below are different types of benchmarking

- ◆ *Internal benchmarking*: It is a systematic internal evaluation of the organisation in which its performance level is compared with industry standards.
- ◆ *External benchmarking*: In this benchmarking, the organisation looks outside and discovers new ways of doing things that are creative and efficient with the respect to the industry in which it operates.
- ◆ *Competitive benchmarking*: In this benchmarking, the organisation competes with its direct competitors.
- ◆ *Industry benchmarking*: It is a broad-based benchmarking and is targeted at organisations operating within the same industry but with dissimilar products.
- ◆ *Generic benchmarking*: It is conducted in which comparative study of particular process or business function is evaluated against identified benchmark organisation irrespective of the industry.
- ◆ *Functional benchmarking*: In this benchmarking, the organisation’s performance in a particular business function is compared with that of two or more organisations.
- ◆ *Strategic benchmarking*: In this benchmarking, the organisation’s strategy in a particular scenario is evaluated against the strategies of other organisations in the similar scenario.

Organisations have their own rationale for using benchmarking which may be part of their overall problem solving process or meant for selecting proactive mechanism and bringing organisational improvement.

**Brainstorming** This is a management technique used for problem-solving. In this technique, a group of heterogeneous people is formed to generate a large number of ideas within a short span of time. Brainstorming begins with the explanation of the problem by the leader. The problem is restated by the group members. Then the group chooses one or two basic statements as a lead and a freewheeling session of idea generation follows. All ideas are noted and discussed and each idea is analysed. Finally, those ideas which can provide solution to the problem are chosen. Brainstorming session ends on a high note, giving a good number of ideas for evaluation and implementation.

**Total Productive Maintenance (TPM)** Total productive maintenance focuses on eliminating the causes of machines' failures and maximisation of effectiveness of equipments in their life time. In the total productive maintenance exercise, employees from all the levels and all the departments are involved and motivated for proper plant maintenance and a proper maintenance system is developed. Training is provided in house-keeping, problem solving skills and activities to attain zero breakdowns. The major causes that lead to machinery failures are: breakdown due to equipment failure, loss of time in set-up and adjustments, stoppages and idle time, reduction in speed, process defects, reworks and start-up loss of yield. According to TPM's philosophy, a machine's operator should be responsible for both the quality and quantity of production and also for the routine preventive maintenance of the machine.

### ***Tools and Techniques for TQM***

**Quality Certification:** To develop more reliable and durable production and distribution systems, many countries and industries across the globe have joined hands to form an international series of quality standards. One important outcome of this cooperation is the ISO-9000 series of quality standards, which was developed in 1987 by the Technical Committee of the International Organisation for Standardisation. These standards received instant approval from many nations and went on to become the standards for the world market (Bandopadhyay, 1996). The emphasis in quality certification is on inspection of the production or service system to ensure its capability to produce the product/service of the desired quality that meets customer's expectations.

**Ishikawa/Fishbone Tool:** Ishikawa tool is named after its inventor Kaoru Ishikawa (Ishikawa, 1985) and it has been designed for group work. In the fishbone diagram used in Ishikawa tool, a problem is identified and plotted at the head of the fish which provides a point for brainstorming. Thereafter, the ideas which are generated are plotted on various spikes of the fishbone.

**Why-Why Analysis:** In this technique, the same question is asked repeatedly to get to the root cause of the problem. This is a probing technique and is used commonly during investigation process.

### ***Other Quality Tools and Techniques***

**Kano Analysis Model:** This model was devised by a Japanese quality engineer and satisfaction expert Noriaki Kano. It classifies a product's attributes and their importance based on the customer perception and its effect on customer satisfaction. According to Kano, product attributes can be classified as threshold attributes, performance attributes and excitement attributes. Customer preferences can be classified as attractive, one-dimensional, must-be, indifferent and reverse.

**Quality Function Deployment (QFD):** This technique was developed to bring personal interface in modern manufacturing and business. QFD facilitates linking of customer needs with design, development, engineering, manufacturing and service functions. QFD is thus a system based on understanding of customer's requirements which adopts knowledge and quality systems thinking along with psychology and

maximisation of positive quality for adding value to achieve customer satisfaction and competitive edge. This technique is useful for both production and service industry.

**PDCA Cycle:** PDCA (Planning, Doing, Checking and Acting) cycle was originally developed by Walter Shewart but was popularised by Deming. Therefore, it is referred to as Shewart Cycle or Deming Wheel. It is a checklist of stages from problem identification to problem solution. In the Planning stage, the problem is identified, required information/data collected and strategy chalked out to attain the desired outcome. In the Doing stage, changes are put to trial on a small scale. In the Checking stage, improvements are monitored following the trial of the Doing stage through data collection and analysis. In the Acting stage, the problem solution is implemented if the Checking stage analysis declares the change trial successful. Otherwise remedial action is taken, which is the final stage.

**Six Sigma:** It is a popular quality approach which was pioneered by Motorola and Allied Signal. It is another approach to transform the organisation and maximise customer satisfaction. It is a business strategy to attain good quality at reduced cost, increase productivity, and cut down rejections and rework. The main features of Six Sigma are: all-round quality performance, do it right first time every time, and fewer mistakes in all organisational activities. Six Sigma is a measure of performance. If sigma value is high, it means improved process performance and lower defects. For Six Sigma's initiative, the top management involvement is necessary. The enablers for Six Sigma in an organisation are: commitment from organisational leadership, cultural change, change in mindsets, setting up of challenging standards, focus on customer and continuous improvement. These enablers thus require other OT interventions in order to be transformative and to bring in effective change.

**Cost of Quality:** Cost of quality is one of the oldest concepts, which has its roots in Dr. J.M. Juran's Quality Control Handbook, 1951. According to Campanella (2007), it is "the difference between the actual cost of a product or service, and what the reduced cost would be, if there was no possibility of substandard service, failure of products, or defects in their manufacture" (Campanella, 2007). Prevention costs, appraisal costs, failure costs, internal failure costs and external failure costs all summed together lead to total quality costs. This technique helps organisations improve their bottom line.

## CULTURAL INTERVENTIONS

### Vision and Objective Based Interventions

**Vision and Continuous Search for Future:** The vision of an organisation describes its future aspirations, with no specification regarding the means that would be used to realise these aspirations (Tregoe, 1990; Metejka and Federoech, 1990). Senge et al. (1990) suggest five steps for development of a vision, which include telling, selling, testing, consulting and co-creating. For this purpose, a two- to three-day workshop/conference is held in the organisation, wherein participants are asked to do the following, "to build database, to have comprehensive look on the data gathered, provide their interpretations and to chalk out a plan for action" (Weisboard, 1984 1989). According to Senge (1990), "the origin of the vision is much less important than the

process whereby it comes to be shared". He also argues that to develop 'shared vision', the organisation members need to be encouraged to develop and share their personal vision. A vision cannot be truly a 'shared vision' "until it connects with personal visions of people throughout the organisation" (Senge, 1990). In view of Hamel and Prahalad (1994), the best vision reflects a solid, well-founded viewpoint about what it will take to attain success in business ten years henceforth. This type of intervention requires OD-based process.

**Management by Objective (MBO):** This concept was developed originally by Peter Drucker (1954) and later supported by other management scholars. This was later considered as a philosophy for managing organisations. The features of MBO are: it is an operational technique, comprehensive in nature; it is a result-oriented process and encourages participative management and it focuses on key result areas (KRAs) and a self-analytical approach. The process of MBO involves these actions: defining organisational goals and planning strategies superiors deriving their objectives from organisational goals, subordinates identifying sub objectives in the context of their superior's objectives implementation, performance assessment, performance review and modification based on feedback.

## Culture Change

To change the organisation's culture is revolutionary in nature. Books like *Theory Z* by Ouchi (1979), *The Art of Japanese Management* by Pascale & Athos (1981), *In Search of Excellence* by Peters and Waterman (1982), *Corporate Cultures* by Deal and Kennedy (1982) and *Built to Last* by Collins and Porras (1994) created awareness about the organisational culture and advocated the benefits reaped from cultural change. Corporate culture plays a crucial role in the organisation's strategy, procedures and decision making, and acts as guide to employees in shaping their beliefs and actions. Organisation culture can be defined as a pattern of artefacts, norms, values and basic assumptions on how to solve problems and this can be taught to others (Schein, 1992). Organisation culture comprises four elements (Schein, 1992; Kilmann et al., 1985), which are: artefacts, norms, values and basic assumptions.

**Artifacts:** These are visible symbols and are the highest level of cultural manifestation, which are based on deeper aspects of culture, in the form of norms, values and assumptions, for example, workspace arrangement, rules, the behaviour of employees, procedures, physical space and décor, the dressing style of employees and logos. These artifacts are prima facie sources to collect information on an organisation's culture. However, analysing these artefacts is a complex process.

**Norms:** Norms act as guide for the organisational members regarding their behaviours in different situations. They represent unwritten rules of behaviour.

**Values:** Values enable the members to know what is important for their organisation and requires their attention.

**Basic Assumptions:** Assumptions are the deepest level of cultural awareness which teach members how to think and feel about things, that are the environment and aspects of human nature, human activity and human relationships.

## **Diagnosis**

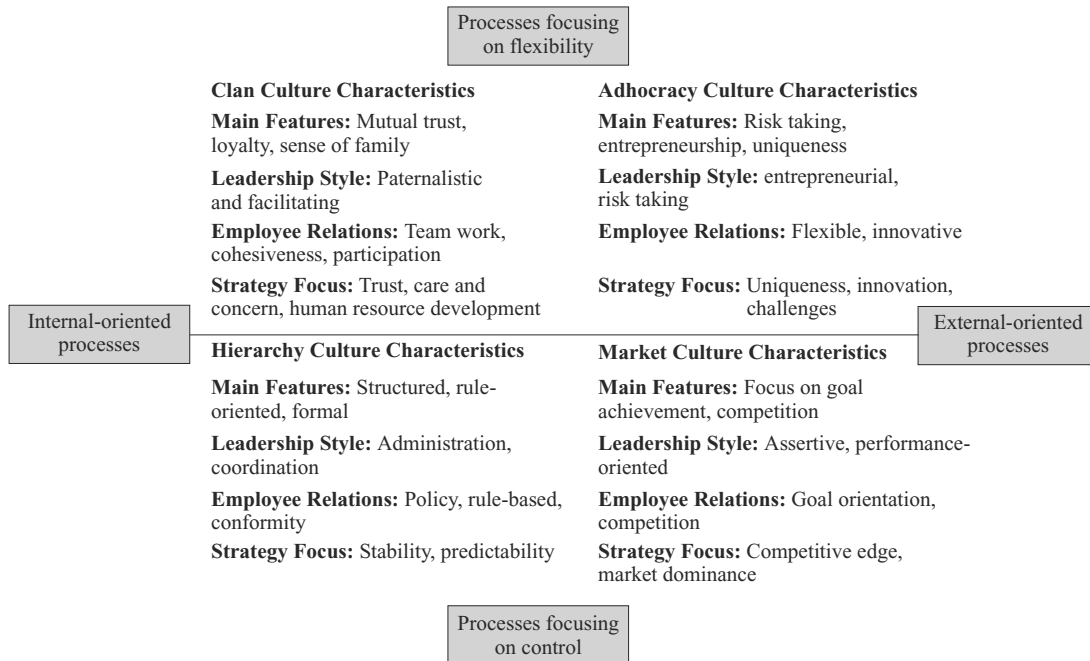
In order to make cultural change intervention, the first step is to diagnose the existing culture of the organisation. According to OD practitioners, there are three different approaches to diagnose organisation culture: behavioural approach, competing values approach and deep assumptions approach.

**Behavioural Approach:** This approach emphasises the surface level of organisation culture, that is, patterns of behaviour which result in business performance (Hanna, 1988). This approach describes how various tasks (innovation, decision-making, communication, organising, monitoring, evaluation and rewards) are performed and how are relationships (company-wide, manager–subordinate, between colleagues, and inter-departmental) are managed in the organisation. This diagnosis can also enable the understanding of the level of risks involved in the implementation of cultural change. If the risk levels are assessed appropriately then the culture change plans can be modified or discarded.

**Competing Values Approach:** This approach assesses the organisation's culture in the context of how it resolves a set of value dilemmas (Cameron & Quinn, 1999; Denison & Spreitzer, 1991). According to this approach, culture can be understood through two value pairs—(i) internal focus and integration vs. external focus and differentiation, and (ii) flexibility and discretion vs stability and control. Organisations continuously struggle between the conflicting demands arising out of competing values. Organisations cannot put too much emphasis on either of the values. In the competing values approach, data is collected through 'The Psychometrics of the Competing Values Culture Instrument' (Quinn and Spreitzer, 1991). Based on the data collected through this instrument, the organisation's culture can be classified into any of the following categories according to the competing value model (Cameron & Quinn, 2006)—*clan*, *adhocracy*, *hierarchy* and *market* (see Fig. 5.1).

*Clan Culture:* Organisations having clan culture are based on assumptions that their environment can be best managed through team work, development of employees and by considering customers as partners. The top management's major priority is to empower employees and facilitate their participation, commitment and loyalty. Leaders are considered as mentors and loyalty and tradition maintain togetherness in the organisation. The commitment level is high. Success is defined on aspects of internal climate and concern for people.

*Adhocracy Culture:* This is the culture of the organisations which are formed on temporary basis. Such organisations are specialised, dynamic and focused. The goal of the adhocracy culture is to encourage adaptability, flexibility and creativity. Such culture is characterised by uncertainty, ambiguity and information overload. Adhocracy organisations can be found in industries like software, aerospace, automobile, think-tank consulting and film making. The challenge these organisations face relates to the context of innovation and adaptability to new opportunities. Here power flows from individual to individual or team to team. All individuals have high level of involvement; emphasis is on the risk taking ability and the ability to anticipate the future.



Adapted from Quinn, R.E. and Rohrbaugh, J. (1981). A competing values approach to organisational effectiveness. *Public Productivity Review*, 5, 122-140.

**FIG. 5.1** The Competing Values Model

**Hierarchy Culture:** The organisations following the hierarchy culture have formalised and structured places to work. In the hierarchy culture, procedures govern people’s work; leaders are considered effective when they are able to coordinate and organise efficiently, maintain smooth running of the organisation and have formal rules and policies which hold the organisation. The matters of concern include stability, predictability and efficiency. Examples: Public sector units in India and government departments.

**Market Culture:** Following the market culture organisations have orientation towards external environment instead of internal affairs. Their focus is on transactions with suppliers, customers, contractors, licensees and regulators. The control is based on economic market mechanisms, largely on monetary exchange. Their concern is regarding profits, bottom line, market share, market expansion and safeguarding the customer base. The core values which drive such organisations are productivity and competitiveness.

**Deep Assumptions Approach:** Through this diagnosis, the deepest level of an organisation culture, that is, tacit and shared assumption, is explored. Assumptions guide the organisational members’ behaviour and also impact the organisation effectiveness. Therefore, this diagnosis starts from the most tangible level of awareness and moves towards deep assumptions. There are three challenges faced in the process of information collection (Schein, 1992). The first challenge is in the context of culture



which reflects the shared assumptions, people's behaviour and the organisation work style. Normally, people take cultural assumptions for granted and rarely speak of them directly; rather they are implied through routine activities and language. In order to diagnose the cultural issues, considerable time and efforts are required for observation, sorting through and asking the organisational members of these cultural outcroppings and their deeper implications. The second challenge is in the context of values and beliefs. There is difference between what people advocate and what they hold and practise in reality. Individuals generally do not accept this discrepancy. However, the real assumptions that highlight the idealised portrayal of culture need to be discovered. Large and diverse businesses are likely to have several sub-cultures and even counter-cultures which are against the wider organisational culture. Assumptions may not necessarily be shared by all organisation members, and there can be differences across groups in the organisation. In order to get a comprehensive view of and the extent to which assumptions are widely shared, all the relevant groups need to be roped in to understand their different cultural assumptions.

Techniques like iterative interviewing process (Schein, 1992) and group of people are brought together for culture workshop (Schein, 1999). In the iterative interview method, both outsiders and insiders are involved. The outsiders enable the organisation to explore cultural elements through joint exploration. An outsider enters the organisation and experiences surprises and puzzles which differ from his/her expectations. The outsider shares his/her experience with the organisation member(s) and thereafter they jointly explore the meaning. It involves a number of iterations of experiencing surprises to check meanings and to formulate the hypothesis on culture. This whole process results in a formal written description of the assumptions which underlie the organisational culture.

In the second method, a group of people are called for a culture workshop. This group includes former senior management team or members from different functional areas or old and new organisation members, union leaders and staff (Schein, 1999). The group first discusses about the artefacts. Based on this discussion, the values and norms of the organisation are inferred. Besides, the advocated values that are formally documented are also listed. Thereafter, the group makes attempts to identify the assumptions based on artefacts, norms and values. As assumptions are taken for granted, there is difficulty in articulating the same, so the OD practitioner needs to put in a great deal of process consultation to enable the organisation members to see the fundamental assumptions.

Changing the deeper aspects of culture, that is, values and assumptions, is challenging as compared to altering artefacts and norms. Values and assumptions are built and reinforced over the years and members find it difficult to envision anything else. Moreover, individuals have their own vested reasons for not bringing change in their values and assumptions. Besides, values and assumptions also serve as a defence against external uncertainties and threats (Meyerson and Martin, 1987).

### **Self-designing Organisations**

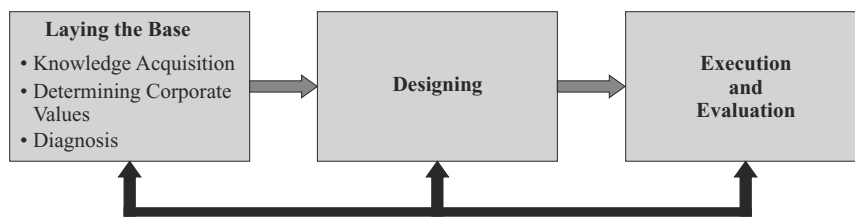
Self-designing organisations have in-built capacity to transform themselves to achieve high performance in the dynamic and competitive environment (Mohrman

and Cummings, 1989). Mohrman and Cummings have developed a self-design change strategy that is a continuous process undertaken by managers and employees across all levels (Mohrman and Cummings, 1989). Through this approach, corporate values and guidelines for change are broken down into structures, processes and behaviours and continuous adaptation is made according to the organisation’s changing conditions.

**Strategy for Creating Self-designing Organisation**

The self-design strategy considers all features of an organisation, that is, leadership, strategy, structure, HR practices and technology. This process undergoes a lot of iterations which are aimed at building the capacity of the organisation to change and redesign itself as per the demands of the environment and situation. In this strategy, learning takes place across all the levels in the organisation. This strategy involves three stages—(i) Laying the Base, (ii) Designing, and (iii) Execution and Evaluation (Mohrman and Cummings, 1989).

*Laying the Base:* The organisational members are provided with basic knowledge and information to get started for transformation. This stage involves the following activities: acquisition of knowledge, determining corporate values and diagnosis of the existing organisation. Knowledge acquisition focuses on processes for high-performance achievement and self-design. Knowledge is gained through books, research papers, white papers, attending workshops and conferences and by visiting those organisations which have implemented the self-design organisation strategy. Knowledge acquisition has a top-down approach. The next step in this stage is determining corporate values, which would guide the transformation process. Values would represent organisation’s performance and conditions which are needed to implement the corporate strategy. Value statements are written and discussed among different stakeholders and thereafter finalised. The last step in this stage is diagnosis of the existing organisation. In this diagnosis process, all organisational features, performance and environmental conditions are taken into consideration to identify what needs to be changed to be able to implement the strategy and values.



**FIG. 5.2** The Self-Design Strategy

Source: Adapted from *Self Designing Organisations* by Mohrman & Cummings (1989), Pearson Education Inc.: Upper Saddle River, New Jersey

*Designing:* In this stage, the organisation designs and innovations are created to support corporate strategy and values. Here broad parameters for the new organisation are specified but the details are taken care of by different levels and groups within the organisation.

*Execution and Evaluation:* This stage involves execution of the designed organisation changes. This is an ongoing action research cycle in which structures are changed, behaviour is changed, progress is evaluated, and required modifications are made. Information is gathered on the performance of the new organisation design, and incongruities are identified and required adjustments are made. This evaluation process is conducted not only post-implementation but also periodically.

## **ORGANISATION LEARNING AND KNOWLEDGE MANAGEMENT**

This intervention helps the organisation develop and implement the knowledge for change and for continuous improvements. It involves two interrelated change processes—organisation learning (OL) and knowledge management (KM). Organisation learning enables the organisation to upgrade its capability to acquire and develop new knowledge. Knowledge management is about how the acquired knowledge can be put in an organised form and be made useful for performance enhancement. OL and KM are becoming important for organisations to survive in a dynamic and uncertain environment, as these interventions can enable organisations to have competitive advantage and edge over competitors (Lant, 2000; Crossan and Lane, 1999; Spender, 1996).

The field of OL has evolved from the field of social sciences and is based on OD interventions like team building, structural design and employee involvement. The OL intervention focuses on organisational structures and social processes which enable employees and teams to learn and share knowledge. On the other hand, the KM intervention is based on information and computer sciences, and its focus is on tools and techniques to collect and organise data/information, and transfer knowledge to make it available in a useable manner. The integrative framework of OL and KM discussed here is heavily based on the model of Snyder and Cummings (1998) and Cummings and Worley (2007). The major components of this framework include organisation learning (organisation features and organisation learning process), knowledge management (organisation knowledge and process for knowledge management) and finally output, that is, the organisation performance.

### **Organisation Learning**

An organisation's learning is based on two aspects—organisation features and the organisation learning process. Organisation features are: leadership, structure, information systems, HR practices and culture.

#### **Organisation Features**

- ◆ *Leadership:* Leadership is the driving force for any action or initiative in an organisation. Similarly, OL and KM are also dependent on effective leadership. Leaders of learning organisations have the characteristics of openness, risk taking ability, which manifests in learning. They set a compelling vision and provide the required support through empathy, encouragement and resources.

- ◆ *Structure*: An organisation structure, with its following features, is instrumental in promotion and sustenance of OL and KM: team work, few levels, lateral relationships and strong networking across the organisation and with external forces.
- ◆ *Information Systems (IS)*: The information and data pooled in organisation learning needs to be supported by an appropriate information system infrastructure. The IS facilitates in acquisition, processing, sharing, storing and managing vast and complex knowledge source which can give it a competitive edge.
- ◆ *HR Practices*: HR practices which include recruitment, training and development, appraisal, evaluation and reward system are designed to support the organisation's performance and knowledge development. These strengthen knowledge acquisition and sharing of new skills.
- ◆ *Culture*: Organisation culture promotes openness, creativity, innovations, experimentation and risk taking among the organisation members. These values promote learning and also encourage members to share knowledge.

### **Organisation Learning Process**

The organisation learning process comprises four interrelated activities: discovery, invention, execution and generalisation (Snyder and Cummings, 1998).

- ◆ *Discovery*: The learning process starts when the organisation members identify errors or gaps between actual and desired situations.
- ◆ *Invention*: Once the gaps or errors are identified, the members focus on inventing a solution based on in-depth diagnosis.
- ◆ *Execution*: The invented solution is implemented.
- ◆ *Generalisation*: Based on the execution outcome, the solution is implemented for other similar situations.

This learning process is applicable to three types of learning: adaptive learning, generative learning and deutero learning (Argyris and Schon, 1978; Argyris and Schon, 1996; Senge, 2006).

- ◆ *Adaptive Learning*: The focus is on improvement of status quo which is the most prevalent form of learning in organisations. It facilitates members to reduce errors or gaps between actual and desired situations. Adaptive learning can produce incremental change based on the organisation's functioning.
- ◆ *Generative Learning*: The focus is on changing the current situation. This learning can lead to transformational change which alters the existing scenario radically.
- ◆ *Deutero learning*: The focus is on knowing how to learn. This means to learn about and improve upon the organisation's existing adaptive and generative learning processes.

## **Knowledge Management**

Knowledge management is built on two aspects—organisation knowledge and process.

### ***Organisation Knowledge***

Organisation learning leads to formation of organisation knowledge, both explicit and tacit. The outcomes of organisation learning include members' knowledge about processes, products, customers, competitors and the external environment. These knowledge outcomes are available either explicitly through documents, manuals and database or in tacit form, that is in memories, skills and intuitions of organisation members (Nonaka and Takeuchi, 1995). The KM interventions have been heavily fuelled by information technology and systems innovations. Thus focus is on codification, accessibility and application of knowledge to organisational tasks. Organisational learning and knowledge have crucial role in the organisation's performance so there is increased attention towards its acquisition and effective usage. It can be noted that there is an increase in investment and expenditure on building research and development, intellectual assets and services and knowledge capital. There are organisations for which knowledge assets are more important than physical and financial assets (Edvinsson and Malone, 1997).

### ***Process***

According to Cummings and Worley (2007), processes involved in KM include knowledge creation, knowledge organisation and knowledge distribution.

- ◆ *Knowledge Creation:* In this process the types of knowledge which can benefit the organisation are identified, and efforts are made to increase the pool of such knowledge. First, the organisation's strategy is examined to identify the types of knowledge required for competitive advantage. The next step is to identify the mechanisms for creating the identified knowledge. External mechanisms include acquisition or merging with other organisations which have the knowledge or to rope in consultants and researchers (Anand et al., 1998). Internal mechanisms include informal networks among employees performing similar kind of work wherein they share expertise (Wenger, 1999; Brown and Duguid, 1991). Other mechanisms include formation of formal groups like R&D department, knowledge centre and groups comprising individuals with different skills. The organisation can also enter into joint ventures or tie-ups with research institutions, universities or other corporate organisations and form a centre of excellence.
- ◆ *Knowledge Organisation:* The knowledge created is put into an organised form for ready access and usage by the organisation members. Practitioners of KM have developed tools and techniques for organising the created knowledge through two broad strategies—codification and personalisation (Hansen et al., 1999). The codification strategy relies heavily on IT and IS, wherein knowledge is classified and stored as database which can be readily accessed and used by the organisation members. The codification strategy is useful in

the context of tacit knowledge and the economic consideration demands that once an investment in knowledge asset has been made it should be used several times. The personalisation strategy focuses on how individuals create and share knowledge with other people. This is useful in the context of tacit knowledge. Sources of tacit knowledge are: conversations, dialogues and direct contacts with experts who possess the particular knowledge. Techniques used in the personalisation strategy include networking, brainstorming, knowledge maps and cross-functional teams.

- ◆ *Knowledge Distribution*: This process focuses on mechanisms using which organisational members can access the required knowledge. There are three approaches to knowledge distribution—self-directed distribution, knowledge services and networks, and facilitated transfer (O'Dell and Grayson, 1998).

The self-directed distribution is heavily dependent on members to take initiative and control for knowledge distribution. The source of knowledge includes the database which comprises a variety of resources such as reports, articles, research papers, customer data and best practices and the locator system to enable members to find the desired knowledge. In this approach, knowledge is distributed through push or pull system (Garvin and March, 1997). In the push system, knowledge is made available to members by sending it in an appropriate format. In the pull system, members identify the information that is required and pull it out when they need it.

Knowledge services and networks provide specific assistance and these have organised channels to leverage knowledge throughout the organisation. These are managed by a knowledge manager or knowledge integrators (O'Dell and Grayson, 1998). The techniques used in this approach to facilitate knowledge distribution include help desk and knowledge packages. Knowledge networks create linkages among members throughout the organisation for learning and sharing. They have chat rooms, intranets, discussion databases, knowledge fairs, talk rooms and communities of practice.

In the approach of facilitated transfer of knowledge, specific individuals in the organisation assist in and encourage knowledge distribution. These individuals are trained to enable other members to access databases and other sources of knowledge. They also act as change agents as they help the organisation members implement knowledge for bringing change in structures, processes, people and finally for enhancement of the organisation performance.

### ***Outcomes of knowledge Management***

Outcomes can be measured in the form of the organisation's performance on the following parameters: profits, new products/services, upgradation or innovation in the existing product or service, cost reduction, production capacity, rise in sales, new ventures and diversification.

## **IT/ICT-DRIVEN OR THIRD-GENERATION INTERVENTIONS**

The third-generation interventions, driven by IT (Information Technology) and ICT (Information Communication Technology), have brought about radical changes in the way organisations operate. These interventions are of strategic significance. IT and

ICT have transformed the nature of products, processes, services, workplace and industries. Organisations are using IT/ICT as a strategic tool for competitive advantage, better management of resources, customer servicing, better market and marketing management, new business generation and human resource management. IT and ICT intervention are bringing in the following changes in organisations across the globe.

### **Virtual Organisation**

The term 'virtual organisation' was introduced in the year 1980 and has continued to evolve over the years (Mowshowitz, 1994). A virtual organisation is a network of usually medium- and small-sized companies which collaborate for projects which are not possible to execute without each other's cooperation. The products and services which virtual organisations provide often depend on innovation and have a strong customer focus (Bultje et al., 1998). The characteristics of a virtual organisation are: it is open and comprises medium- and small-sized organisations and partners have equal rights (Riemer et al., 2001). In a virtual organisation partners come with a wide variety of competencies and each partner concentrates on its distinctive competency. The virtual organisation aims to provide mass customisation (Saabeel et al., 2002) or new product development (Franke, 2001). It is flexible in nature (Mowshowitz, 1999) and easily adapts to market changes.

### **Virtual Work**

Virtual work is a type of employment relationship in which employees make use of IT and ICT to perform their duties away from the physical work space of the organisation. This enables employees to have work-life balance, and the organisation to save on resources. This form of work is suited for individuals who are self-motivated, organised, efficient, tech-savvy and content with their social life.

### **Virtual Teams**

Virtual teams are cross-functional groups which operate across time, space and organisational boundaries with members who communicate with each other mainly through information and communication technology (Lipnack and Stamps, 2001; Hertel et al., 2005).

### **New Media**

The new media comprise social media, blogs, wikis and micro blogging which are creating new waves and attempting to bring change in organisations. Well-known social networking sites include Facebook and Orkut and Twitter (micro blogging site). Social networks are considered to be an important source for trust building, information sharing, power and influence and for the well-being of employees at the workplace (Hansen et al., 2005). The new media facilitate individuals to form communities based on friendship, common interests or other themes which results in close and intense interactions. Organisations are still undecided about leveraging the potential of the new media unleashed by ICT, and many have blocked such sites within their offices. These media are generating a lot of new ideas and information in real

time. Social networking sites are slowly gaining space into marketing and customer building activities. Communication is no longer one-way; it's become two-way, with employees, customers and other stakeholders gaining more power and influencing capability through the new media which demand more transparency in all activities. The new media are bringing changes in recruitment, training and development, and decision making. In India the organisations which have ventured into leveraging the potential of social networking sites for marketing include Maruti Suzuki, Life Insurance Corporation of India (LIC) and Fasttrack.

### **Hyper Networking/Connectedness**

Hyper connectedness takes place when connectivity increases across organisations through various channels and the organisation is unable to control it. Through this connectivity there would be rush for more work from both informal and formal relationships and it would impact the way people work. The role of IT/ICT in supporting the increased work would be important. Employees would be on the move 24 × 7, as they would be connected with people who they may or may not know across countries in different time zones. People would not need large physical space either at the workplace or at home. They would be equipped with gadgets easy to handle, carry and operate and work from the comforts of their homes. The lines between personal, professional and family life would slowly disappear and demands from each of the sphere would overlap. Individuals would need to manage this complexity to maintain work-life balance. Individuals would be faced with stress due to information overload and constant movement at work which may also impact their performance if not appropriately managed (Gartner, 2010).

### **Simulations and Experimentations**

Simulations and experimentations at workplace would be on rise, considering the ever-changing and increasing usage of technologies. This would lead to the development of a 'n-dimensional virtual representations' from a variety of data. People would interact and juggle with the data, manipulate it on various parameters and reshape the virtual world according to their visualisation (Gartner, 2010).

### **Face-to-Screen Interactions**

Face-to-face interactions and meetings would remain but their frequency would be low in future. However, face-to-screen interactions would result in saving time, money and resources and also contributing towards betterment of environment. There would be increase in the use of video-conferencing, online chatting and other innovative new media.

### **ICT-enabled Recruitment**

ICT has brought in tremendous changes in the way organisations conduct the recruitment process. Numerous websites like Naukri.com and Monster.com provide huge database for both the employers and the potential candidates. Employers can sieve through the database and choose the potential candidates, and no longer depend on referrals and limited job vacancy advertisements. The potential candidates too



can apply for appropriate jobs based on the information available on the job websites regarding vacancy. An organisation website provides considerable information for the potential candidates to know about the organisation culture and its match with their own values and beliefs. For the initial round of interviews, the organisation use video-conferencing or teleconferencing which saves time and money for itself as well as the potential candidate. In the final round of interview, the candidate is called to the organisation for verification of his/her credentials and documents. Organisations are today equipped with IT-based gadgets which check the originality of the certificates and documents presented by the candidates. Lately, social networking sites, especially LinkedIn, Facebook and even Twitter are being used for recruitment. Recruiting agencies or the organisation's HR personnel visit these websites for head-hunting to fill the job vacancies. These networking sites give an insight into the individual, his/her networks and also trustable referrals which are easing the task of recruitment. Nowadays, some organisations also put up vacancies on LinkedIn and Twitter, thus enabling the potential candidates to get in touch with them in real time.

### **Virtual Learning**

Virtual learning is ICT/IT-enabled and is also known by other names like e-learning and distance learning. Piccoli, Ahmade and Ives (2001) define *virtual learning as occurring in "computer-based environments that are relatively open systems, allowing interactions and encounters with other participants and providing access to a wide range of resources"*. In another definition, Hornik Johnson and Wu (2007) state that in *virtual learning "learning processes, communications, shared social context and learning community are mediated through information technology"*. According to Bell (2007), the advantages of virtual learning for business organisations include cost-effectiveness in training a large number of employees for a short duration, up-to-date content, learning consistency for the diverse workforce across the globe, availability of audit tools to ensure compliance. From the perspective of employees (learners), advantages are: flexibility and control over the learning process which does not interfere with their work, ability to spend extra on challenging material and an environment which is safe and less pressure (Bell, 2007). The other advantages include faster learning, anywhere and anytime learning, reusable content and saving on travel expenses (Schooley, 2009). According to Allison (2007), "IT enables one to develop material for almost any type of learner, making it available both for and on demand, personal, consumption as well as for group based activities." However, there are challenges for organisations which, if not addressed, would adversely impact the effectiveness of the virtual learning process of the organisation, organisation's culture, characteristics of the learning and organisational effectiveness.

## **HR INTERVENTIONS**

### **Managing Diversity and Inclusion**

Diversity and inclusion are the top priorities for organisations across the globe. Diversity is considered vital for organisational performance as well as for competitive

edge. There is increasing emphasis on leveraging multiculturalism of the organisation and encouraging inclusion for organisational success. However, the path towards multiculturalism is a long one and tough (Dass and Parket, 1999). The multicultural organisation's visions focus on 'inclusion' as the key to leverage diversity (Ferdman and Davidson, 2002). Mor-Barak and Cherin (1998) have described inclusion in diverse organisations as "the degree to which individuals feel part of critical organisational processes". Wheeler (1999) defines the organisational-level inclusion as: "Organisations that truly value inclusion are characterised by effective management of people who are different, ability to admit weaknesses and mistakes, heterogeneity at all levels, empowerment of people, recognition and utilisation of people's skills and abilities, an environment that fosters learning and exchange of ideas and flexibility." Initiatives for managing diversity must deal with three levels of organisational changes: structural, cultural and behavioural (Ragins, 1995). To initiate cultural change, the first step is to identify the informal practices and beliefs which constitute organisation's culture and to study its impact on different groups of employees (Holvino 2004 et al.). Once the practices and beliefs are understood, the organisation can begin with small experiments that are designed to bring change in everyday practices (Meyerson and Fletcher, 2000; Rao Stuart and Kelleher, 1999). Interventions to initiate cultural change are cultural audits, sanctioned affinity, support or interest groups and alliances, and ideological negotiations and multicultural conflict resolution (Chesler, 1994; Jackson and Holvino, 1988). Behavioural-level change interventions are aimed at bringing change in behaviours, attitudes and perceptions of the individual, between individuals and within and among work groups. The interventions include diversity education, training, coaching, and building multicultural teams. However, these interventions can benefit in managing cultural diversity and inclusion only if the members of the organisation in large numbers undergo intensive training programmes and also become internal change agents (Ferdman and Brody, 1996). Diversity training creates awareness in the members about various types of discrimination, gives space to those groups or individuals who are under-represented, and brings knowledge and facts to the fore. It helps in emphasising the importance of diversity for the organisation. Coaching is conducted on one-to-one basis for senior members of the organisation to facilitate identification of areas which need development and take appropriate action. The multi-cultural team development enhances the effectiveness of working teams through development of skill to manage cultural and social differences which impact the tasks, roles assigned to each member, the relationship between members and the mode and procedures deployed for accomplishment of the tasks. However, challenges, which can turn into stumbling blocks, arise if training is simplistic and stereotyped and worsen when only certain groups are favoured and training programmes do not have any follow-up or reinforcement (Grace, 1994).

## **Large Group Interventions**

### ***Appreciative Inquiry***

Appreciative inquiry is an intervention used for a large group. The aim of appreciative inquiry is to capture and retain the best positive values and practices of an organisation and also incorporate changes in them for the future. Appreciative inquiry has three

phases: discovery phase, dream phase and design phase. In the discovery phase, training is provided to employees on interviewing other employees regarding the latter's positive experiences in the organisation and what values and strengths they attribute to the organisation. The discovery phase training would occur in large meetings or prior to meetings. The dream phase makes use of the large group methods to bring together the system and stakeholders who plan to convert the identified positive elements into a vision and the desired future state. The best stories are retold during summit meetings and core positive elements are presented as future possibilities. Through this exercise, the group is brought to a common ground. The final phase is the design phase in which participants make action plan to create and sustain the future. The design phase plan also comprises scrutinising leadership, policies, systems and infrastructure which would support the proposed change.

### ***World Café***

This large group intervention was developed by Juanita Brown, and it is being used as stand-alone or in combination with other methods (Brown 2002). It is a process which encourages authentic conversation, the duration is of about two hours. Each world café is focused on a theme which engages the invited stakeholders. In the first stage, the invited stakeholders are divided into groups of four each and each group is given the time duration of approximate 20–45 minutes wherein they talk and discuss about the theme. At the end of each round one person remains at each table as the host, while each of the other three travel to separate tables to communicate the gist of their conversation. Their tables and chairs are arranged in a format similar to that of a café with four people on a table. This goes through three rounds of iterations before the final groups (the original one) put up the ideas developed. Then all the stakeholders forming a single group discuss the developed ideas. Once themes are identified, an appropriate action is taken—may be formation of a task force or conducting further discussion. This world café intervention is useful in scenarios where individuals or groups come with pre-set ideas and they need to engage with others who have different ideas and views on the same situation.

## **Coaching Interventions**

### ***Transition Coaching for Leaders***

Transition coaching is designed specifically for the newly-appointed leaders. Change of leadership has a critical impact on both internal and external stakeholders as well as at the strategic level. Transition coaching enables the newly-appointed leaders to identify critical issues of the organisations which need to be addressed. Expectations and concerns of important stakeholders are defined to obtain an experienced, confidential sounding board for ideas and actions prior to their implementation. To get insight into outside perspective regarding organisational dynamics associated with leadership transition, charter would be developed and to implement action plan for transition and effective communication across all the levels in the organisation (Witherspoon and Cannon 2004).

### **Coaching in Crisis**

When a crisis or turmoil erupts within or outside the organisation, radical changes take place. Members of the organisation at all the levels suffer from insecurity and uncertainty. In this type of crisis, coaches can play a crucial role through psychological and transpersonal skills to provide support and a stable ground for individuals distressed by uncertainties. Transpersonal skills provide mystical ineffable experiences leading to an improved level of functioning in the person experiencing them.

### **FUTURE TRENDS FOR ORGANISATIONAL TRANSFORMATION**

According to a study by Gartner (2010) the changes expected in the nature of the organisation's work over the next few years include de-routinisation of work, work swarms, weak links, working with the collective, work sketch-ups, spontaneous work, simulation and experimentation, pattern sensitivity and individual workspace.

*De-routinisation* of work means each individual would have their own uniqueness in analytical or interactive contribution which would result in discovery, innovation, team work, leadership, selling and learning. The uniqueness that each individual would bring to the workplace cannot be automated. Importance would be given to collective or team work.

Within team work, there is emergence of new form called 'Swarming'. In *swarming work style* people— known or unknown or from within or outside the organisation— come together to collectively handle a problem or an opportunity and quickly disperse. This is an agile response in unplanned action requirements and displaces bureaucratic structure. Networking across professional, personal and social spaces has become crucial for individuals to survive in the workplace. In swarms, when there is an indirect connection or cues about the people one works with, it is called weak link.

The organisation also needs to *work collectively with informal groups* outside the organisation which can impact its performance. The managers need to identify such external collective and its key people through whom market intelligence could be gathered and which may help in formulating various business strategies. The non-routine process would be highly informal. Emphasis would be on simple *sketch-ups*. Though now organisations attempt to capture the criteria followed in decision making, in future standard patterns would not be followed. This means the structured way of decision making or the pattern to follow frameworks would be replaced with simple sketch-ups.

*Spontaneity* would increase, that is, people would become proactive at work and would seek out new opportunities, new models and designs.

*Pattern sensitivity* becomes important especially in the context of a volatile business environment where focus is on the disruptive change. Groups would be created to identify, understand and evaluate divergent emerging patterns and suggest ways to exploit the opportunities emerging from these patterns or to protect the organisation.

At present individuals have the option to work either as *consultants, employees, agents or part-time employees*. This trend will increase depending on the talent of the individual, need of the company and opportunity and growth for future (Aggarwal 2006).

*No more superannuation:* employees would continue to work till it is suitable for them.

*Socially-oriented approaches* would be crucial in every aspect of the workplace.

*Greater transparency* is increasingly required in organisations regarding employee's decision-making and business transactions.

*Ethics and social responsibility:* Organisations are gaining importance among employees and other stakeholders. These aspects would be given significant weight for monetary and other incentives given to employees.

The *challenge of employee retention* is keeping organisations on tenterhooks due to increasing competition. Current and future employees would no longer be loyal to one organisation for life-time. HR needs to constantly explore creative ways to attract and retain skilled and talented workforce.

*Open Leadership:* Social media is creating a revolution and impacting organisational set-ups. Here leaders have a crucial role to play to navigate through these changes. A leader needs to leverage the unprecedented openness brought about by the social media revolution in societies all over the world. But he/she also needs to retain control. Sharing is an inherent behaviour of human beings and social media has fuelled this behaviour by providing technologies and platforms to share with a number of individuals at unimaginable speed and at low costs through easy operations. According to Charlene Li (2010) the revolution and changes which have occurred due to social media, require change in the leadership style of organisations if they have to thrive and sustain. Li defines open leadership as "Having the confidence and humility to give up the need to be in control while inspiring commitment from people to accomplish goals". However, a fear concerning open leadership is that of losing control.

## Summary

This chapter has discussed the emergence of OT as a field. Organisation Transformation (OT) is undertaken to respond to radical changes that occur in external and internal environment of an organisation. Organisation transformation entails fundamental changes, which lead to new paradigms for managing and sustaining an organisation. The major triggers for transformational change include shift in industry and product life cycle, and inside the organisation, revolutionary and complete change demand paradigm shift in organizing, motivated by top management and line management, and constant learning and change.

The various interventions discussed include strategic interventions, operational interventions, cultural interventions; IT/ICT-based interventions and HR interventions. Prior to undertaking appropriate strategic intervention, organisations use analytical techniques, viz. (i) environment analysis techniques—SWOT and ETOP; (ii) industry analysis techniques—Porter's 5 force model, competition analysis, forecasting techniques—time series analysis, judgemental forecasting and delphi techniques, internal analysis techniques—SWOT; (iii) value chain analysis, financial analysis, key factor rating, functional area profile and resource development matrix and strategic advantage profile; (iv) product/service-oriented strategic interventions (new market development, product

development and innovation); (v) structural-based strategic interventions (diversification strategy, turnaround, restructuring and mergers and acquisitions); (vi) financial strategic interventions (liquidation and divestment); (vii) collaborative interventions (strategic alliances and joint ventures); (viii) operational level interventions (core competency, research and development); (ix) culture-based interventions (vision and continuous search for future, management by objective, culture change, self-designing organisation and organisation learning and knowledge management); (x) ICT/IT-based interventions (virtual organisation, virtual work, virtual team, new media, simulations and experimentations, face to screen interactions, ICT-enabled recruitment and virtual learning) and (xi) HR-based intervention (managing diversity and inclusion, coaching and large group). The chapter has ended with future trends on organisational transformation. Organisational transformation is the recent approach to organisational change which is changing constantly with the advancement in the field of management and information technology and information communication technology.

## Questions

1. Why is organisational transformation (OT) referred to as the second-generation OD? Explain with justification.
2. Throw light on triggers of transformational change.
3. Discuss the salient features of strategic intervention for (a) environment analysis and (b) industry analysis.
4. Why are structural strategic interventions needed for organisational transformation? Give examples from industry.
5. How are IT and ICT influencing the functioning of an organisation? Give two illustrations from any function in an organisation.
6. Elucidate the role of cultural interventions in bringing about organisational transformation. Discuss the implementation process.
7. Write short notes on:
  - (a) Emerging trends in OT
  - (b) Appreciative Inquiry
  - (c) Diversity and inclusion

## Exercises

1. Ask the participants (as a group) to identify an organisation that has gone through transformation. They need to do the following:
  - (i) Identify the triggers of change
  - (ii) Study the nature of interventions

- (iii) Document the stages and processes of the intervention
- (iv) Study the impact of the intervention
- (v) Share the insights with the group

This exercise can be done for any organisation from manufacturing or service industry. Various groups can share their learning and insights.

2. The participants may be asked to undertake internal analysis of a function in an organisation and discuss an intervention appropriate for it.
3. Analyse a case given at the end of the book.

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# 6

## Resistance to Organisational Change

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### INTRODUCTION

Organisational change efforts may turn futile if the organisation is not able to deal with the resistance that change initiatives arouse. Research has proven that one-half or two-thirds of all major corporate change efforts fail and resistance is a major contributor to such failure.

### RESISTANCE: THE CONCEPT

Resistance in organisational change literature has been defined in multitudinous ways and a review of literature suggests that there is no commonly held definition for resistance to change. While the irony exists that well-known texts have accepted and talked about resistance to change, none took the onus of defining it (Dent and Goldberg, 1999). Dramatically different approaches have been used by academicians and practitioners to conceptualise resistance to change. Some of the definitions given by researchers over the past decades fall within a wide spectrum and describe resistance to change as—  
*“Resistance is any conduct that serves to maintain the status quo in the face of pressure to alter the status quo”.*

Zaltman and Duncan (1977)

*“Resistance is an incomplete transition in response to change”.*

Bridges (1986)

*“Resistance is a valuable passion, which can be channeled more constructively”.*

Weisbord (1987)

*“Resistance to change is a multifaceted phenomenon, which introduces unanticipated delays, costs and instabilities into the process of strategic change”.*

Ansoff (1988)

*“Resistance arises as a result of the fallacy of programmatic change”.*

Beer, Eisenstat & Spector (1990)

*“Resistance occurs when the change has not impacted a compensating feedback loop”.*

Senge (1990)

*“Resistance is a temporary attraction to a state of equilibrium”.*

Goldstein (1994)

*“Resistance is the obstacle in the organisation’s structure”.*

Kotter (1995)

*“Resistance is found in individual and organisational characteristics (such as self-esteem and barriers to work)”.*

Spreizer and Quinn (1996)

*“Resistance is protection, energy and paradox”.*

Maurer (1996a)

## **NATURE OF RESISTANCE: POSITIVE OR NEGATIVE?**

Organisational change literature in the past has explored the notion of resistance to change as an annoying barrier which is needed to be overcome and resistance as a deviant behaviour that needs to be “cured”. The predominant belief behind such perspective that has a unitarist outlook roots in the premise that conflict is irrelevant and leads to wastage of valuable organisational resources.

Resistance as viewed by managers is the enemy of change, the foe which must be overcome if a change effort is to be successful (Schein, 1988, p. 243). Such thinking is further reinforced by organisational culture “gurus” who believe in having strong, divergent unitarist cultures within the organisation that provide no leeway for differences in aims and values between the employees and the organisation, and thereby provide the organisation a competitive edge over others. Such unitarist perspective is well reflected in Ansoff’s (1990) definition of resistance—*“Resistance has been considered as a phenomenon that affects the change process, delaying or slowing down its beginning, obstructing or hindering its implementation, and increasing its costs”.*

Recently an alternative to such a perspective has been observed as researchers are analysing resistance as positive force (Perren and Megginson, 1996) and suggesting the use of resistance to build support for change (Maurer, 1996b). Resistance, according to such a perspective, is any conduct that tries to keep the status quo, equivalent to inertia that persists to avoid change (Maurer, 1996b, Rumelt, 1995, Zaltman and Duncan, 1977). Inertia and resistance here are not considered to be negative concepts as change always may not be inherently beneficial for organisations. As Waddell and Sohal (1998) point out that resistance could show change managers certain aspects that are not properly considered in the change process. Resistance may also be viewed as a “natural” survival mechanism within organisations that tests, adapts and sometimes stops decisions by fallible and often ill-informed senior management (Perren and



Meggison, 1996). Also, resistance has been advocated to prevent folly (by attending to the resistance messages, change agents may learn much to their advantage) since members resisting change may have a detailed understanding of the organisational consequence. Listening to resisters may lead to exploring and addressing their real concerns in order to ensure more effective change. Waddell and Sohal (1998) have dealt with resistance as a constructive tool for change management and insisted that the largely disregarded notion of utility of resistance has contributed to the lack of success in an organisation's effort towards securing successful change. Some early researchers like Judson (1966), Hultman (1979) and Leigh (1988) had also emphasised the utility of resistance in their works. According to Judson (1966), resistance to change is not the fundamental problem but rather it is a symptom of more basic problems. Hultman (1979) wrote, "Unfortunately, when the word resistance is mentioned, we tend to ascribe negative connotations to it. This is a misconception. There are many times when resistance is the most effective response available". Leigh (1988) asserted that "resistance is a perfectly legitimate response of a worker".

## **FACTORS CONTRIBUTING TO RESISTANCE**

One of the most abstruse and recalcitrant problems that face an organisation today is resistance to change. Such resistance may take the forms of reduction in output, increasing 'quits' and transfer requests, chronic quarrels, hostility and strikes.

Factors that are considered predominant in causing resistance may be classified in a number of ways. Different researchers have hence documented the factors to resistance in different ways. Paul Lawrence (1969) in his article on "how to deal with resistance to change" threw light on the nature of change while examining resistance with regard to it. According to him, change has both technical and social aspects. The technical aspect of the change consists of measurable modification in the physical routines of the job. The social aspect consists of the way those affected by it think, it will alter their established relationships in the organisation. He further explained resistance to change as follows:

1. A solution that has become increasingly popular for dealing with resistance to change is to get people involved to 'participate' in making the change. But as a practical matter 'participation' may lead to trouble.
2. The key to the problem is to understand the true nature of resistance. What employees resist is usually not a technical change but a social change (the change in their human relationships that generally accompanies technical change).
3. Resistance occurs due to certain blind spots and attitudes that specialists have as a result of their preoccupation with the technical aspects of new ideas.
4. Management can take concrete steps to deal constructively with these staff attitudes. The steps include emphasizing new standards of performance for specialists and encouraging them to think in different ways, as well as making use of the fact that signs of resistance can serve as a practical warning signal in directing and timing the technological changes.

5. Top executives can also make their efforts more effective at meetings of staff and operating groups where change is being discussed. They can do this by shifting their attention from the facts of schedules, technical details, work assignments and so forth, to what the discussion of these items indicates in regard to developing resistance and receptiveness to change.

In an earlier study, Kanter (1985) identified various types of resistance (presented in Table 6.1). O' Connor (1993) outlined the following causes of resistance:

- ◆ Lack of belief that there is a serious need for change
- ◆ Different descriptions of the need for change
- ◆ No agreement about the goals for change
- ◆ Lack of belief that the goal is attainable
- ◆ No confidence in the manner of change

**Table 6.1** Factors Causing Resistance to Change

CAUSE	DESCRIPTION
<i>Fear of the Unknown</i>	Such fear is due to uncertainty about the nature of change, feelings that one does not know what is going on and what the future holds
<i>Loss of Control</i>	Feeling that the change is being done to the person, worry that one has no say in the situation and the events that are taking place
<i>Loss of Face</i>	Feeling of embarrassment as a result of change and discerning it in such a way that the things that one has done in the past were wrong
<i>Loss of Competency</i>	Feeling that the existing skills and competencies that the person has will no longer be of any use after the change has taken place
<i>Need for Security</i>	Worry about one's potential role after the change has taken place
<i>Poor Timing</i>	Feeling surprised on how the change has been sprung on the person being asked to change at a time when one already feels overworked
<i>Force of Habit</i>	Feeling of comfort in the existing routines and habits and not liking to change existing ways of doing things
<i>Lack of Support</i>	Lacking the support of direct supervisors and/or organisations, not having the correct resources to properly implement the change
<i>Lack of Confidence</i>	Lack of confidence that once change has taken place, things will be better than before
<i>Lingering Resentment</i>	Feeling angry due to a lack of respect for the people involved and/or over the way one has been treated during past change efforts.

Source: Adapted from Mabin, V.J., Forgeson, S., & Green, L. (2001). Harnessing resistance: using the theory of constraints to assist change management. *Journal of European Industrial Training*, Vol. 25/2/3/4, pp. 168–191.

Kyle (1993) asserted that resistance is dependent upon two related factors. These are firstly, the degree of control an individual has over change and their ability to start, modify and stop the change (as control of change increases, resistance decreases); secondly, the degree of impact of the change on individuals (the higher the impact of change, the greater the resistance).

Waddell and Sohal (1998) in their study on resistance reviewed the resistance literature and concluded that resistance was a function of a variety of social factors including:

- (i) **Rational factors:** When the employees' own rational assessment of the outcomes of the change differs from the outcomes envisaged by the management, resistance towards change results. According to several researches, such difference in opinion casts doubt in the employees' mind about the merit or worth of the changes, consequently they may choose to stand in opposition or voice concern (Ansoff, 1988; Grusky and Miller, 1970; Kotter et al., 1986).
- (ii) **Non rational factors:** As in the case of individual worker (if governed by one's predispositions and preferences) one's reaction to the change might not be in line with the economic-rational assessment of change. These reactions may include instances of resistance where workers simply do not wish to move to new offices/space preferring previous location due to personal reasons such as staying near a friend, workers uncertainty of the outcomes of a new technology, and so on (Judson, 1966; Kaufman, 1971; McNurry, 1973; Sayles and Straus, 1960).
- (iii) **Political factors:** Researchers have found that resistance may also result due to political factors like favouritism or "point scoring" against those initiating the change effort (Ansoff, 1988).
- (iv) **Management factors:** Inappropriate or poor management styles also contribute to resistance (Judson, 1966; Lawrence, 1954).

They further include the organisational factors as contributing to resistance. The organisational factors include systems, processes, sunk costs, among others to contribute to the inertia that influences the organisation towards greater reliability and predictability, and acts against change (Kaufman, 1971; Tichy, 1983; White and Bednar, 1991, Zaltman and Duncan, 1977).

Mabin et al., (2001) documented resistance to change as caused by the following factors:

- (a) **Individual factors:** These include personality factors (such as high need for control, locus of control, need for achievement) and attitudes based on previous experiences of change.
- (b) **Group factors:** These include factors related to group cohesiveness, social norms, and participation in decision-making.
- (c) **Organisational factors:** These include threats presented by the unknown; challenges to the status quo and workload consequences.

Pardo del Val and Fuentes (2003) worked on the sources of resistance that had been outlined by Rumelt (1995). Rumelt had divided the sources of resistance into five groups and emphasised that inertia impeded both the strategy formulation and implementation stages of change. Pardo del Val and Fuentes (2003) took Rumelt's work a step further wherein they distinguished the five groups of sources of inertia (Table 6.2).

**Table 6.2** Sources of Resistance or Inertia

INERTIA IN THE FORMULATION STAGE	
Distorted perception, interpretation barriers and vague strategic priorities	<p>Myopia Denial Perpetuation of ideas Implicit assumptions</p> <p>Communication barriers Organisational silence</p> <p>Direct costs of change Cannibalisation costs Cross subsidy comforts</p> <p>Past failures Different interests among employees and management</p> <p>Fast and complex environmental changes Resignation Inadequate strategic vision</p> <p>Implementation climate and relation between change values and organisational values</p> <p>Departmental politics Incommensurable beliefs</p> <p>Deep rooted values Forgetfulness of the social dimension of changes Leadership inaction Embedded routines Collective action problems</p> <p>Capabilities gap Cynicism</p>
Low motivation	<p>Inability of the organisation to look into the future with clarity Refusal to accept any information that is not expected or desired Tendency to go on with the present thoughts although the situation has changed Assumptions which are not discussed due to its implicit character and therefore distort reality</p> <p>Barriers that lead to information distortion or misinterpretations Limiting the info flow with individuals who do not express their thoughts, meaning that decisions are made without all the necessary info</p> <p>Change that brings success to a product but at the same time brings losses to others, thereby requiring some kind of sacrifice</p> <p>The need for change is compensated through the high rents obtained without change with another factor, so that there is no real motivation for change</p> <p>This leaves pessimistic image for future changes</p> <p>Lack of motivation of employees who value change results less than managers value them</p>
Lack of a creative response	<p>This does not allow a proper situation analysis Tendency to believe that obstacles are inevitable Lack of clear commitment of top management to changes A strong implementation climate relation is negative resulting in resistance and opposition to change</p>
Political and cultural deadlocks	<p>Resistance from those departments that will suffer due to change implementation Strong and definitive disagreements among groups about the nature of the problem and its consequent alternative solutions Includes emotional loyalty</p>
Other sources	<p>Leaders are afraid of uncertainty, sometimes for the fear of changing the status quo</p> <p>Dealing with difficulty to decide who is going to move first or how to deal with free-riders</p> <p>Lack of necessary capabilities to implement change</p>

Source: Adapted from: Pardo del Val, M., & Fuentes, C.M. (2003). Resistance to change: a literature review and empirical study. *Management Decision*, Vol. 41, No. 2, pp. 148-155.

## **MECHANISM UNDERLYING RESISTANCE: THE HUMAN SIDE**

With the acceptance of resistance as a natural phenomenon in any change process, it is essential to understand it in the light of an individual's personality and his/her interactions with the environment and thereby to consider both the cognitive and emotional elements that may be involved in the process. This entails the understanding of how and why each individual reacts the way he/she does, because it would provide a critical understanding of what should constitute an effective change management strategy.

In their effort to highlight the human/personal side to the change process, researchers Moran and Brightman (2001) gave forward the TRY model. According to this model, the feeling of fear and loss are natural when one is confronted initially with change. Consequently a block may be created in the individual's mind towards the change that may act as an impediment for positive and rational understanding of change and might result in derailing the change initiative.

Any change initiative in the organisational set up results in different reactions by organisational members as the proposed change affects each person differently. This creates a need for an environment that is not only safe to react but conducive enough for experimenting and adjusting with the change. Also, for change to have long term effects, organisational members need to adjust to change before they master their new behaviours. Moreover, organisational members need to integrate change on a personal level to sustain it on the professional and organisational levels.

The TRY model in its effort to explain this phenomenon described and classified 'change levers', those features that can either block or support one's adjustment to external change, (Moran and Brightman, 2001), as follows:

- ◆ Beliefs (what one thinks is true)
- ◆ Values (what one thinks is good)
- ◆ Behaviours (how one does things)
- ◆ Skills (one's talents and abilities)

Each of these change levers function differently at personal, professional and organisational levels and change their pace for these levels as presented in Fig. 6.1.

Many incremental adjustments in beliefs, skills, values and behaviours at the individual level bring about personal change. Over time, summated incremental individual adjustments within the organisation lead to real organisational change. For this to occur, Moran and Brightman (2001) believe, "*people need to test change in safe environment, where they can question without fear of retribution, influence elements of change, initiate trials and experimentation with new situations and evaluate and manage costs and benefits in an objective manner*" or else they resist change.

## **RESISTANCE: THE BEHAVIOURAL ELEMENTS**

The behavioural elements that the resistance process, if analysed, provide information regarding the motivation of the resisters and help leaders decide their response towards them and the issues that may raise. O' Connor (1993) while discussing the

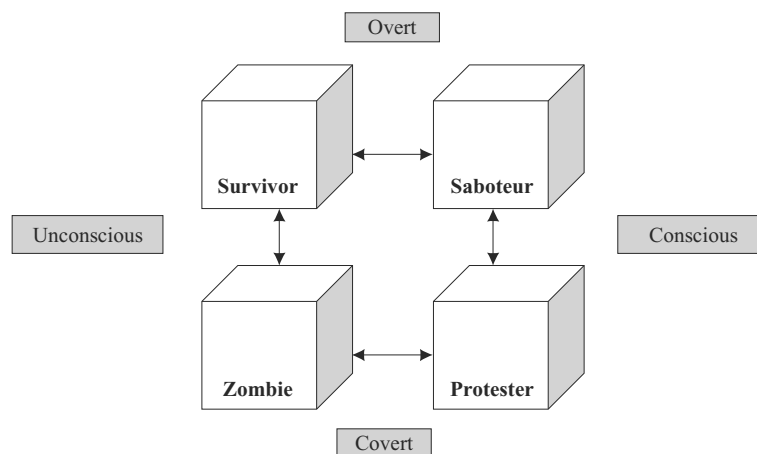
1	2	3	4	5	6	7
Initial Exposure to Change	Challenge to Personal Change Levers	Fear	Perceived Loss Greater than Perceived Gain	Closed Mind	Destructive Tension	No
Test	Negative	Resistance	Loss > Gain	Receptive Mind	Exploratory Tension	Maybe
Re-Calibrate	Positive Gap	Adjustment	New Gain > Old loss	Open Mind	Constructive Tension	
Yes	Post-Change Stability	Acceptance	Generate New Value	Experimental Mind	Creative Tension	Yes

**Fig. 6.1** TRY Model of Change

Source: Adapted from Moran, J.W. & Brightman, B.K. (2001). Leading organisational change. Career Development International, Vol. 6, 2, pp. 111-118.

Behavioural aspects of resistance gave forward a matrix that categorises resistance on dimensions (Fig. 6.2):

- ◆ **Overt versus Covert:** Resistance in covert form occurs as the concealed or undefined, lack of support for change and such resistance can completely avoid detection. In its overt forms, resistance appears in the form of open expression which may be accompanied by the reasons for such disagreement. Consequently, it is easier to manage overt resistance than covert resistance.
- ◆ **Conscious versus Unconscious:** By this dimension, O'Connor (1993) implied the motivation for resistance. When resistance is unconsciously motivated, individuals are unaware that their behaviour undermines change. Such kind of resistance results due to previously set work routines based on wrong information, poor training or ingrained habits. Unconscious resistance is difficult to detect by the management. Resistance with a conscious motive often follows a consideration of the change, and may be based on misinformation or self-serving motives. Such resistance may be tackled by debating as ignoring it may lead to increased resistance.



**FIG. 6.2** Four Extremes of Resistance forming the Resistance Quadrants

Source: Adapted from O'Connor, C.A. (1993). Resistance: The Repercussions of Change. Leadership & Organisational Development Journal, Vol. 14, 6, pp. 30–36.

Based on these dimensions, O'Connor (1993) proposed the double matrix. The matrix forms quadrants that categorise four extremes of behaviour corresponding to the four readily identifiable kinds of resistance: covert and conscious; covert and unconscious; overt and unconscious; and overt and conscious.

### Covert and Conscious: The Saboteur

Such resistors undermine change but at the same time pretend to support it. They may verbally support the change while doing nothing about it wishing that the change initiative goes away so that there is little or minimal disruption and discomfort. This

group also includes people who intend to sabotage the company or individuals' plan for change in order to attain their personal gain. Such kind of resistance is common in highly competitive environments.

### **Covert and Unconscious: The Survivor**

While people who fall under this category fail to meet targets or fail to understand the implications of their behaviour, the survivor kind of resisters do not realise that they are undermining the change initiative. Such resistance is often undetected and the resisters themselves think they are doing a good job. Since most of the time their efforts are wasted, they feel discouraged, surprised and disappointed.

### **Overt and Unconscious: The Zombie**

The zombie is the extreme case of the survivor and is unable to change most of the time as a result of the high degree of getting accustomed to acting in a particular way. In spite of verbally agreeing to a prescribed changed role, they neither have the will or the ability to create the change and gradually revert back to their former behaviour patterns. However, they do not consider their behaviour to be resistant but continue avoiding change until their next reminder.

### **Overt and Conscious: The Protester**

The protesters in their refusal to change believe themselves to making positive contribution to the organisation and criticise every failure brought about by the change. While they are often considered to be a pain by the management, they help in protecting the organisation from sudden and rash change. Such resisters are easy to detect and are easy to manage as their resistance is open and they discuss their position clearly and rationally.

Such a matrix may be used to organise information about the resistance. The position of the particular type of resistance helps managers to decide how they are going to respond to the resistance. As O'Connor (1993) while giving forward the matrix suggested, this approach may be used to avoid accusations. The zombie and the survivor type of resistance require education regarding their unconscious nature of resistance and once uncovered, they can then decide on their actual stand toward the change. Conscious behaviour may be handled by openly debating about the change and the resistance to it.

## **RESISTANCE: THE COGNITIVE AND AFFECTIVE PROCESSES**

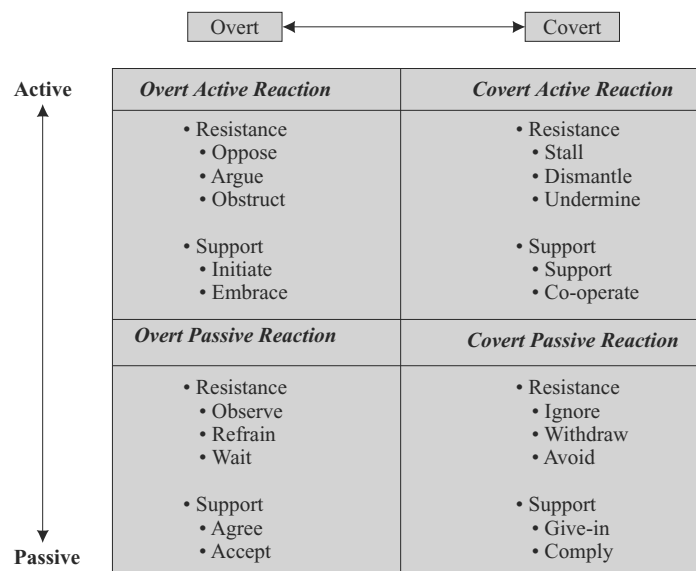
Organisational change causes individuals to experience a reaction process (Kyle, 1993). In their description of the change process, Scott and Jaffe (1988) included resistance as one of the phases through which change progresses. Coghlan and Rashford (1990) in their article, 'Uncovering and dealing with Organisational distortions' argued that maladaptive thinking abounds in the workplace. Coghlan (1993) while discussing the role of perception in resistance explained that these distortions are created by the



individual mind as they are not representations of reality since most of the time they are internalised without testing. They are then perceived being true and thus lead to reality distortion. When such line of thought is applied in the organisational setting, that is, when change is going on within the organisation, organisational members interpret the things like what is going to happen, how they themselves are perceived and what others are thinking or intending in their own ways. Such distortions are further exacerbated by the lack of adequate information, and if such distortions are not rectified, resistance to change increases.

With regard to the affect involved in the change process, organisational upheavals lead to feelings of anger, denial, loss and frustration (Spiker and Lesser, 1995). Sullivan and Guntzelman (1991) found that when there is change in the way one performed one’s job, the individual experiences, loss and grief. Also since upheavals are accompanied by changes and/or losses in role identity, one undergoes feelings of anger, sadness, anxiety and low self-esteem. Over time, if the individuals fail to adapt emotionally to change, they experience resistance (Spiker, 1994).

In their study on resistance to organisational change and the role of cognitive and affective processes, Bovey and Hede (2001) developed a Behavioural Intentions matrix based on the overt-covert and active-passive dimensions that helped in measuring the individual’s intention of engaging in supportive or resistant behaviour towards organisational change (Fig. 6.3). They operationally defined behaviour to include mental processes. We regard these behavioural intentions as a part of the cognitive process that the individuals engage in while cerebrating on the consequences of change.



**FIG. 6.3** Framework for Measuring Behavioural Intentions in Resistance

Source: Adapted from Bovey, W.H., & Hede, A. (2001). Resistance to organisational change: the role of cognitive and affective processes. Leadership and Organisational Development Journal, Vol. 22, No. 8, p. 375.

While empirically testing the role of cognition and affect in the change process, these researchers surveyed individuals during the resistance phase of the change process in order to measure the associations between an individual's irrational ideas and their behavioural intentions towards resistance. They found that irrational ideas, especially blaming, being inert and passive, not controlling one's destiny, and avoiding life's difficulties, are associated with resistance to change and individuals who possess higher levels of irrational ideas are more likely to resist organisational change. These associations strengthen as a result of the emotions involved in the process. In another research, these researchers found that unconscious processes, more precisely maladaptive defense mechanisms also contribute significantly to the resistance as they associate with individual's intentions to resist organisational change.

Unconscious processes arise as individuals respond to threats of change (Halton, 1994; O'Connor, 1993). Researchers have found that individuals unconsciously use well developed defense mechanisms to protect themselves from change and from the feelings of anxiety change causes (Bovey and Hede, 2001, Oldham and Kleiner, 1990). In their study, Bovey and Hede (2001) investigated the relationship between defense mechanisms and their association with resistance to change. They examined both adaptive (humour and anticipation) and maladaptive (denial, dissociation, isolation of affect, projection and acting out) defense mechanisms in their relation to individuals' behavioural intentions towards change. While adopting adaptive mechanisms the person adjusts with internal or external stressor by laughing it off, cracking jokes or through some amusement. Also, people anticipate their reactions and decide on realistic alternative responses or solutions. However, the study yields that the individuals who are inclined to use maladaptive defenses (especially, projection), are more likely to resist organisational change and those who tend to unconsciously adopt adaptive defenses (especially, humour) are less likely to resist. The maladaptive defense mechanisms have been described in Table 6.3.

## **RECOGNISING RESISTANCE: THE MANAGEMENT'S CHALLENGE**

In order to effectively carry out the change plan, it is extremely important for the organisation's management to recognise and handle resistance effectively. Often, the management faces a complex challenge and the following things can be taken into account to develop an effective change management strategy:

### **Discovering Resistance**

It is essential for the management to discover precisely "who" and the "why" of resistance. In many cases, resisters themselves are unaware of their resistance. Such situations arise especially when there is poor and insufficient communication about the staffs' expected role in the change process and change is mismanaged from the top. This also implies that the manager responsible for implementing change may not have understood the requirements or has chosen to resist the change while verbally agreeing to it (O'Connor, 1993). He has provided five diagnostic questions, each of which acts as a tool for managing resistance:

**Table 6.3** Description of Defense Mechanisms

Maladaptive	Behaviour Description
<b>Denial</b>	Internal/external stressors are dealt with by refusing to acknowledge some painful aspects of external reality or subjective experience that is apparent to others.
<b>Dissociation</b>	An individual deals with internal/external stressors with a breakdown in the usually integrated functions of consciousness, memory, perception of self or environment.
<b>Isolation of Affect</b>	Internal/external stressors are dealt with by separating ideas from the feelings originally associated with them. The individual loses touch with the feelings associated with a given idea while remaining aware of the cognitive elements.
<b>Projection</b>	An individual deals with internal/external stressors by falsely attributing to another person one's own unacceptable feelings, impulses, or thoughts.
<b>Acting out</b>	An individual deals with internal/external stressors by actions rather than reflections or feelings and includes transference which is the recreation of experiences from earlier childhood relationships in present relationships.

Source: Adapted from Bovey, W.H., & Hede, A. (2001). Resistance to Organisational change: the role of defense mechanisms. *Journal of Managerial Psychology*, Vol. 16, No. 7, pp. 534–548. American Psychiatric Association (1994), *Diagnostic and Statistical Manual of Mental Disorders (DSM-IV)*, 4<sup>TH</sup> ed. American Psychiatric Association, Washington, D.C.

- ◆ *Do those who are responsible for change implementation realise that it is based on a serious need?*

When information about the change is limited to a few people and the implementation group lacks knowledge on the wider context of change, resistance occurs. It is, hence, essential for the management to realise that a healthy communication system that ensures accurate information and readiness to listen to feedback must exist within the organisation to provide sufficient information about the origins and need for change.

- ◆ *Do those involved describe the need for change in the same way?*

Having diverse experiences and backgrounds, persons, responsible for change, frame the problem(s) driving the change differently and seek solutions that satisfy the individual interpretations of the problem(s). Resistance to change occurs when certain members feel that the chosen solution addresses irrelevant features of the problem and perceive the change to be short-sighted, narrow and limited in its approach. Brainstorming helps to resolve such situations where each individual can see the solution through others' perspectives.

- ◆ *Is there a common end goal for change to which everyone agrees?*

When the proposed change is to take place in a highly competitive environment where members have different individual objectives which may or may not be congruent with the organisation's objective, resistance follows. Such situations often arise when the organisational leaders have not presented clear cut goals. In such cases, it is imperative of the leaders to provide clearly defined goals, which may or may not lead to revision of goal statements.

◆ *Does everyone believe the goal is attainable and helps the organisation?*

Such kind of resistance is the result of disagreement about the goals' feasibility, which, in turn, is caused by different beliefs about the organisational resources and existence of environmental threats. Such resistance also mirrors the organisational members' doubts about the change agent's competence, vis-à-vis their withheld support. Since such resisters have a wide range of perspectives from which they inspect the proposed change, the leaders need to be open to debating and use of humour to deal with such resistance. Such kind of resistance provides detailed insights into the organisation's profile and is valuable for planning future Organisational activities.

◆ *Is there an unanimous confidence in the person selected to manage the change?*

Such resistance occurs when the scope of the change with respect to the persons involved in handling it is in question. The people who are responsible for change management are also questioned on the dimensions of the experience, management skills and area of expertise. The change managers may be criticised on these dimensions and there may be serious lack of confidence in change leaders. Such situations may give way to a greater sense of shared responsibility.

It is also essential for the management to take into consideration the effect of change on the human side of the organisation. Researchers have found that management usually focuses on the technical elements of change with a tendency to neglect the equally important human element which is often crucial to the successful implementation to change (Levine, 1997; Huston, 1992; Steier, 1989).

### **Adopting a Balanced Approach**

Managers must understand the fact that any change implies a certain amount of resistance and overreaction to such resistance may create future problems. Rather than resenting the resisters, the leaders needs to look at resistance from a positive rationale. That is, negative reactions can lead to constructive information about the change (O'Connor, 1993).

This can be done by adopting a non-emotional debate and encouraging expressions of different opinions so that a common understanding of the problem is reached. Both positive and negative feedback should be taken into account and leaders are required to adopt an open-minded approach to negotiate with the resistance.

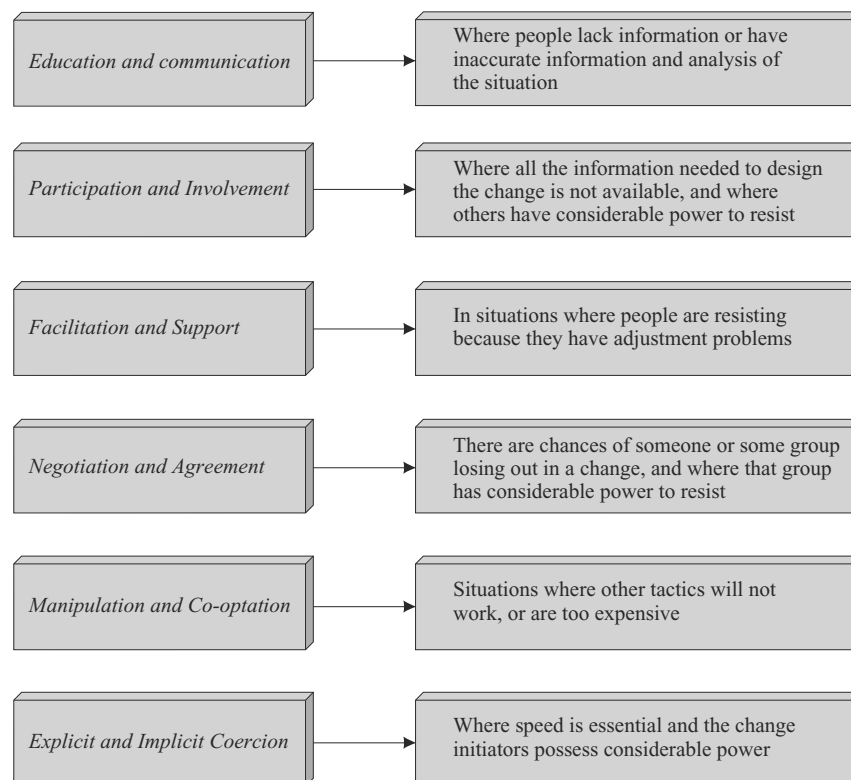
Also, the management should give equal importance to addressing the human elements that include cognitive and emotional processes involved in the change process rather than primarily focusing on the technical aspects of change. Management needs to implement intervention strategies targeting self-awareness and minimising the irrational thought processes so they aid organisational members' growth and development that have a major impact on their perceptions of change and thereby the level of resistance to organisational change.

## REDUCING RESISTANCE TO CHANGE

Kotter and Schlesinger (1979) argued that organisational change often meets some form of human resistance and that individuals react to change in different ways. Thus, implementation of change requires the management to be aware of how human processes, like that of indulging in irrational ideas and emotions, influence individuals' behaviour towards change. They further suggested six major methods of reducing resistance to change which have been presented in Fig. 6.4.

Nielsen (1981) suggested the use of a consensus-building approach to reduce resistance to change. The basic mechanism driving this approach builds on the premise that a 100 per cent agreement doesn't necessitate change. Change is usually driven by the consensus of the majority of those who may resist the change efforts. This may be achieved in the following three steps (pp. 32–34):

- ◆ Identify the key groups and individuals whose support or non-opposition is important to the strategic plan.



**FIG. 6.4** Methods for Dealing with Resistance to Change

Source: Adapted from Kotter, J.P., & Schlesinger, L.A. (1979). Choosing strategies for change. Harvard Business Review, Vol. 57, March-April, pp. 106–114.

- ◆ Discussion with the key group and individuals should attempt to identify special interest goals/needs in terms of how they are related to a strategic plan.
- ◆ Discuss, evaluate and negotiate the optimisation of the institution's central strategic objective while reasonably satisfying special interest goals/needs.

Ellis (cf. Corey, 1996) outlined a seven step intervention strategy to deal with the irrational beliefs so that individual resistance to organisational change may be reduced. These seven steps are:

1. People need to fully accept that they are largely responsible for their own emotion and behaviour;
2. They need to acknowledge and accept that they possess the ability to significantly alter their own emotion and behaviour;
3. They need to recognise that their irrational beliefs are the origin of their emotional and behavioural disturbances;
4. They need to be aware of their frequently used irrational beliefs;
5. They have will and courage to actively challenge these beliefs;
6. They also need to accept that they would have to work hard to change to challenge and counteract their dysfunctional thoughts, and;
7. They would need to be persistent in their efforts mentioned above and continually challenge their irrational thoughts and beliefs.

Maurer (1996b) identified some approaches such as the use of power, force of reason, ignoring and making deals, which are commonly used to handle the resistance to organisational change. In order to guard against such ineffective ways, he suggested following principles that aid a successful but unconventional treatment of organisational resistance to change: maintain clear focus, embrace resistance, respecting those who resist, staying calm to stay engaged and join with the resistance (that is, working with the resisters to find a common vision and plan to understand their perspectives and deal with their resistance).

## **SUGGESTIONS FOR MANAGING RESISTANCE TO CHANGE**

One of the most challenging and baffling problems faced by managers in handling change is employees' resistance to change. The resistance may be in the form of two kinds of reactions:

- (a) **Explicit** in the form of:
  - ◆ Voicing Disagreement
  - ◆ Strike
  - ◆ Go slow
  - ◆ Employee turnover
- (b) **Implicit** in the form of:
  - ◆ Loss of loyalty
  - ◆ Lowering of morale

- ◆ Absence
- ◆ Avoidance
- ◆ Low tolerance

### **Analyse Reasons for Resistance**

The main reason behind the employee's resistance is the underlying fear and anxiety caused by uncertainties of change. In most situations resistance arises out of individual problems rather than technical problems. Resistance is often because of attitudinal factors and blind spots, which the functional specialists have as a result of their concern for and preoccupation with technical aspects of new ideas.

One of the common reasons for resisting change is the feeling of discomfort with the nature of change itself, which may violate their moral belief systems. Another reason for resistance may be the method by which change is introduced. This is observed when authoritarian approach is used and people are not informed. Other reasons for resistance may be inequity where the employees feel that someone is likely to get greater benefit than they are likely to get.

Coch and French conducted a study in a clothing factory. The researchers worked with four groups of employees who were paid on piece rate basis. As part of the research design their mode of payment was slightly modified. This was followed by a simple change in their method of work. The researchers recorded if there had been any incidence of resistance. The groups were matched on various parameters and the only independent variable introduced was nature of participation. The study revealed that the different modes of participation used with the four experimental groups brought different results. The group with no participation had the highest drop in its output and its output remained at this level for the entire period of 30 days. Drop in output occurred immediately after the introduction of change. Resistance appeared in the form of aggression against their management, hostility towards supervisor, drop in production, inadequate cooperation with the supervisor. During the first 40 days of the introduction of change, 17 per cent of the employees left the job.

It is generally assumed that resistance is only negative and bad. The fact is that resistance to change is neither good nor bad. The only difference may be whether it is based on sound principles or not. Managers responsible for change need to look into these aspects and the following sources when implementing change.

### **Sources of Individual Resistance**

#### ***Limited knowledge/lack of knowledge***

In situations when people do not have sufficient knowledge about the causes and effects of change they feel anxious and stressed and consequently resist change. Employees also resist change because it threatens their needs for security, self-esteem, competence, status and social interaction. Irrespective of the nature of change it has been found that employees make efforts to protect them from the effects of change and the reaction may range from simple complaints and grievances to passive resistance,

sabotage, absenteeism and slowing down of work. Resistance to change takes place irrespective of the level of employee in the organisation—whether one is a white collar or a blue-collar worker.

However, when change becomes inevitable, the employees try to offset the facts of change by a desire for new learnings/experiences and for the rewards that may come with change. In that case changes are requested and sought for by employees. Change reaction effects are seen in the feeling of insecurity and the change of working situations or job. Change can have a cascading effect when one person receives promotion; it leads to promotion of ten others at lower levels. This is indicative of change reaction effects of a single precipitating event.

### ***Myopic perception***

When change is introduced employees are more concerned about how it affects them personally rather than how it would affect the entire organisation. This is often observed when mode of payment is changed or reorganisation is done. Also individuals assess the compatibility of the change with their belief and value systems.

### ***Fear of the unknown***

Uncertainty about the effects of change personally and professionally is another reason for individual resistance. The threat perceived by the employees may be imaginary, intended or unintended, big or small, direct or indirect. A number of fears like loss of status, power, income and uncertainty about their ability to cope with work-pressure come in the way of accepting the change.

### ***Aversion to risk***

Change threatens those who like comfort of the familiar. Change often requires personal transition wherein the familiar is destabilised. It calls for giving up the status quo, unlearning or unfreezing the present to integrate and absorb new learning. It is interesting that a number of individuals consider change to bring new opportunities. Research findings also support the view that positive approach to change results in opportunities for individuals during the transition period.

## **Sources of Organisational Resistance**

Factor built in the organisational system also lead to resistance to change. It has been observed that most organisations, by nature, are conservative and are therefore slow to change. The change agent needs to identify factors present in the organisation, which will come in the way of change. Knowledge of this will help him adopt an appropriate strategy.

### ***Inertia of a structure***

A number of built-in mechanisms provides stability to organisations. Every organisation has got its own systems, processes, policies and procedures, which ought to be



followed for uniformity and formalisation of the process. Consequently any change in the structural aspects has cascading effect on other related systems and processes. This creates a hurdle in introducing organisational change. In organisations where structural changes are introduced, it takes long for people to accept and assimilate the structural change.

### ***Challenge to power dynamics***

Structural change with ensuing changes in decision-making pattern can destabilize power relationships established over a period of time. Change in decision-making process from centralised decision-making to participated or democratic decision-making can threaten managers affected by it.

### ***Pressure for observing group norms***

Group norms evolved by an organisation over the years become a bottleneck in bringing about change. It is a common observation that a single member of a group accepts change suggested by the management willingly. However, his group affiliation with a union does not allow him to do so. Therefore, he is likely to resist change.

### ***Lopsided/blinkered view of change***

An organisation consists of four basic elements namely, task, structure, technology and people. Focus on any one of the elements of the organisation will bring about corresponding change in other elements as well. Therefore, change cannot be introduced in one sub-system without affecting the others. Change cannot have a lopsided and limited perspective.

## **Types of Resistance**

### ***Emotional resistance***

Emotional resistance occurs due to employee attitude and feelings about change. Feeling of insecurity, loss of self esteem, fear of the unknown, desire for status quo and/or mistrust in the management are some of the possible sources.

### ***Rational resistance***

This is based on reasoning, logic and disagreement with the fact. It may result from the actual time and effort required in adjusting to change and the time given to adjust. This can be resolved by adjusting the time requirement, extra efforts to be put in to learn, economic cost of change, technical feasibility of change and reducing possibility of less desirable conditions.

### ***Social resistance***

Resistance occurs due to social values, political coalition, labour union values and even community value. This is, in a way, sociological resistance, which can be handled by making conditions as favourable as possible. Recent strike at Hero Honda fuelled by

social factors was handled effectively by looking after employees even during the strike period. This put a lot of moral pressure on them to negotiate with the management.

### **Implications of Resistance**

For any change to be accepted by the employees cooperatively, it is important for a manager to anticipate and handle the employees. Only looking at the technical and logical dimensions of change will not help as change is finally to be accepted and implemented by the employees themselves. Recognising the effect on social factors is extremely important for the success of any change effort. It has to be borne in mind that as people are different; their response to change would also be different and may range from moderate support to weak support or even opposition to change. The managers responsible for change need to develop a climate of trust with positive feelings towards most changes. It is observed that when its management is not able to win the support of employees they use authority but if it is overused it will defeat the purpose. Therefore, authority needs to be used only sparingly and the other methods handling resistance to change can be tried out.

### **Methods of Handling Resistance**

Researches have come up with established ways of handling change. These have been discussed as under:

#### ***Effective communication***

One of the most effective ways to reduce resistance is to communicate with the employees and help them see the logic behind introducing a change. It is often observed that lack of knowledge and ignorance is the cause of individual resistance and this can be taken care of through communication on a one-on-one basis or through group presentations, circulars or reports. This strategy would work where source of resistance is lack of knowledge and inadequate management employee relations and communications.

#### ***Participative decision-making***

Since security and self-esteem are the underlying fears for resistance to change, involvement of employees in decision-making will bring down resistance and they will get an opportunity to express their opinion and views.

Such an approach will work when the employee sees that the management has employee interest in mind. However, the flip side of this strategy is that it is time-consuming and may sometime lead to a poor quality decision.

#### ***Negotiation or making deals***

Another method used by change agent to deal with potential resistance to change is to offer the value to reduce the resistance. Negotiation is usually adopted when some powerful source is behind the resistance. Offer of good package for VRS, Golden Handshake, MOU of non-retrenchment are some of the tactics that are used by organisations to manage resistance. Though negotiation helps overcome resistance in many

situations, one cannot ignore the high cost involved in it and the risk of exposure of the negotiator to the members of his own group or other powerful position holders.

### ***Co-optation and manipulation***

Co-optation involves manipulation or participation. Essentially it offers key role to the leaders of a group resisting change in the decision-making process. In this method the leader's opinion is invited largely for endorsement of the change agent's views.

Manipulation involves distorting facts or withholding unacceptable information and making up facts in a way to look attractive and acceptable. In such a situation the change agent will lose his face before the group. Both cooperation and manipulation are inexpensive method to win over resistance. This would work so long as the affected party is not aware that they are being exploited or cheated.

### ***Providing support***

Resistance to change can be minimised by providing support to employees to alleviate their anxiety and fear. Organisations use employee counselling or mentoring and therapy to take care of negative effects of change. Organisation like TISCO have provided training in new skills, short paid leaves of absence and absorption in other concerns. The shortcomings of this tactic are that it is expensive and there is no guarantee of success in adopting this tactic.

### ***Coercion/apply force of reason***

Coercion is applying threat or pressurising the employees implicitly or explicitly to accept change under duress. Situations of closure of a plant or downsizing or bankruptcy could be examples of implicit coercion. Other examples of this found in organisations are: adverse performance evaluation, transfer or threat of transfer and depriving promotion. Coercion should be used as the last resort. It leaves behind bitterness, therefore, it is not a very good method for managing change.

## **Techniques for Managing Resistance**

### ***Counselling***

Counselling has been found to be very effective in reducing individual resistance. Individual resistance occurs because of anxieties and fears and by letting people talk through their problems and anxieties can help them come to terms with change. This technique is used on one-to-one and also in formal communication system with the whole team.

### ***Force-field analysis***

This technique provides an assessment of any change situation and presents a balance between the driving forces and the resisting forces. The participants are advised by the change agent to identify these forces. While identifying the restraining forces the group develops insight about ways of handling them. In a number of organisations this

technique is used effectively to create a shared change processes for thinking through specific changes.

### **Commitment charting**

During change there will be people who gain and others who lose. Therefore, in order to get the commitment of people who are likely to lose, it is important to handle them with care, as they will be sensitive to any action. For a change to succeed it is important to have a critical mass and also to minimise the pain it causes to the affected. In order to do that a chart can be prepared listing the names of key players and their commitment level to the change. The chart will indicate the status of people who have commitment at present and whose commitment needs to be ensured for the change to be successful. Also the people who have no commitment need to be focused for gaining commitment.

In conclusion, for change to be effective, management of resistance to change at individual and group level is extremely important. By anticipating, identifying and welcoming resistance the managers will get an opportunity to change the objections into the energy for change. Instead of opposing and arguing with the people who resist change, it would be desirable to allow people to express and share their anxieties and fears, which would help in knowing the cost and then converting them into believers in change. Commitment charting would help in persuading key resistors adversely affected by change in reducing painful effects of change.

## Summary

Organisational change efforts are usually met with resistance. According to research, half or two-thirds of all major corporate changes fail due to resistance. This chapter introduces the concept of resistance, nature of resistance and factors which contribute to resistance. Mechanisms which underlie resistance—the human side—include distorted perceptions, distorted interpretations, barriers and vague and strategic priorities, low motivation, lack of creative response, political and cultural deadlocks and other sources. The behavioural elements of resistance which have been discussed include four categories—the saboteur, the survivor, the zombie and the protestor. The role of cognitive and affective processes in resistance has also been discussed in the chapter. The management challenges in recognising resistance include discovering resistance and adopting a balanced approach. How resistance to change can be reduced—In order to deal with challenges of resistance, an organisation needs to first analyse the reasons for resistance. The sources of individual resistance include limited knowledge/lack of knowledge, myopic perception, fear of the unknown and aversion to risk. The sources of organisational resistance include inertia of a structure, challenges to power dynamics, pressures for observing group norms, and lopsided/blinkered view of change. The methods of handling resistance include effective communication, participative decision making, negotiation or making deals, co-optation and manipulation, providing support and coercion/apply force of reason. The techniques to manage resistance include counselling, force-field analysis, and commitment charting.

## Questions

1. What concerns employees have in resisting organisational change? Elucidate.
2. Discuss covert and overt elements in resistance to change.
3. Can management of an organisation minimise resistance to change? Discuss.
4. Throw light on various techniques for handling resistance to change.

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# 7

## Roles of Change Agents and Leadership

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### **INTRODUCTION: CHANGE AGENTS**

Persons who act as catalysts and assume the responsibility for managing change are called change agents. Change can be brought about by managers, non managers, employees or an outside consultant. The following sections describe types of roles played by change agents.

#### **Internal Consultant**

One of the important roles that needs to be played by a change agent is that of an internal consultant. Mastering change is becoming an increasingly important role of a manager. Managers need to have extensive understanding of the environment surrounding their business and have a fairly good idea about threats and opportunities. Therefore, as an internal consultant he/she needs to monitor and scan external drivers of change. The change agent ought to have a hard look at the companies' competitive situation keeping in view its market position, technological trends and financial performance. Having identified the drivers of change, the internal consultant needs to establish a sense of urgency within the organisation. Any slip at this stage may cause failure of the change process.

#### **Internal Support to External Consultant**

It is often observed that organisations engage an external consultant as an expert who has a fairly good knowledge about comparative business situation and has the experience of handling change in a variety of organisations. In such a situation, the consultant needs an internal resource person/s (IRP) who would act as facilitator/s in implementing change. The IRP can be trained by the external consultant to acquire skills for implementing change. Alternatively the members of IRP can be trained by established professional bodies to acquire people skills that are essential for handling change.



It is to be decided by the management whether the ISP would be an independent individual or a group drawn from different departments to constitute a task force to function as IRP. While selecting the IRP members their knowledge level is to be kept in mind. Development of IRP as a team is of immense importance for it to be effective as change agent otherwise development of negative synergy would be detrimental to the organisational interest and may jeopardise the change process.

### **Task Force**

With a view to bring about transformation in the organisation the management creates a task force or a group of like-minded people who share commitment to renewal programme. Such a task force needs to be strong and powerful in terms of expertise, reputation, communication skills and relationships. The size of the task force may vary according to the size of the organisation and may be increased as the change programme progresses. The task force needs to communicate the management's concern about change and create a sense of urgency within the managerial ranks regarding the need for change. Team spirit is an essential requirement for this task force to be effective.

### **Role of Organisational Management**

One of the roles of initiating change would be that of management of the organisation. As the apex management group, the organisational management can perform two roles:

#### ***Evolving policy and legitimising change***

This can be done by bringing about policy change or planning and recommendation of planned change. For any change to be effective, active support of the top management is essential. It is not only important for the management to have faith in the new policy but their visible and external support throughout the change process is also necessary. In the absence of it the process slows down or becomes ineffective consequently the change does not take place in its true form.

#### ***Institutionalising change***

The process of change goes through an arduous path. There are spurts of growth and decline. If the process is very long people lose interest and enthusiasm. Therefore, it becomes important for top/senior management to keep energising the people with a view to reviving and sustaining their interest in the whole process. It may also involve reopening a dialog between the external consultant and the people opposing change. Two factors are extremely important in institutional change:

1. that the change efforts or the new approaches have helped in enhancing performance, and
2. that the initiatives started by the management team are taken forward by the successive management.

It has been observed that when a change champion retires, his successor finds it hard to resist pressures from various quarters and things come back to square one. Thus the renewal process, which started a year or two ago, disappears and the change efforts fail.

### **SKILLS REQUIRED FOR THE ROLE OF A CHANGE AGENT**

The wind of change is sweeping the organisations across the globe and in the uncertain times nothing is more certain than a constant change. The change agents would require the following skills to be able to keep themselves and the organisations afloat in the future:

- ◆ A sensor of the business environment
- ◆ Vertical to horizontal functioning
- ◆ Leadership at all levels
- ◆ Manager as a catalyst
- ◆ Shorter time-frame horizon
- ◆ Balancing work and personal life
- ◆ Maximisation of information flow

An effective Change Agent needs the following areas of expertise:

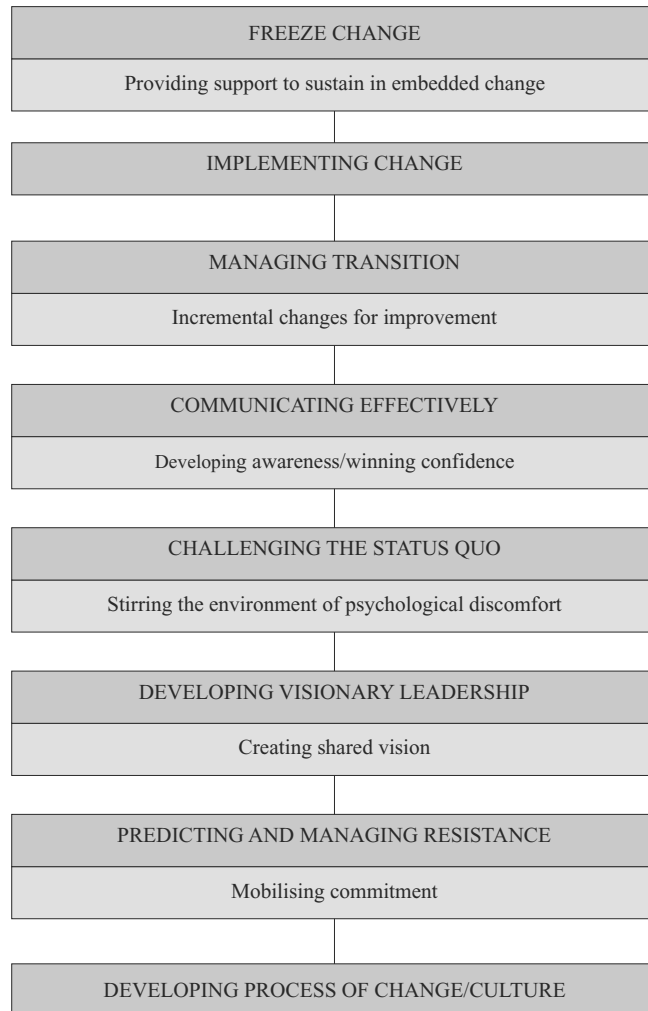
- ◆ strategy formulation,
- ◆ human resource management,
- ◆ marketing and sales, and
- ◆ negotiation/conflict resolution.

For a successful management of change, the change agent needs to follow the steps that would serve as building blocks as shown in Fig. 7.1.

### **Role of HRD in Managing Change**

With the advent of Internet and web-based technologies, Human Resource Development (HRD) is experiencing a revolution in terms of access, speed and affordability across the globe. Web-based training has become the in thing. It is a form of distance education, commonly known as online learning, e-learning or web-based instructions. The web-based environment has changed the landscape of training. HRD professionals using the web-based instructional methodology can assume the new role of e-trainer and develop new competencies like electronic system skills, technical competencies of research skill and intellectual competency of visioning skills along with retaining the traditional training competencies. They need to overcome technological and personal barriers to be effective in the emerging environment so that employees could be imparted change management skills. Trainee's role also has changed into a self-directed and independent learner thus marginalising the role of a trainer.

Besides the technology-based changes, there has been paradigm shift in the field of training from 'pedagogical approach' to 'andragogical approach'—the training being



**FIG. 7.1** Building Blocks of Managing Change  
 Source: Sharma, Radha R. (2004) Role of Change Agent.

‘learner-centred’ rather than ‘instruction-centred’. Another shift can be observed is in instructional framework from—passive learning ‘objectivism’ to ‘constructivism—acquiring meaning out of experience. Also, knowledge has moved from being ‘fixed’ to ‘flexible’ promoting potential for change rather than being influenced by the thinking of information-provider.

Future projections indicate a number of changes based on technology moving an organisation into a world of digital work place. The ability to decide on and use an emerging array of learning technologies is becoming a required competency for HRD

professionals to be a change agent. The trainer is expected to be 'the expert learner' to enhance his/her existing competencies to be effective in the e-environment. A new concept that has developed recently is learning in-real-time which can be leveraged for developing and nurturing creativity for handling workplace related change.

### **Role of Leader**

A change agent needs to have a vision and dream for the future of the organisation. As leaders they need to inspire a shared vision, a clear image of the future to take the people along. To enlist people's cooperation they need to communicate at the level of their constituents and speak their language. They need to inspire trust and make people believe that they have their interest at their heart. They need to arouse hopes in people about exciting possibilities the future would offer. In order to unite people they need to forge unity of purpose, by expressing enthusiasm for the compelling vision of the organisation. They need to challenge the status quo, which is ineffective, and search for options and opportunities to innovate, grow and improve. As leaders they need to acknowledge and support new ideas, processes, products, services and systems. There is always risk in entering an unknown path. Therefore, risk-taking and experimentation are necessary attributes for leading change.

Further, they need to develop collaboration by promoting cooperative goals and developing trust among people. Delegation and power sharing would also be necessary to bring about change. Finally, they need to recognise and appreciate individual contributions and excellence and encourage people to share and celebrate common success.

### **Leadership for Change**

Organisations today are confronted with growing competition within and outside the national boundaries. Globalisation has heightened the need for overcoming complacency, conservatism and conceit in organisations for their survival and growth in the present scenario. Most top management have come to terms with the fact that fragmented changes are not sufficient to stem out the tendencies of complacency and conceit which plague managerial behaviour in a large number of organisations. However, at middle level management this has not happened and this can be observed in their orientation to the past rather than to the future. Conceit is also evident in their allegiance to narrow departmental goals rather than to overall organisational goals. Consequently, many senior and top management have adopted or are in the process of adopting revolutionary attitude towards change.

The changing market requirements and rapid technological changes have created opportunities on the one hand, and intense domestic and global competition has shortened product life cycle and has created turbulence for some businesses on the other. Change leaders are responding positively and vigorously by taking initiatives and adopting strategies like business process reengineering, mergers and acquisitions, quality initiatives that match the requirements of the turbulent times. Transformational leadership has become the buzzword today and the top and senior managers are

busy acquiring these skills through management development programmes organised nationally and internationally.

## **LEVEL 5 LEADERSHIP: GOOD TO GREAT**

Collins (2001) has given an alternate model of organisational change based on his and his team's research of financial performance of 1435 firm, which appeared in the list of Fortune 500 companies during 1965 to 1995. The list included only those companies that had sustained performance for at least 15 years. Collins explains that the duration of 15 years was kept to identify mediocrity and because it was a long enough period for a firm to scale to greatness. Out of these firms only 11 made a leap from being a good to a truly great company. These were very demanding workplaces.

All these companies were led by modest and capable men who were reserved and had a strong determination to make the firm great. They had personal humility and professional will; Collins labels them as level 5 leaders. He found that every good to great company had Level 5 leaders during critical transition period and journey to greatness has six common steps:

- (a) **First Who, then What:** These leaders focused on choosing their team before developing vision and goals. This shows their focus on persons based on their talent and skills.
- (b) **Confront the Brutal Facts:** These leaders confronted the reality squarely and did not evade the situation. They also had faith in the capability of their organisation to meet the challenges.
- (c) **The Hedgehog Concept:** These companies aimed at being the best in the world; and nothing short of it. They were consistent and passionate about applying the fundamental principles and key economic denominator that made them great.
- (d) **A Culture of Discipline:** The great companies hired disciplined people and had a culture of self discipline in thought and action. The firms had a consistent system and gave freedom and autonomy to people.
- (e) **Technology Accelerators:** These companies used technology to enhance business results and did not focus on pioneering a technology; in fact these became pioneers in application of some of the technologies.
- (f) **The Flywheel and the Doom Loop:** In these companies transformation from good to great happened through relentless hard work and sustained efforts in one direction for a long period of time building momentum till the company reached the point of break-through and crossed it. It is evident that organisation transformation is neither simple nor one off effort. Sustainable efforts and momentum in a specified direction bring about this change.

The above six points have emerged from the study of 11 companies that moved from 'good' to become 'great' companies.

## Transformational Leadership

The concept of transformational leadership was given by James Mac Gregor Burns who advocated that leadership involves organisational change. The successful change in an organisation depends on not only availability of resources, technology, systems and practices but also, to a large extent, on changing the mindset of people and creation of an appropriate organisational culture. As it is the human resource (managerial decision) that determines proper deployment and various resources—choice of technology, systems, practices; people and organisational culture form the bedrock of organisational effectiveness. Therefore, it devolves upon the manager as an onerous responsibility to provide effective transformational leadership to his contingent of technical, managerial and non-technical staff so that not only the goals of the organisation are achieved but also the organisation has competitive edge over its rivals.

### *Transformational and transactional leadership*

Researches (Bass, 1985, 1997) reveal these two styles are not mutually exclusive but have difference in approach and focus. Transformational leaders possess visioning and impression management, idealised influence and inspirational motivation. Thereby they are able to strike an emotional bond with followers and are able to drive organisational change successfully. They are able to elicit willing cooperation of followers who pursue the accomplishment of the leader's vision (Antonakis & House, 2004; Avolio & Bass, 2000; Bass, 1997). The transactional leaders adopt goal setting, announcing awards for expected performance and prefer to maintain status quo (Bass, 1997). Practice of transformational leadership has been found in all the countries at various levels and in a variety of organisations (Sosik, Avolio & Jung, 2002, Avolio and Bass, 2000). Transformational leadership is based on the foundation of transformational leadership. The comparison of transformational and transactional leadership is given in Table 7.1.

**Table 7.1** Comparison of Transformational and Transactional Leadership

Transformational Leadership	Transactional Leadership
Promotes change	Maintains stability
Shares vision, values, and emotional bonding	Goes into contractual arrangement
Provides Intellectual stimulation	Provides guidance & role clarification
Develops pride, gains trust and respect	Promises reward for performance
Provides personal attention	Interactions mostly formal and officious

### *Key competencies in transformational leaders*

Transformational leaders are said to possess the following skills and abilities:

- ◆ Ability for assessment of current situation
- ◆ Ability to challenge the status quo
- ◆ Adaptability to the changing environment

- ◆ Ability to have a long term vision
- ◆ Capability to articulate and practise a set of core values
- ◆ Risk taking ability
- ◆ Communication skills
- ◆ Sensitivity and ability to arouse passion
- ◆ Understanding and practice of equity, power and freedom
- ◆ Building coalitions
- ◆ Flexibility and openness to experience
- ◆ Ability to make fast decisions
- ◆ Ability to modify systems
- ◆ Ability to align cultural systems

An effective change leader requires clarity of vision, knowledge of what is to be changed and skills to implement change. The skills needed by the change leader are as follows:

**Clarity of Goals** Goal clarity implies the strategic intent. A direction and intense intuitive response to the organisation situation and to drive the organisation to the ideal of sustainability. As a change agent the role of a leader is to be a part of the process by which the implicate order unfolds. As a change leader he sets goals or parameters, allocates resources, identifies change process owner and offers him support, ensures alignment of change with the overall business strategy, communicates with people, monitors change process and takes corrective action.

**Clarity about role** It is important for a leader as a change agent to identify a viable and effective role in nurturing the future where everything appears to be a roadblock. It is to be understood by the leader that the course of change cannot directly be affected by the leader himself but at times it may be desirable to wait and watch to mentally reflect on the process of change. Therefore, an assessment of timing becomes an important issue. It may be desirable to have a disciplined action to consolidate inner feelings.

**Professionalism and knowledge of subject** The leader is required to have personal and professional competence. Thorough understanding about various dimensions of change, the nature of change, its impact on various elements of the organisation will facilitate execution of change. Without a thorough knowledge of the subject, he is likely to be misled; besides he would be in a better position to handle resistance if he understands the technical/functional aspects.

**Creativity and innovativeness** For leading the change it is important for the leader to help develop new ideas, models, application of technology that differentiate the organisation from the run of the mill and help it stand apart.

**Collaborative and networking skills** Change requires collaborative efforts, therefore skills to work with people, making connections within and outside the organisation are important to extend an organisation's reach, promote its offerings and energising people.

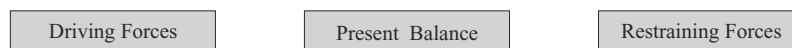
### **Leading change: process**

One of the most quoted examples of bringing about transformation in an organisation is that of Lee Iacocca, Chairman Chrysler Corporation who brought a turnaround in his company from bankruptcy to profitability. Apart from 'trimming the fat' among the managerial staff, he changed the company's cultural values from that of feeling losers to feeling winners. He used the internal communication system and advertisements to reinforce these changes.

The role of a leader is to facilitate change that helps in improving organisational performance. But the challenge before a leader is how to be effective in the face of dissatisfaction, discomfort, dislocation and increased stress among people. Various organisation adopt various strategies. One of the well-known model of change has been given by Kurt Lewin. The model advocates that change goes through three processes: unfreezing, movement to a new state, and refreezing.

Each of these phases is extremely important and requires the leader to take concrete steps. Unfreezing involves breaking away from the way things have been done in the past. Movement to the new stage involves identifying and trying innovative ways to do things or doing new things. Refreezing involves stabilizing and reinforcing the new ways or new things to do. This model has been discussed in detail in chapter 3.

Kurt Lewin's second change model provides an interesting framework for expediting the acceptance of the change process. His force-field model describes that majority of the situations exist in the form of dynamic equilibrium. He believes that the balance would exist only when forces driving change are counterbalanced by the forces restraining change. This model also acts as a reality check.



The management can take action in favour of change in the form of behaviour modification and providing training opportunities. Alongside management needs to knock down or eliminate barriers that prevent people from accepting change. As far as possible the environment ought to be such that is free from punishment or negative feedback. The management can judiciously try both the approaches to bring about change. Change leaders (champions) require taking the following actions:

**Establishing relevance** It is not enough for the management to create a sense of urgency but in order to get a high level of commitment from the employees they need to see the relevance of change. In other words managers need to get into the shoes of the employees and see from the employees perspective about the impact of change.



Jack Welch in his efforts to bring about change at General Electric (GE) put forth before the workers the view point that employees needed to learn new skills not for life time employment at GE but to acquire employable skills with which they could find job as well when the skills were not required at GE. In other words he presented the concept of change as an investment by the employees in their future employability and not merely a means of improving GE's performance.

**Asking right questions** The starting point of any change process is inquiry, which means asking relevant and strategic questions. People are also required to visualise the future and identify various possible scenarios. One of the methods to take initiative could be benchmarking against the best practices or to set up internal benchmark to improve performance. People are more likely to commit themselves to the new realities when they realise that the changes are inevitable or certain changes are possible.

**Changing the mindset** Transforming individuals can bring about organisational transformation. The process starts with changing oneself. The change master requires a candid self appraisal and see if he has the qualities—flexibility and understanding. It is important because every word spoken or every action taken by the change leader either reinforces or undermines the change efforts. Having done that he needs to create an environment, which is conducive to bringing about change.

**Declaring early victory** Referring to Lewin's model the steps mentioned above will initiate the process and unfreeze or stir the preset stage. Having achieved that, the change processes can be initiated. This stage provides multiple options—a number of ideas can be developed to deal with the new challenges but the executives ought to be selective keeping in view the importance and the time to be taken by various ideas. As a manager, leading change, seems to be working in an emergency situation with limited resources, he needs to establish priorities that optimise importance and urgency.

As the process of change may take years before providing any significant return, people may lose patience and therefore, the leader needs to make an effort to do things that produce results. This implies that opportunities for early victories have to be identified while pursuing the change efforts. There is a lot of untapped potential among people at various levels that needs to be harnessed. It has been observed that an average Japanese worker gives more than 100 ideas every year. In case of Toyota 80 per cent of the ideas given by workers have been implemented and have been found to be useful. However, in order to have early victories one does not have to come up with quick-fix solutions. It has to be borne in mind that early victories help in sustaining energy and momentum in the change process.

**Becoming your own competitor** Leadership results from competing against one's own achievement than against competitors only. This spirit promotes learning, experimenting and evolving. By doing so one can avoid corporate arrogance which may cause complacency.

**Leading change involves coalition** Coalitions are highly beneficial in bringing about change. Firstly, they help in having a broad base of ideas and a broader perspective.

Secondly, by involving a large number of people the likelihood of support for change increases.

**Understanding that success can be a paradox** Executives need to be conscious that the change is not an end in itself and is a continuous process even though one may refreeze the change behaviour. There is need for continued movement forward otherwise there is a risk of falling back into the traditional processes. It is interesting to note that “in an environment of unceasing change, few business ideals remain useful for long after a while, even successful concepts must be abandoned” (Noel Tichy, 1983).

**Creating a learning organisation** The concept of learning organisation given by Peter Senge (1990) has now been considered as a prerequisite for developing competencies, having a competitive advantage and enhancing productivity. Organisations, like individuals, need to learn overcoming their learning disabilities and blind spots. Learning involves listening, questioning, reflecting, challenging, experimenting, unlearning and discontinuing. Leading change is more of an attitude as overall change progresses.

The best role a manager can play is to develop an organisation into a learning organisation. Learning takes place in all the organisations whether consciously or unconsciously. Most organisations learn through single loop learning, that involves identification and rectification of mistakes based on past experience and existing policies. In contrast a learning organisation adopts double loop learning method which involves not only detection and correction of errors but also making changes in organisational objectives, policies and processes so that such errors could be avoided or eliminated in the future.

Double loop learning challenges the ineffective traditional assumptions and norms and provides unconventional solutions to problems for substantive improvement. All the organisations learn from the experience but learning organisations continuously choose to learn for their sustained existence. A learning organisation develops capability to adapt and change. Maruti and Tata Steel, Tata Motors, General Electric and Wal-Mart can be called learning organisations because they have adapted themselves to the changing business environment and are successful in the changed environment too.

### **How to Make an Organisation a Continual Learner?**

In order to make an organisation a learning organisation the most important task managers are required to perform is to formulate a strategy. The strategy issued clearly gives commitment of the organisation to change, innovation and continual improvement. Having done that the next step to be adopted is to redesign the organisation's structure. This may involve reducing layers, merging departments, forming cross-functional teams by blurring the boundaries between departments and encouraging interdependence among them.

The last but not the least measure to get adopted is to change the organisational culture. This has to be done with a two pronged approach—through strategy and through behaviour. This involves management support for taking risk and tolerating failure when they occur. Alongwith people who take risk need to be rewarded, the openness is to be encouraged at work place. When the organisation is in the learning phase there are inter-functional conflicts and disagreements. By openly discussing the conflicts and ambiguities the organisations collectively become more intelligent than when people have been working individually.

A question often pops up whether change is possible and whether resistance to change is culture bound. Also a debate is found if the change champions adopt different measures in different cultures. Cultures are different in terms of their beliefs, and values and their ability to influence their environment. The culture which is open and where people feel that they can dominate the environment, will have favourable or proactive view of change. However, in countries which are under autocratic rulers and feel subjugated to their surroundings will have a lukewarm approach to change.

Culture variations are also observed in the countries focused on long term or short term change. Countries like Japan and India have considerable patience for positive outcomes from change efforts. However, countries in the west in particular USA and Canada seek faster change results. Also power distance can influence implementation of change. In high power distance culture there will be autocratic approach to implementation whereas in low power distance culture democratic methods will be used.

Change champions prefer to work closely with top management to get support for innovative activities in high power distance cultures. It may be concluded that the change champions will alter organisational strategies to reflect cultural values.

## Summary

Change agents play the role of catalyst and assume the responsibility for managing change. In an organisation, change agents can be managers, non-managers, employees or an outside consultant. The roles played by change agents include internal consultant, internal support to external consultant and task force. The role of organisational management includes evolving policy and legitimising change and institutionalising change. The skills required for the role of change agent, role of HRD in managing change and the role of leader and leadership for change are there in the chapter. Level 5 leadership and transformational leadership, which facilitate critical transition, have been discussed. The key competencies in transformational leaders include clarity of goals, clarity about role, professionalism and knowledge of subject, creativity and innovativeness and collaborative and networking skills. The process to lead change includes establishing relevance, asking right questions, changing the mindset, declaring early victory, becoming your own competitor, forming coalitions, understanding that success can be paradox, and creating a learning organisation. The chapter ends with how to make an organisation a continual learner.

## Questions

1. What role can a manager play in making an organisation a learning organisation?
2. Differentiate between transactional and transformational leadership.
3. Describe the characteristics of Level 5 leadership.
4. What steps can a manager take to bring about change in the organisation?

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# 8

## Implementing Organisational Change

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### INTRODUCTION

A change initiative is not complete without proper implementation and the process of implementing change in itself is a challenge that follows every change endeavour. Management concepts and practices such as strategic planning, change management, business process re-engineering, total quality management, architecture development, that aim towards improving the organisational performance, struggle when it comes to successful implementation. With the brutal statistics pointing to the fact that about one-half to two thirds of all organisational change initiatives fail (Maurer, 1996); one of the critical questions that we face is whether we can really implement major organisational change. An extensive literature review of organisational change research often leads to the conclusion that there exists a divide between the strategic intent (that is, managerial aspects) of the change process and its implementation.

The strategic writings revolve around the themes of 'understanding what are the antecedents of the change, so as to ensure the right equilibrium between the organisation's strategies, structure and processes in the environment in which they operate at a specific span of time' (Miles and Snow, 1984), 'understanding the transformation processes, leadership issues and the action perspective of change' (Kanter et al., 1992; Wilson, 1992) and 'the ways an organisation may overcome or remove the blocks to successful change implementation' (Egan, 1995).

The change management literature in the 1990s emphasised programmes such as total quality management (TQM) and business process re-engineering (BPR) that formed an extensive body of research. These, however, were criticised on their selective 'programmed' treatment of 'how' change occurs or should occur. These have been found to be lacking in their approach towards dealing with the processes and outcomes side of change. Many recent researches have critiqued initiatives such as the TQM, and BPR on the basis of deficiency in novelty, tangibility, strategic approaches and learning, amongst others.

In addition to these, the body of research on organisational change also includes works on how to cope with the change and the kind of individual proficiency required to deal with change, in various roles of leading, managing or participating in the change process as it occurs in the dynamic cultural, behavioural or environmental contexts (Buchanan and Boddy, 1992; Quinn et al., 1990). While reviewing the areas of organisational change and development, Buchanan and Huczynski (1997) recognised the existence of three distinct approaches in managing the implementation phase of the change process—change implementation as a project; the participative approach to implementing change; and the contingency approach to change implementation.

The project design of change is based on the conventional life cycle based methods of change management. The participative management method entails incremental modes and consultative techniques in change implementation (Cicmil, 1999). The contingency approach is a radical approach that takes into account variables such as scale of change and change leadership style (Dunphy and Stace, in Buchanan and Huczynski, 1997) while considering change implementation.

However, it is important to understand that whatever approach the organisation adopts to implement the proposed change initiatives, detailed understanding of the ‘whats’, ‘whys’ and ‘hows’ of change must be a part of it. The ‘why’ includes the management’s and organisational members’ knowledge regarding the ultimate goal for which the change process has been initiated, the reasons behind the need for change, the benefits of change for the department and the organisation or specific performance and morale of the people in general. The ‘what’ of change includes factors such as tangible and intangible results to be expected as outcomes of the change initiatives and the objectives of change process. More precisely, it is to know how much of what and when of the change efforts. The ‘how’ includes the change agents’ ability to design the sequence of the change initiatives, activities and processes and to utilise the organisational members’ competency to move from the current state to the desired state. There often exist gaps between the ‘what’ and the ‘how’ creating impediments in the change process. Also, factors such as resistance to change, slow learning and fast forgetting must be taken into consideration and dealt with so as to ensure a successful change implementation.

Cicmil (1999: 128) describes this succinctly as the major concern of an organisation facing business challenges, “..... *the ability of leaders and managers to define and communicate the tangible and measurable deliverable/objectives of a change project from the start .....*”

the WHAT aspect of the initiative

the HOW aspect-participation for the accomplishment of those objectives, and  
*the WHY aspect of the change project”.*

Arthur D. Little (ADL) Inc. investigated the most frequent motivators, critical implementation factors and barriers to change. The study found that a clear vision and active involvement of senior management are critical factors that affect the implementation of organisational change (cf. Stout 1994). They also found the lack of commitment

amongst organisational members to be the top barrier to successful implementation of change. The absence of senior management champions was also found to be a barrier in implementing change. The presence of a clear vision or objective that communicates what the organisation is trying to attempt was found to be the most important factor for successful change initiatives. This reflects on the organisational members' need to understand why the proposed change is required and how the management will bring about the implementation of the change initiatives. The other factors that they found to contribute to bringing about a successful change included a measurable target, a doable program, and an important end result. Howes and Quinn (1978) have summarised the organisational change literature on elements/factors related to successful implementation of change programs and delineated twelve strategic managerial change levers.

Various theorists have proposed models/frameworks/techniques describing how change should be implemented in an organisation. Amongst the many, the following have been chosen for elaboration:

### **The Delta Technique**

The delta technique put forward by Armstrong (1982) draws on Lewin's three-stage change process model. The technique stresses the unfreezing stage, wherein it is essential to expend adequate time and effort towards helping the individual to unfreeze. It is in the unfreezing phase of change that the individual is directed to examine his/her current beliefs as change initiatives may create conflicts with the individual's current behaviour patterns. For unfreezing to be successful, it is imperative that the individual develops certain amount of suspicion toward the optimality of his/her existing way of operating and searches for disconfirming evidence. In reality, however, people search for evidence that support their beliefs rather than seeking a negative feedback. When they feel disconfirming evidence being pushed or thrust on them, they act irrationally and the change efforts backfire, thereby strengthening their old beliefs.

The delta technique aims at addressing such phenomenon by motivating and encouraging the individual to actively seek negative feedback/disconfirming evidence. The individual is also encouraged to suggest alternatives to his/her current ways of operating and define what information is required to adopt the alternative way of operating. The change agent helps the individual to gather such information. In the changing phase as analogous to Lewin's change model, the delta technique suggests that the change agent assists the individual to develop a low risk approach to change in a way that the individual feels that he/she is in control of the change process. The role of the change agent is mainly that of assisting the individual to adopt the new way by being supportive.

Once the change is accomplished and the refreezing phase of the process begins, the change agent must ensure obtaining periodic feedback on the change from the individual. The change may also be reinforced by certain amount of feedback, reward and that might also entail certain degree of organisational restructuring.



Summarily, the efforts of the change agent to bring about desired changes in individuals include the following steps:

1. ***Define the problem(s)***

The change agent helps the individual in problem perception and problem definitions in a way that the problem(s) are stated in different ways. The change agent may ask the client for clarifications regarding the definitions, which, in turn, helps the client to clarify their own point of view. The change agents may also provide his/her opinion on the problems while defining the problem(s). The term client may broadly include all those individuals and groups who would be affected by the change initiatives.

2. ***Finding alternative solution(s) to the problem(s)***

The change agent helps the clients find alternatives to the defined problem(s). It is important to understand that the client is the main source of the solutions and the change agent plays a supportive role. There are possibilities where the clients find their present behaviour to be the best solution. In such situations, the change agent must encourage the client to experiment with one/more alternative solutions. Since, in most cases the change agent is a part of the management team, by helping to generate alternatives; the management changes its role from the 'defender of current solution' to the 'generator of future solutions' (Armstrong, 1982). The situation may be perceived also confirming alternative solutions rather than simply disconfirming the current solution(s).

Since for successful change to occur, those affected by change should feel that they are in control, Armstrong (1982) recommended a three-step procedure—experimentation, participation and feedback.

3. ***Experimentation with participation***

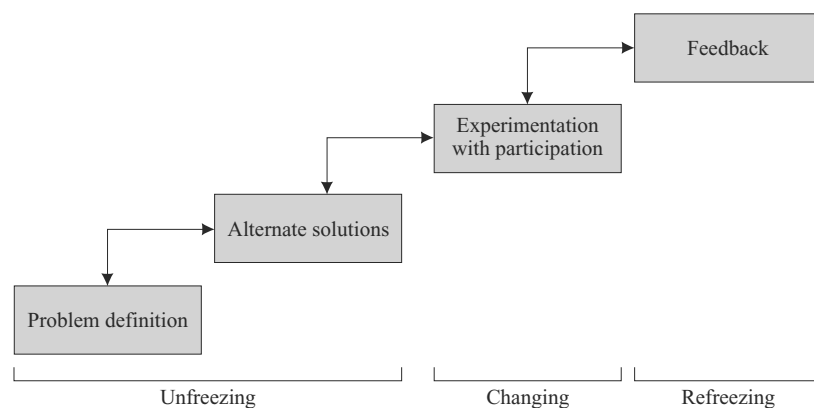
The change effort must not be thrust upon but rather be explained as an experimental effort. The expertise of the change agent is put to test here as the experiment needs to be designed in a way that it makes sense to the participants and provides the opportunity to rationally assess the possible solution(s). Experimenting also helps in reducing the risk as it minimises the scope of change and introduces a deadline/time limit in bringing about change.

Participation helps individuals to feel that they are in control that in turn makes decision-making and change implementation easier, rapid and successful. While using the delta technique, participation also implies the client's defining of the evidence that they consider sufficient to adapt to alternative solution.

4. ***Feedback***

Feedback enables the client to monitor the experimental effort and provides them with the sense of control over the termination of the experiment. The feedback should summarise the success or failure for each alternative solution over a series of trial under the delta technique. Positive feedback often helps to refreeze the change process (Armstrong, 1982).

The delta technique helps in identifying potential change areas and in implementing certain useful changes. It is appropriate for the situation in which management sees a problem, but in which the desired changes conflict with the current beliefs (Armstrong, 1982). The technique however finds no use with regard to new employees, in short-term tasks or where group norms have not been established. Also, for using the delta technique, it is imperative to have an agreement on the statement of the problem and it does not involve situations where change is consistent with the organisation's perception of its missions (Armstrong, 1982).



**FIG. 8.1** The Delta Technique

Source: Adapted from Armstrong, J.S. (1982). *Strategies for Implementing Change: An Experiential Approach*. *Group and Organizational Studies*, Vol. 7, No. 4, p. 478.

The following briefly describe some of the models proposed by other theorists and researchers that change agents may follow in implementing change.

Judson (1991) put forth a model where change implementation comprises of five phases. These are—analysing and planning the change; communicating the change; gaining acceptance of new behaviours; changing from the status quo to a desired state; and consolidating and institutionalising the new state. While discussing the predictable reactions to change and the change agents' efforts to minimise and overcome resistance to change, Judson (1991) asserted the use of alternative media, reward programmes, bargaining and persuasion as potential methods to tackle unwanted reactions.

Kotter (1995) in his article 'Leading change: why transformation efforts fail' asserted that beneath processes such as TQM, BPR, right sizing, restructuring, cultural change and turnaround, the basic goal remains to be "making fundamental changes in how business is conducted in order to cope with a new, more challenging market environment" (p. 59). According to him, the change process goes through a series of phases that require a considerable length of time (Kotter, 1995). He delineated eight steps that change agents may follow in implementing fundamental changes and in

transforming organisations. He cautioned that skipping any of the steps will create problems and committing critical mistakes in any of the phases may lead to devastating impact, slowing momentum and negating hard-won gains. These steps are:

- ◆ Establishing a Sense of Urgency
- ◆ Forming a Powerful Guiding Coalition
- ◆ Creating a Vision
- ◆ Communicating the Vision
- ◆ Empowering others to Act on the Vision
- ◆ Planning for and Creating Short-Term Wins
- ◆ Consolidating Improvements and Producing Still More Change
- ◆ Institutionalising New Approaches (Kotter, 1995)

In his effort to sketch out successful change implementation in an organisation, Galpin (1996) proposed a nine-step model in addition to stressing the importance of organisation's culture. Galpin's model may be conceptualised as a wheel with the nine steps acting as the nine wedges of a wheel. These are—establishing the need to change; developing and disseminating a vision of a planned change; diagnosing and analysing the current situation; generating recommendations; detailing the recommendations; pilot testing the recommendations; preparing the recommendations for rollout; rolling out the recommendations; and measuring, reinforcing and refining the change.

Armenakis et al. (1999) incorporated Lewin's (1947) work and Bandura's (1986) social learning theory in their work and proposed two models. The first model took into account the readiness for change (that needs to be created so as to minimise resistance) and the second model stressed on the facilitation to adopt and institutionalise the desired change(s). Both the models focused on the communication of the change message, so that those who are to be affected by change, they themselves become agents of change. The models emphasised that for a message to be effective, it should integrate the following components: discrepancy (that is, the need to change), self efficacy (that is, the credibility to ensure successful change), personal valence (that is, the best interest is to change), principal support (that is, support from those who are affected by change) and, appropriateness (that is, the change is right for the organisation).

The researchers also suggested strategies that are useful in transmitting the change messages. These include: persuasive communication (change agents' speeches, employee newsletter articles); active participation by the affected population (such as vicarious learning, participative decision-making, enactive mastery), human resource management practices (such as selection, performance appraisal, compensation, and training and development programmes), symbolic activities (rites and ceremonies), diffusion practices (such as best practice programmes and transition teams), management of internal and external information and, formal activities that demonstrate support for change initiatives (such as new organisational structures and revised job descriptions).

In 2004, Acey gave the following useful points to be remembered while discussing a successful change implementation. These are—clear understanding of goals and objectives (which includes asking the obvious and stating the obvious); identifying the resource, time, quality triangle (that is for a project to be completed to an agreed level of quality, either or both the amount of resource and the duration of the project can be varied); handling supplier issues (while deciding on new systems and technology, the product's reliability and utility must be deeply considered and investigated to prevent becoming 'guinea pigs'); planning and documenting (to ensure that every critical detail has been taken into consideration and the change project is moving in the right direction); risk management (collating risks from various perspectives); checking up on benefits and payback, engaging the right people (who have the technical skills, personality, business knowledge, enthusiasm, drive, desire to overcome difficulties and determination to succeed) and; ensuring management support, enthusiasm and interest.

## **SKILLS FOR MANAGING CHANGE**

One of the potent ways to prevail in globally competitive and changing environment across sectors is to identify, cultivate and utilise competencies of people in the organisation to adapt to the changing environment. Thus the competencies are the roots of competitiveness and companies are found in race to build competencies that determine market leadership. It is, therefore, imperative for an organisation to share its vision, articulate its mission and adopt a strategic architecture to achieve it. To meet the increased expectations of their organisation in the changed scenario, managers are required to focus more on deliverables of their work in terms of the value they create.

Their effectiveness has a direct impact on business competitiveness and therefore, demand for intellectual capital and organisational capability expect more of the managerial staff now than ever before. As far as organisational human capability is concerned, managers in general and HR professional in particular, ought to play a crucial role as the capability-led growth and change comes not through geographical expansion but through the development of less visible capabilities and soft skills.

Thus HR has four major tasks—to function as a partner in strategy execution; to serve as an expert in organisation and execution of tasks; to adopt the role of employee champion and to be a dynamic change agent. Training and development are powerful mechanisms to bring about change.

Scanning the environment, diagnosing organisational capability, adopting strategies leveraging structure, systems and people have become the required competencies for managers during the turbulent business environment of present and the unexpected and unknown future.

### **Scanning the Environment**

Managing change has become an integral part of a manager's job. Managers need to have a broad understanding of an environment surrounding their business and

need to constantly monitor external drivers of change. The external drivers of change could be:

- ◆ Market/customers
- ◆ Share holders
- ◆ Technology
- ◆ Economy
- ◆ Social trends

Managers need to pick up signals for change if they do not want to be boiled alive like a frog. It also helps in assessing if the business is on the path of growth or otherwise. The manager is also required to look at the 'stakeholders' in the business and assess the nature of change and its impact on the business, in other words, monitoring trends and identifying issues which make one's organisation vulnerable. Understanding change and surviving implies adapting to and influencing the business environment one operates in.

Hewlett Packard (HP) is a good example of adapting to change. Before 1987–1992 HP used to sell around 12 'state of the art' measuring devices per month to specialised and sophisticated customers and by 1997 it started producing 1 lac 25 thousand laser jet printers a week and has been distributing across the globe against mail orders. In contrast IBM, with its huge success and market leadership in mainframe computer, became complacent and did not see the writing on the wall in 1990s that customer preferences were changing for personal computers. It has not been able to regain its market leadership position. The companies, which have been proactive, are Shell, Microsoft, Infosys, Wipro and NIIT as these scanned the environment and adopted appropriate strategies to be competitive.

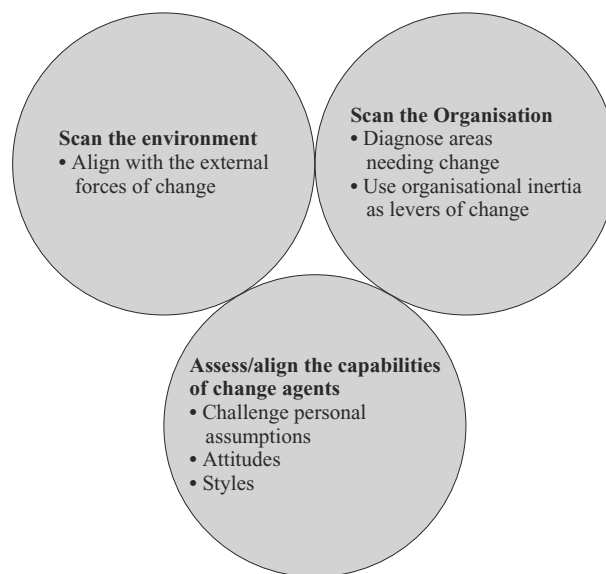
Learning from the lessons of various companies it is desirable to allow each level of management to scan the environment and act as a source of 'buy-in' change which will help an organisation plan for the change before change overtakes one. As there could be three types of managers:

- ◆ Those who initiate and change
- ◆ Those who react to change
- ◆ Those who wonder when change has occurred

### **Diagnosing the Organisation's Capability**

Having identified the external drivers of change, the next step is to diagnose an organisation's capability to cope with and deliver to the demands of the market and the external environment. It is to be recognised that it is the organisation through which performance can be delivered. Most of the leaders recognise it and know what needs to be changed; however, they find that the organisation is beset with a lot of inertia and need to struggle to get the organisation move fast enough. Some managers push the change through cosmetic variations but this does not bring sustainable results. There are others who take recourse to simple one-dimensional solution like restructuring.

But it is to be realised that the organisation needs extensive change, which permeates into all aspects like structure, processes or system, people and culture. Any change in one of the elements of the organisation, would impact other elements as well. For example change in technology influences task, structure, style and people. Similarly, change in structure influences processes, style and people. However, a number of organisations resort to some changes like restructuring without due diligence and end up with skill loss, employee issues and IR problems. The processes of organisational change have been presented in Figs 8.2–8.4.



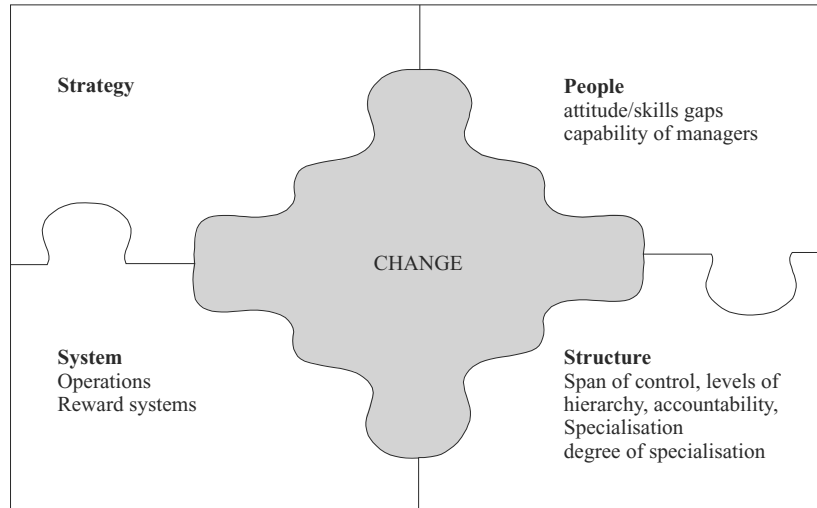
**FIG. 8.2** Process Involved in Managing Organisational Change

Source: Radha R, Sharma, 2004.

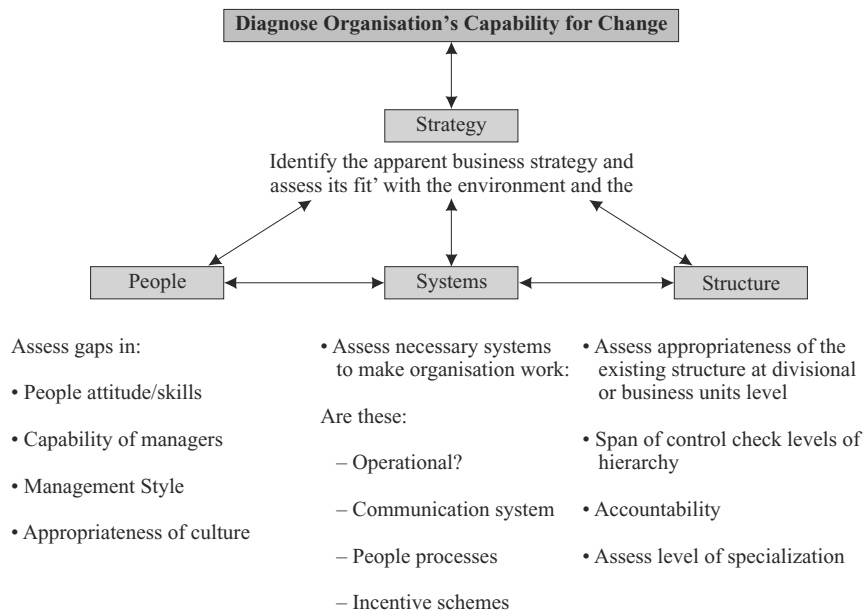
## ORGANISING FOR CHANGE: STRATEGY

Having identified the levers of organisational change, assessment organisational capability is the next logical step. Without the capabilities of an organisation there cannot be any sustainable strategy.

Literature on organisational change indicates that both continuous and discontinuous change form part of an organisation's life. In the initial stages of an organisation's life change is continuous, incremental and slow but thereafter there are short periods of rapid and transformational change, which can be explained with the help of punctuated equilibrium model explained in Chapter 3.



**FIG. 8.3** Business Strategy and Environment Fit  
 Source: Radha R, Sharma, 2004.



**FIG. 8.4** Organising Change

The model indicates that an organisation goes through two phases—one a stage characterised by a phase of inertia when there is no progress or slow progress and a predetermined course of action. Almost halfway new insight develops that challenges

the inertia patterns and there is a phase of transition. This period is marked by a focussed burst of changes giving up the old ways and adopting new perspectives. A second round of inertia follows after transition. This phase is marked by a new equilibrium or a phase of inertia when change implementers get together and accelerate their efforts to complete the work started during transition period. This pattern is called the punctuated-equilibrium model. If managers involved in change implementation can sustain their energy and enthusiasm during the first phase of transition, the process of change will be greatly expedited.

### **Formulating a Strategy**

Organisational strategy will flow from the vision of the organisation. The vision ought to be relatively constant; however, business strategy needs to be aligned with the change in the market; it needs to be pragmatic. Though the responsibility for corporate strategy rests with the CEO, he alone cannot bring about change.

The organisation and responsibility for bringing about change is shared at various levels. It is often observed that people in the organisation look to the top for strategic direction, when there, they reach a position of ambiguity. However, it is desirable that every manager be encouraged to be a leader in his or her own right and be encouraged to manage a part of the local research and provide inputs to strategic thinking.

### **Leveraging Structure**

There is a general perception that structure is a diagrammatic presentation of organisation chart. But structure includes how people relate to one another, the ways things happen, who is influential, how politics can be used to bring about change or how momentum for change can be created. Effective change requires involvement of both formal and informal structure of the organisation.

Structure can be leveraged for change by bringing about re-organisation in the organisation. Re-organisation or restructuring involves reallocating the resources where they are needed. Companies restructure themselves to reduce cycle time, service time and become more responsive to customer needs. There is a clear trend since 1990s for organisations to reduce their layers of management to improve efficiency, reduce cost, and improve flow of information. Some new forms of structure are:

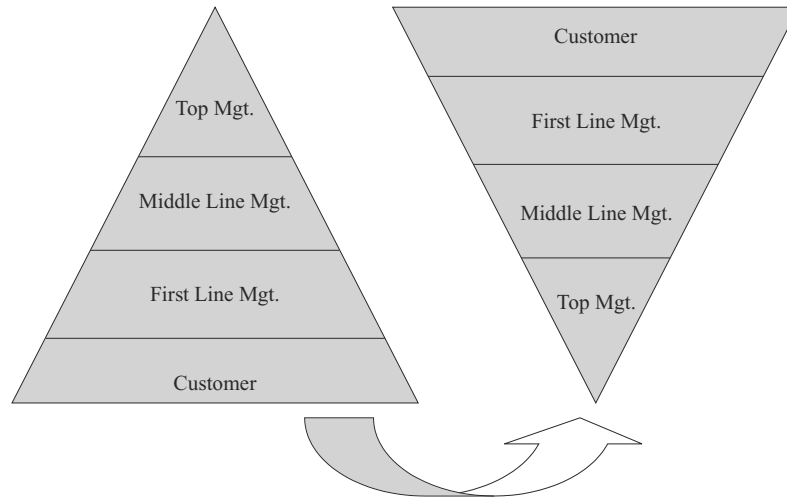
#### ***Flat structure***

The vertical, hierarchical structures with traditional organisation that worked well in stable environment but are unsuitable for situations of dynamic change are being replaced with flat structures. Now customer figures on the top and the top management (Fig. 8.5) at the bottom, taking the shape of an inverted pyramid.

#### ***Network organisation***

The recent focus on total quality and responsiveness to customer needs has laid stress on horizontal processes in an organisation, which eventually benefit the customer by





**FIG. 8.5** Paradigm Shift in Focus

Source: Radha R. Sharma, 2004.

linking various elements of the customer/supplier chain. In this setup everyone is a customer of someone else. Information technology has created network organisations through telecommuting in which people form teams across the globe. However, some companies provide informal system for networking as a means of getting people to share ideas like ‘coffee room’, ‘smokers’ room’ where new information circuits develop which promote creativity.

British Airways has designed physical environment at its corporate headquarters to promote networking. Sun Microsystems and most Indian and western computer savvy organisations have corporate intranet linking all the employees through the net.

### **Cellular organisation**

Another way of leveraging structure is to create ‘cells’ within the organisation. A collection of small teams with a high degree of autonomy is what constitutes a cellular organisation. When a group researches the size of about 50 people, it forms its own ‘cell’ which is responsible for all the aspects of the organisation except payroll. In this set up, the ‘cell’ handles everything and there are no central staff departments. An example of this structure is a Dutch firm called BSO, which is a software house and consists of 2000 people who work in a cellular set up.

### **Leveraging Systems**

It is often observed that the systems and business processes adopted by the organisation in the past become outdated and inappropriate in the new context. This has been observed particularly in the late 1990s. The old systems act as a drag on the ability of an organisation to go ahead with change. These systems may relate to operational

aspects, HR or organisational communications. Systems can be changed but it is a slow and gradual process and very often it is observed that the systems evolve over a period of time. The systems which have undergone change in organisations or require change are as under:

### ***Appraisal systems***

Appraisal systems in the form of annual confidential report (ACR) in about 30 per cent of organisations in India had been introduced with a view to controlling the behaviour of an employee, using it as a means of giving him rewards, threats or punishment, to make decision regarding salary increases and so on. The assumptions with which the appraisal systems had been designed were linked to the then context. The context has changed organisations are expected to treat their employees as human resources who can contribute and bring about a competitive advantage through their competencies. Therefore, the command and control method of appraisal needs to be replaced with feedback, counseling and mentoring. Some organisations have gradually moved from annual confidential review to performance appraisal, performance management and 360-degree feedback systems. Since appraisal is linked with career decisions and increments, these need to be suitably modified keeping in view an organisation's vision and mission.

### ***Strategic considerations for change in appraisal systems***

Considerable thought needs to be given for changing the appraisal system. Movement from system of annual confidential report to open appraisal system needs careful planning. Some of the desirable approaches have been given below.

#### *1. Strategy of step-by-step Change*

This strategy would involve a gradual change over a period of time proceeding in step by step. From merely trait-based appraisals there could be a shift in trait plus performance-based appraisal. The performance-based appraisal could take into consideration Key Performance Areas (KPA's). After a period self-appraisal could be added to it. Their appraisal system can further be modified as performance management system.

#### *2. Strategy of level-by-level Change*

This strategy involves introducing new appraisal system at a particular level in the initial stages and then extending it to other levels vertically upwards and downwards. It will be more convenient to commence it at higher levels as the number of officers involved will be comparatively smaller and thorough understanding could be developed by involving them intensively. This strategy would work better in organisations, which would be adopting a totally different system from the earlier one. For example, moving from behavioural dimension to performance dimension and then to self-appraisal and performance management system.

### 3. *Strategy of change department-by-department*

This strategy involves dividing the organisation based on geographical distribution or based on departments or functions. In this approach the change appraisal system could be introduced in the whole geographical area/region/department over a year or two. The experience gained through this selected introduction of change can be utilised for extending the new appraisal system to other regions and departments. The advantage of this approach is that the people involved in implementing this approach at one region could serve as a resource to other regions/department, which plan to introduce it. The small area of jurisdiction brings about effective monitoring.

### 4. *A mixed approach*

Depending upon the nature of the organisation and the prevailing conditions therein, any of the three or a combination of the above three approaches could be tried. As the organisation may like to see the results, it may move at a slow pace in the beginning. However, having gained experience, these may decide to adopt at macro level, region-wise or unit wise horizontally and vertically across the organisation.

In respect of the strategy adopted by the organisation for introduction of a new appraisal system, proper and systematic planning is essential to cope with the impact and pressures created by the above mentioned changes.

## **Reward systems**

Reward is a kind of positive reinforcement of performance. What is reinforced or rewarded gets repeated. But for deciding the reward the measurement of performance assumes great significance. The simple principle of Skinner's operant conditioning advocates that let the person operate on the environment to get the reinforcement. However, it is to be seen how reward system can be leveraged for change. For deciding this, the following criteria for reward may be kept in mind:

- ◆ Whether to reward individual performance or group performance
- ◆ Whether to reward 'soft' or 'hard' skills
- ◆ Whether only performance is to be rewarded or risk taking/cost/profits/sales/innovation and effort
- ◆ Whether rewards recognise one's contribution in cross functional teams
- ◆ Designing cafeteria' benefit system to offer choices to employees

## **Systems for career development**

In the past people used to join an organisation for lifetime and wanted their career path to be charted out for growth in the organisation. In the changing scenario, neither the employers nor the employees want to commit for such a long period. At the same time the challenges of 1990s demanded that employees' motivation, morale and commitment be high. The following challenges need to be addressed in the changing environment:

- ◆ How to manage the expectations of young entrants?
- ◆ How to develop horizontal opportunities for career growth?
- ◆ How to keep motivation level high in a flat structure with few opportunities for career advancement?
- ◆ How to place responsibility of individual career development on the employee?

### **Communication systems**

With the advent of a variety of technologies, organisations have gone through/going through revolutionary communication processes ranging from an electronic mail to video conferencing. While the impact of technology on communication system in organisations has been accepted, the challenge faced by an organisation is to educate people about the use of sophisticated communication systems. This will be another skill to be mastered by the change agent.

### **Cultural Change as a Lever**

Culture is the DNA of an organisation. In organisations culture is observed in formal as well as informal forms. The vision, mission, goals and objectives of an organisation constitute a formal culture; however, attitude, behavioural practices and norms form part of an informal organisation culture. Without understanding and channelising the energies of individuals and teams, any change brought about by the organisation cannot succeed. Cultural change can act as a positive instrument for change. With liberalisation command and control, hierarchy have diminished and the changing business environment requires a new set of attitudes and behaviours as a genetic code, which will guide the people to sail through uncharted waters.

The organisations having a strong culture, clearly articulate and passionately communicate the cultural values, in particular, to socialise and induct new recruits in the organisation. Organisations that have taken to cultural change are British Airways, ONGC, WIPRO and others. The commitment from the top management and demonstration of practising the professed values are necessary to leverage culture for change. Cultural change will be discussed in detail in chapter 9.

### **Summary**

The success of organisational change depends on its implementation. Considering the importance of implementation, the chapter delves into strategic and tactical issues in implementing organisational change. The Delta technique used in change management includes various stages: problem definition, alternate solutions, experimentation with participation and feedback. These have been explained at length. The skills for managing change elaborated in the chapter include method of scanning the environment and diagnosing the organisation's capability. The strategic approach to organisational change has been explained with illustrations. It includes formulating a strategy, leveraging structure, leveraging systems and cultural change as a lever. Structure can be leveraged

by re-organising in any of the following formats—flat structure, networking organisation and cellular organisation. The systems can be leveraged through appraisal systems, reward systems, systems for career development, and communication systems.

## Questions

1. Draw similarities and differences between the delta techniques and Lewin's model of change.
2. Discuss the skills and processes involved in championing change.
3. How can structure and systems be leveraged for introducing change in an organisation?

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# 9

## Organisational Culture and Change

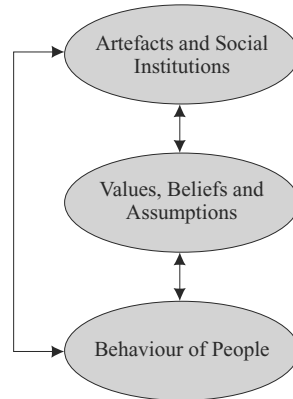
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### INTRODUCTION: CULTURE

Culture is a very powerful force at the workplace, which is consciously and deliberately cultivated and is passed on to the incoming employees. It reflects the true nature and personality or the DNA of an organisation. Culture consists of patterns, explicit and implicit of behaviour acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts. The essential core of culture consists of traditional (historically derived and selected) ideas and especially their attached values. Culture systems may, on the one hand, be considered as products of action, on the other as conditioning elements of future action (Kroeber and Kluckhohn, 1952).

Indian perspective of culture is, “*A culture consists of totality of assumptions, beliefs, values, social systems and institutions, physical artefacts and behaviour of people, reflecting their desire to maintain continuity as well as to adapt to external demands.*” (Sinha, 2000) He has described work culture as totality of various levels of interaction among organisational and organismic factors centering around concern for work. The organisational set of factors (boundaries, goals, objectives, technology, managerial practices, material, human resources and the constraints) and organismic factors (skills, knowledge, needs and expectations) interact among themselves at various levels and over a period of time, develop roles, norms and values focusing work known as work culture.

Assumptions and beliefs find manifestation in various forms like physical artefacts, institutions, social systems and also in the behaviour of members of a society. There is a linkage among various components of culture that binds a culture together and makes any change in any one of the components difficult without causing chain reactions.



**FIG. 9.1** Relationship Among the Components of Culture

Source: Sharma, Radha R (2003). Organisational Culture in Saiyadain, M S. 2003. Organisational Behaviour Tata McGraw Hill, 250–270.

### Dominant Culture and Sub-cultures

Although organisational culture has common properties, it is found that large organisations have dominant culture and a number of sub-cultures. The core values shared by the majority of the organisational members constitute the dominant culture. Therefore, whenever one refers to the culture of an organisation one actually talks about the dominant culture. Sub-cultures within an organisation are a set of commonly shared understandings among members of one-group/department/geographic operations.

The sub-culture can be formed horizontally or vertically. For example, the finance department of an organisation may have a sub-culture that is unique to this department vis-à-vis other departments. This means that this department will not only have the core values of the organisation's dominant culture but also some additional values. In another example, where an organisation does not have a dominant culture and comprises only of various sub-cultures, the effectiveness of the organisation would be difficult to judge and there will be no consistency of behaviour among departments. Therefore, the aspect of "common or shared understanding" comprises the concept of culture. It may be mentioned that some organisations may have distinct sub-cultures.

### NATURE OF ORGANISATIONAL CULTURE

The culture of an organisation may reflect in various forms and norms adopted by the organisation:

- ◆ The physical infrastructure
- ◆ Routine behaviour, language, ceremonies
- ◆ Gender equality, equity in payment
- ◆ Dominant values like quality and efficiency

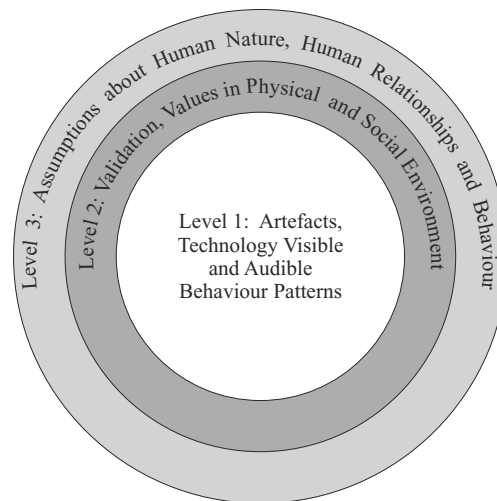


- ◆ Philosophy that guides the organisation's policies toward its employees and customers like 'customer first' and 'customer is king' and the manner in which employees deal with a customer.

Individually none of these connote the organisational culture, however, together, they reflect the organisational culture. The organisational culture exists at various levels.

### Levels of Organisational Culture

One comes across a number of elements in the organisation, which depict its culture. Organisational culture can be viewed at three levels based on manifestations of the culture in tangible and intangible forms:



**FIG. 9.2** Levels of Organisational Culture

Source: Sharma, Radha R (2003), Op. Cit.

#### **Level I**

Organisational culture can be observed in the form of physical objects, technology and other visible forms of behaviour like ceremonies and rituals. Though the culture would be visible in various forms, it would be only at the superficial level. For example, people may interact with one another but what the underlying feelings are or whether there is understanding among them would require a further probe.

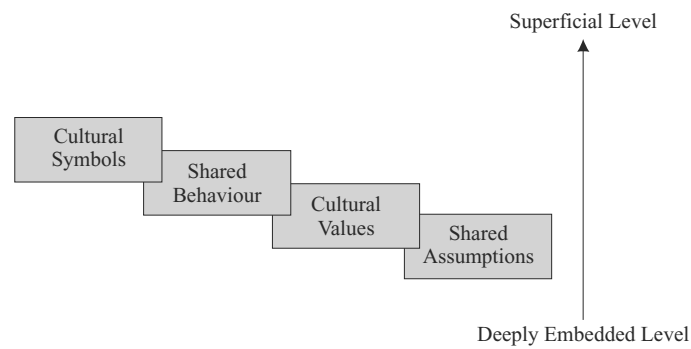
#### **Level II**

At this level, there is a greater awareness and internalisation of cultural values. People in the organisation try solutions of a problem in a typical way, which has been the method tried earlier. If the group is successful there will be shared perception of that

'success'. Through perception there is a cognitive change, which turns this perception into values and beliefs. This will remain so as long as that solution works.

### **Level III**

When the group repeatedly observes that the method that was tried once works most of the time, it will be taken as the 'preferred solution' and will convert the values into underlying assumptions or dominant value orientation. There are both advantages and disadvantages in this. The advantages are that these assumptions guide behaviour and prove to be helpful tool; however, the negative aspect is that the underlying assumptions can distort objective and rational thinking.



**FIG. 9.3** Organisational Culture at Various Levels

Source: Sharma, Radha R (2003), Op. Cit.

An organisation's current traditions, customs and the ways of doing things are largely due to the success it had with those endeavours. We have examples of this in WIPRO culture and NIIT culture where quality, competitiveness, customer satisfactions and leadership are greatly emphasised.

### **Patterns of Work Culture**

#### **Strong and weak culture**

Organisational culture can be labelled as strong or weak based on sharedness of the core values among organisational members and the degree of commitment the members have regarding the core values. A strong culture increases the behaviour consistency.

#### **Soft culture**

Soft work culture can emerge in an organisation where the organisation pursues multiple and conflicting goals. In soft culture the employees choose to pursue a few objectives that serve personal or sectional interests rather than focusing on organisational interests. Typical example of soft culture can be found in a number of public sector organisations in India where the management feels constrained to take action against

employees to maintain high productivity. The culture is welfare oriented; people are held accountable for their mistakes but are not rewarded for good performance. Consequently, the employees consider work to be less important than personal and social obligations. Sinha (1990) has presented a case study of a public sector Fertilizer Company that was established in an industrially backward rural area to promote employment generation and industrial activity. Under the pressure from local communities and government, the company succumbed to overstaffing, converting mechanised operations into manual operations, payment of overtime and poor discipline. This resulted in huge financial loss, up to 60 per cent of the capital, to the company.

## FORMAL AND INFORMAL COMPONENTS OF ORGANISATIONAL CULTURE

Though this concept is generally not included in the discussion on organisational culture, the work culture of an organisation, to a large extent, is influenced by the formal components of organisational culture.

### Informal Components

These components have tangible and intangible, specific and non-specific manifestations of shared values, beliefs and assumptions. This part of the organisational culture comprising artefacts, symbols, ceremonies, rites, stories is highlighted in almost all the definitions of organisational culture.

Four typologies of organisational culture have been given by Harrison (1972) and Handy (1991).

**Table 9.1** Formal Components of Organisational Culture

Component	Description	Effect on Organisational Culture
Mission/Vision	The milestones to be reached	Could be unrealistic
Policies	Statements designed to be guides to behavioural decision	Policies, if not drafted properly, can provide leeway
Procedures	Methods providing specific guidelines	Can facilitate or create obstacles in smooth functioning
Rules	Specific instructions for performing a task	Rules could be a means or an end in themselves
State of Organisational Development	Organisation at young, growing, maturing and mature stage of development	State of organisational development has direct impact on work culture

Source: Sharma, Radha R (2003), Op. Cit.

### Power culture

Power culture can be observed in small organisations and large conglomerates where there is centralised power. In this culture 'results' are the basis of assessment of

effectiveness, sometimes, to the satisfaction of the central authority figure. It is sometimes observed that ends justify the means in this culture. There are both positive and negative aspects of this culture. **On the positive side, the culture can help an organisation become strong, dynamic and fast to respond to external demands.** On the flip side, it often leads to staff dissatisfaction, dependence on the ability and decision-making of the centralised power figure, dysfunctional conflict and power lobbying. Only those members succeed who have a political bent of mind, power orientation and manipulativeness and low need for security. Personal equation with the centre and control over resources makes people powerful and influential.

### ***Role culture***

Based on logic and rationality, this culture is often referred to as bureaucracy. Appointment is carried out on the basis of the ability of the persons to carry out the functions satisfactorily. There is security for employees and career progressions are predictable; coordination, however, takes place at the top. Departments are assigned a specific functional role and their work is governed by the authority structure and a set of procedures. The departments follow certain mechanisms and rules for decision-making and resolving conflicts.

There are both merits and demerits of this culture. In role culture importance is given to consistency, predictability and stability, consequently such a culture contributes to creation of stable environments. **But the drawback observed in this culture is that it makes adaptation to change difficult.** Also, innovations, new ways of solving problems, product and process innovations are discouraged. Such a culture is slow in responding to competitive pressures. However, some private sector organisations such as IBM, TISCO and public sector undertakings and banks have responded to globalisation pressures and have resorted to voluntary retirement scheme, decentralisation and disinvestment and downsizing.

### ***Task (Project team) culture***

Task culture is a small team culture that exists in organisations in the form of network organisation or project oriented matrix organisation. In this culture, power and authority are distributed to the right people at the appropriate level and the focus is on performance and results to be achieved. There is empowerment for decision making with regard to the task. The team is formed on the basis of capability rather than seniority or status.

Work in such a culture involves ambiguity and high risk; and organisational control is through resource allocation, project budget, target setting and monitoring. Most of the staff in such a culture is specialist or technical type. The group works on synergy and harnesses members' expertise in the form of creativity and efficiency for optimum utilisation of resources to complete the task efficiently. There is synchronisation of personal and organisational goals. **This culture is more amenable to change.**

### **Person culture**

As the name indicates, individual is the focal point and example of this culture could be found in voluntary groups like workers' cooperatives and residents' associations where a number of individuals decide to form a group to do their own thing. The culture exists only for the concerned people and the group does not have any super-ordinate group. There may be an office back-up in the form of a secretary. This culture is probably the only form of organisation acceptable to some voluntary groups. The nature of power is consent, which is derived from expertise and personal influence. Other examples of person culture organisations would be lawyer's chambers, consultants and property agents.

## **FUNCTIONS OF ORGANISATIONAL CULTURE AND CHANGE**

Culture, being the genetic code of an organisation has significance from various perspectives. Indian organisations have evolved by being culturally embedded. There are organisations founded by Tata, Godrej and others who have promoted and maintained a typical kind of culture over decades. There are other organisations, which have evolved from being culturally embedded through being market driven. Organisations belonging to this category are Wipro, Ranbaxy and Sundaram Fastners and NIIT that have used organisational culture for business growth, market capitalisation and market leadership.

**It is observed that small organisations draw on organisational culture and achieve competitive advantage in a niche market because these are able to change and adapt themselves to changing market needs.** One can find example of this in Southwest Airlines in the US, which provided cheap air transportation for a number of years. However, big firms like IBM and Sony have penetrated the world market through various business strategies and culture of effective managerial practices. Thus organisational culture can contribute in the following ways:

### **Culture Supplements Rational Management**

Creation of an appropriate work culture is a time-consuming process. Therefore, organisation culture cannot suddenly change the behaviour of people in an organisation, a number of management tools are used to channelise the behaviour of people in a desired way. No change can be effectively brought about without involving people. Culture communicates to people through symbols, values, physical settings, language and thereby supplements the rational management tool such as technology and structure.

### **Culture Facilitates Induction and Socialisation**

Induction is a process through which new entrants to an organisation are socialised and indoctrinated in the expectations of the organisation, its cultural norms and undefined conduct. The newcomer imbibes the culture of the organisation that may involve changing his/her attitudes and beliefs for achieving an internalised commitment to the organisation.

Different organisations follow different practices for induction. Gillette India, has a system of online induction, which enables an IT-savvy newcomer to pick and choose the areas where he/she needs more detailed information. Bureaucratic organisations, however, spend considerable time explaining rules and procedures during the induction as following rules is one of the major requirements of such organisations. Central government organisations in India have one year probation training cum induction involving cultural training. On the other hand, younger and entrepreneurial organisations take less time, are less formal in their induction process. Here the established senior members share with the newcomer stories of heroes, founders and charismatic team leaders and their vision. **The longer the period an employee has spent in the organisation, the more he/she has imbibed the culture at a deeper level which serves as a block in adopting change.**

### **Culture Promotes Code of Conduct and Customer Focus**

Strong culture in an organisation explicitly communicates accepted modes of behaviour so that people are conscious that certain behaviours are expected and others would never be visible. The presence of strong culture would be evident where members share a set of beliefs, values and assumptions which would influence their behaviour in an invisible way. Where culture is fully assimilated by people they persistently indulge in a typical behaviour in a spontaneous way. **While on the one hand promotion of culture of quality, customer focus, responsiveness can help achieve good business results and customer satisfaction and retention; on the other hand, inappropriate culture can be detrimental to organisational interests and act as an obstacle in transforming the culture of the organisation.**

Becoming customer focused is not a matter of choice but a necessity in the present business environment. Some organisations are adopting strategies to enhance customer focused culture and are using it as a differentiator to achieve competitive edge. This increases customer expectations which, in turn, raise the bar of expected performance from employees. It is also to be noted that change occurs in an organisation on a regular basis. The reason may lie in change in government policies, laws or industry regulations or change in technology. If the organisation is customer focused it will adopt these changes quickly to meet the expectations of the customers. If it is sensitive to the market and is truly customer focused, it will anticipate the changes or act as a catalyst in implementing these changes as per the industry standards. Example of customer focused culture are understanding the needs/expectations of the customers; meeting or exceeding the expectations; introducing value creating processes and adopting business philosophy of delivering ever increasing value to customers; and an attitude of winning and placing the customer first.

Organizations, which are not customer focused, may need to adopt the following strategies to change the culture with customer in focus:

- ◆ Creating organisational mechanisms around customer focus
- ◆ Institutionalising customer focus by including customer focus in vision and mission
- ◆ System for handling customer complaints
- ◆ A set up for customer satisfaction surveys
- ◆ Customer focus to be one of the Key Result Areas (KRA) of employees
- ◆ Reward system for customer focus
- ◆ Introducing value models (Hoisington and Naumann, 2003) product quality, service quality, relationship, delivery, price and image

### **Sub-cultures Contribute to Organisational Diversity**

Sub-cultures, subsystems of values and assumptions, which may be based on departmentation, activity centre or geographical location, provide meaning to interests of localised specific group of people within the macro organisation.

Sub-cultures can affect the organisation in one of the following ways:

1. these may perpetuate and strengthen the existing culture;
2. promote something very different from the present and;
3. promote totally opposite subculture (beliefs and values) or counter culture when in a difficult situation.

Care needs to be exercised when promoting a counter culture as it may be detrimental to larger organisational interest.

### **RESEARCHES ON CULTURAL DIFFERENCES IN ORGANISATIONS**

A frequently asked question, which has acquired great significance with shrinking global distances, is 'do people organise and work differently from culture to culture.' To answer this and other questions relating to cultural differences across countries, a review of researches is presented below.

#### **Work Behaviour Across Cultures**

Researches undertaken in various countries have 'revealed culturally based differences in people's values, attitudes and behaviours. Douglas McGregor (1960) has given example of this in 'Theory X' and 'Theory Y', which is based on a manager's assumption about the employees' behaviour. Theory X managers do not trust their subordinates and introduce tight control systems, which leads to employees' irresponsible behaviour. On the other hand, Theory Y managers who trust the employees, give more autonomy to their subordinates for overall goals and tasks without exercising close supervision or tight control. In such a situation employees find that management trusts them and give their best performance. On seeing the employees' performance such managers develop a more favourable attitude towards employees. In Canada and India similar results have been obtained (Adler, 1986).

Ouchi in his book on Theory Z highlighted the cultural differences between American and Japanese cultures. American organisational culture has specialised career paths, fast growth, individualised decision making, individualised responsibility, explicit control and concern for work relationship with employees. On the contrary, Japanese organisational culture is characterised by slow promotions, generalised career paths and job rotation across areas, group decision making, high degree of trust, collective responsibility and concern for work as well as social aspects of employees. Thus societal culture influences the organisational culture.

### **Change in Culture: Cross Cultural Researches**

Hall (1976) has highlighted differences between high-context and low-context cultures. People belonging to high-context cultures depend heavily on the external situation and environment, and use non-verbal clues for exchanging and interpreting communications. He has cited examples of languages such as Arabic, Japanese and Chinese in this regard where indirect style of communication is valued. However, in low-context cultures, external environment has low importance, explicit, direct and blunt communication is valued and non-verbal clues are ignored.

Hofstede (1980) in his study of culture in forty countries, which was later extended to sixty countries, found significant cultural differences in work related attitudes. One lac sixty thousand employees from an American multinational corporation served as sample. The study revealed significant differences in attitudes and behaviour of the workforce and managerial staff belonging to different countries and these differences had persisted over a period of time. As an organisation is a subsystem of the society, it is very difficult to change the culture of people in the organisation because they bring in the culture of their society, they belong to. He identified the following four primary dimensions on which employees and managers differed.

#### ***Individualism/collectivism***

Individualism is marked by the focus of people on themselves and to some extent, on their families. Collectivism distinguishes between in-group (comprising relatives, caste, and organisation) and other groups. There are nations like the United States with individualistic culture and Japan where the will of the group determines members' beliefs and behaviours. Obviously, people belonging to these cultures bring with them their values and attitudes to the organisation which are difficult to change.

#### ***Power distance orientation***

This dimension refers to the superior-subordinate relationship. The superior is inclined to increase the inequality of power between him and his subordinates and the subordinates will endeavour to decrease that power distance. High power distance countries found by him are the Philippines, Venezuela and India. As expected seniors maintain distance with their subordinates. When work demands team work, people belonging to high power distance culture find it difficult to work effectively in a team.



### ***Uncertainty avoidance***

Hofstede points out that different cultures react differently and have varying levels of tolerance to uncertainty. Based on his study he has classified countries having high uncertainty avoidance such as Japan, Greece and low uncertainty avoidance like the United States, Canada and New Zealand. It is obvious that employees in low uncertainty avoidance will take more risks as compared to high uncertainty avoidance group.

### ***Masculinity/femininity***

Masculinity has been defined as the extent to which the dominant values in society emphasise relationships among people, concern for others and overall quality of life. Japan and Australia were found as highly masculine, the Scandinavian countries as most feminine and the United States as slightly masculine.

To conclude, Hofstede has likened culture to a 'collective programming' of the minds of one group, which distinguishes it from other groups.

### ***Validation of Hofstede's work***

Sondergaard (1994) has reviewed 61 researches replicating Hofstede's method and has reported that the four above mentioned dimensions have been "largely confirmed". Trompenaar (1996) based on his research on 8841 informants from business organisations in 43 countries, has confirmed two dimensions—individualism/collectivism and power distance as identified by Hofstede.

## **ORGANISATIONAL CULTURE, LEADERSHIP AND FIRM SIZE**

Schein (1987) based on his work posits, "*Organisational cultures are created by leaders, and one of the most decisive functions of leadership may well be the creation, the management, and—if and when that becomes necessary—destruction of the culture*". A number of studies have been conducted to study the relationship between firm size and organisational effectiveness and culture. Large firms promote inertia and complacency (Hannand and Freeman, 1984) and resistance to adaptation (Aldrich and Auster, 1986) and aversion to risk (Hitt et. al., 1990).

Connell (2001) studied the influence of firm size on organisational culture and employee morale in six Australian workplaces and found that organisation size affected a number of variables. Small firms were found to have a positive culture and high employee morale and consultative management style and organisational effectiveness.

### **Indian Researches**

Indian Council of Social Science Research (ICSSR) had provided financial assistance for a project on Work Culture in Medium Size Organisations in 1995. The project undertaken by Sinha and his colleagues studied 28 medium size organisations from public and private sectors in a state of India. Culture in organisations based in that

state has been classified as soft culture, technocratic culture and work-centric nurturance culture. The findings have been summarised in Table 9.2.

**Table 9.2** Main Features of Organisational Culture

Components	Soft Culture Nurturant Culture	Work-centric Culture	Technocratic
Values	Needs, interests and relationships	Work-oriented relationships	Quality, costs and customer satisfaction
Behaviour	Inefficient and indifferent to work	Productive, paternalistic and participative	Efficient, demanding and competitive
Relationships	Need-based and socially determined	Socio-technically determined	Technologically determined
Technology	Neglected	State-of-the-art and suited to employees	State-of-the-art and R&D-driven
Structure	Heavy and usually bureaucratic	Socio-technically integrated	Lean, flexible and team-based
Procedure	Non-work-oriented	Work and people-oriented	Outcome-oriented and dynamic
Goals and objectives	Welfare and profit (if possible)	Interests of all stakeholders	Market leadership, expansion and profit

Source: Sinha, Jai.B.P. (2000). *Patterns of Work Culture*, New Delhi: Sage, p. 47. Reprinted with permission.

The study reveals that in soft work culture, work values are displaced by non-work values and thereby the organisation becomes ineffective. On the contrary, in private organisations work remains the prime concern of all the stakeholders. However, the centrality of work in private organisations is based on vested interests lacking ethics and concern for others. Assumption, beliefs and values of owners, managers, supervisors and workers have been classified in Table 9.3.

The research suggests that organisations should have a long-term vision instead of short-term myopic view and give the same importance to building human capital as they give to achieving technological excellence or production. A three-pronged strategy—the centrality of task orientation, technological excellence and innovative management practices coupled with nurturance of employees have been recommended for gaining a competitive edge for the organisations (Sinha, 1990). This can be possible by bringing about change in the work culture—both the hard and soft culture of the organisations.

**Table 9.3** Assumptions, Beliefs and Values of Various Stakeholders in Medium Size Organisations in the study sample

Owners	Managers and Workers	Supervisors
<p>Enterprises are supposed to maximise profits</p> <p>Any means that can enhance profits is justifiable</p> <p>Workers should work to their maximum potential to maximise profits. For this, they have to be closely supervised, subjected to strict work discipline and punished for slackness or laziness.</p> <p>The lower the wages and allowances that an entrepreneur may legally give to his workers, the lower will be the cost of production.</p> <p>If machines are taken good care of, even the less skilled workers can be more productive.</p> <p>All the workers need to know is how to run the machines. The less skilled they are, the easier is to replace them.</p> <p>The physical conditions of work inside the plant are no worse than the poor conditions in which people in the surrounding countryside live.</p> <p>Workers should be grateful that they have jobs with regular incomes.</p> <p>It is pragmatic to let supervisors and managers handle any problems arise on the shop floor, and to let them deal with workers' frustrations and grievances.</p>	<p>Managers and supervisors hold nearly identical views to those of the owner</p> <p>Their position in the hierarchy affects their perceptions of the company</p> <p>The junior managers and supervisors are less positively inclined towards the organisation</p> <p>Many of them feel positively about the workers, rating them as honest</p>	<p>The company has to generate profits</p> <p>Their benefits depend on the company's performance</p> <p>They need to work hard and be loyal to the enterprise</p> <p>Housing, medical and conveyance facilities are their most important requirements</p> <p>The owner is their mai-bap (parent) who is expected to show them paternalistic affection</p> <p>A trade union is of little use, because it invariably creates problems for the workers by antagonising the owner</p>

Source: Developed on Sinha, J.B.P. (2000), Op. Cit.213–215.

**BOX 1****Work Culture in Oil & Natural Gas Corporation (ONGC)**

Oil and Natural Gas Corporation established in 1956 as a modest corporate house, is a corporate jewel of India, a leading national oil company, with global presence, engaged mainly in exploration, development and production of crude oil, natural gas, liquid petroleum gas and some value added products.

The company, Oil and Natural Gas Commission (till 1993), has been through various periods of upheavals. The period of growth and achievements had been marked by the culture of commitment to self-reliance and nation building backed by the industrial policy of the government, and leadership which promoted conviction, competence, hard work and efficiency among the employees in ONGC. Gradually, bureaucracy crept in, “conservatism and playing safe became the hallmark of administrative and financial decisions”..... “the administrative business of the organisation was carried on good old principle of rule of precedence” from 1963–1970 (Farooqi, 1999), which slowed down the pace of growth and development. The period from 1974-81 has been described by him as a period of cultural change steered by a technocrat at the top. The period of cultural change paved the way for high performance culture.

Under the dynamic leadership of a humane technocrat, ONGC achieved great heights during 1981-89. The abrupt change in leadership resulted in a period of decline. A historical review of the developments at ONGC reveals that its culture revolved around the leader at the helm of affairs, his values, beliefs and assumptions and affected the behaviour and performance of employees in the organisation.

A study of Organisation Culture and Climate at ONGC undertaken by Sharma (2000) reveals that the organisation has a dominant technocratic culture and soft sub-culture in a number of business groups (now called asset based structures). The work culture as perceived by a sample of 260 executives representing various functions from all over India has been summarised in Table 9.4. It may be mentioned that there is no prioritisation among these.

In addition to culture, a study on organisational climate was also undertaken by Sharma (2000) on a representative sample of 85 middle level managers representing various functions from across the country. The study yielded average to fair climate on 16 parameters of organisational climate. Comparatively low scores were obtained on parameters such as management of change, communication, corporate image, empowerment, creativity and innovation, career planning, reward and customer service which were important in the changing scenario. As organisational climate affects organisational culture the authorities of ONGC adopted a number of measures to create appropriate work culture for competitive advantage.

**Restructuring and Culture Change at ONGC**

ONGC has gone through a major restructuring exercise about five years ago with the help of an international consultant and had introduced organisational transformation project (OTP) in Neelam offshore field and at the Western onshore region. As expected the response was slow and there was covert resistance and fear among employees in the organisation. Officers from some other regions exhibited jealousy against those who, due to the project, came in the limelight. The Chairman & Managing Director Subir Raha took drastic and multi-pronged measures for

bringing about structural and cultural change since 2001. The board was overhauled, portfolios of directors were changed and business managers were re-designated as asset managers and research personnel as Basin managers. The project was later renamed as Corporate Rejuvenation Campaign (CRC) to infuse life and dynamism. The restructuring was done with rationality, which resulted in reducing the levels of decision making. The process of delegation of power was also introduced.

Through a large scale initiative of training and human resource development at middle and junior levels and Development Centre, 360-degree feedback at senior levels, mind set of people towards bureaucratic functioning has been changed to some extent. Restructuring has brought about performance-based culture in exploration and production functions. A number of initiatives for culture change coupled with strategic initiatives of acquiring global business, diversification, deep sea water drilling and a number of Corporate Social Responsibility (CSR) initiatives have developed a feeling of organisation pride among ONGC employees.

A proof of culture change is the Award 'Public Sector Company of the Year 2005' conferred upon by the Prime Minister of India to ONGC. The company also received 'The Biggest Wealth Creator Award' from Nicholas Piramal India Ltd. It has a long list of awards in many fields like Creativity and Finance, Safety Initiatives, National Mineral Award for scientific research among others. Its former chairman and managing director, Subir Raha had received Scope Individual Excellence Award for his outstanding contributions to Public Sector Management and Super CEO Business India award.

In short, the culture of ONGC has undergone a quantum change with the change in the leadership at the top since 2001–2002. The leadership and various initiatives have placed ONGC among the top 20 companies on the ET 500 list. It is India's First National Integrated Oil and Gas Corporate.

**Table 9.4** Perception of Work Culture by ONGC Executives

<b>Dominant technocratic culture</b>	<b>Soft sub-culture</b>
High technical know how	Emphasis on adherence to procedures rather than achievements. Paucity of latest technology
Strong infrastructure	Many hierarchical levels. Lack of cost consciousness.
Availability of seismic and geological database	Lack of accountability
Communication network	Gap in plan and implementation
Monopolistic presence	Undesirable union/pressure group activities
Potential for diversification	Lack of work ethics
Potential for onshore and offshore	Promotion on seniority rather than performance
Highly skilled and trained manpower	Lack of job enrichment consultancy
Loyal workforce	Aging workforce
Long and rich experience in oil exploration	Lack of empowerment
Research and Development facilities	Lengthy process, long lead time for material procurement. Unequal workload
	Lack of coordination

Source: Sharma, Radha R (2003), Op. Cit.

## Strategies for Culture Change

There are two alternative approaches to culture change: top down and bottoms up. The top down approach is referred to as 'Programmatic Change' and is introduced and steered by the top (Beer et. al., 1990) or senior managers. These generally focus on artefacts and employee behaviour and tend to extend to the entire organisation. The typical changes involved in this approach are structural change, relocation of spaces, training and development, empowerment, quality initiatives and so on. There are paradoxes in this approach as on the one hand it talks of autonomy and empowerment, on the other it follows directive approach like team briefing. Similarly, culture transformation is perceived as the task of a leader.

The bottoms up changes involve incremental changes and are linked with an organisation's 'critical path' (Beer et. al., 1990). Here the change is initiated by a manager in one part of the organisation. There is no formal structure or system, the focus is on solving a concrete business problem. The bottoms up 'task alignment' is an approach that may involve a series of overlapping steps at a site or a business unit emphasising developing people's capabilities, enhancing and mobilising commitment and shared vision. Once the vision is defined, the employees can enhance their skills for the new culture. Training and development may be used to extend it to other parts of the organisation. This and other approaches to culture change have been discussed in Chapter 3.

## Organisation Culture and National Culture

Organisation culture is receiving considerable attention from researchers and managers alike who consider it to be a socialising influence and creator of organisational climate. They assume that organisational culture can override national culture and in a multinational organisation, people belonging to different countries will be more similar. The findings of Hofstede (1980) in a single multinational organisation operating in 40 countries proves that only 50 per cent of the difference in employees' attitudes and behaviour can be explained by national culture of the employees but its contribution in explaining their behaviour is much more than their organisational role, race, gender or age.

Laurent (1983) conducted research on organisational culture in one multinational corporation which had subsidiaries in 10 countries. He repeated his study to find out if employees working for the single multinational corporation would have greater similarities than their colleagues employed domestically (nationally). He found out that employees belonging to a culture not only maintained their cultural differences but also enhanced them. The unique findings of this study include marked differences between managers of ten different countries working in one multinational corporation and these were higher than those managers belonging to ten different countries and working in native countries. In order to validate his results, Laurent replicated his research in two more multinational corporations operating in the same nine western European countries and the United States. The results obtained were the same as

in the earlier study. From his study it may be concluded that organisational culture does not diminish the influence of national culture; rather it accentuates the differences in national culture when people belonging to different nationalities work in one organisation.

Hofstede (1990) in his study in 20 different organisations in Denmark and the Netherlands found that organisational culture explains a considerable variance in values held by employees. Mead (1998) explains “within an organisation culture reflected not only the nationality, demographics of employees and managerial staff, industry and market factors, but also the structure and control system.”

### **Managing Cross Cultural Diversity**

Cultural diversity is a part of organisational life in the present business environment and can not be ignored. The question arises ‘how to manage it?’ When a manager focuses attention on cultural differences, it causes problems as it is often confused with evaluation of a culture. Judging organisational members, clients and others based on cultural differences can result in offensive, inappropriate, ethnocentric, sexist or racist attitude and behaviour. But if the cultural differences are recognised with a view to managing them, it would minimise the problems and maximise the advantages of cultural diversity.

Culture diversity can be managed effectively by developing synergy among members to function as teams. This can be done by forming groups with members of diverse cultures and providing them structured learning experience and adequate training.

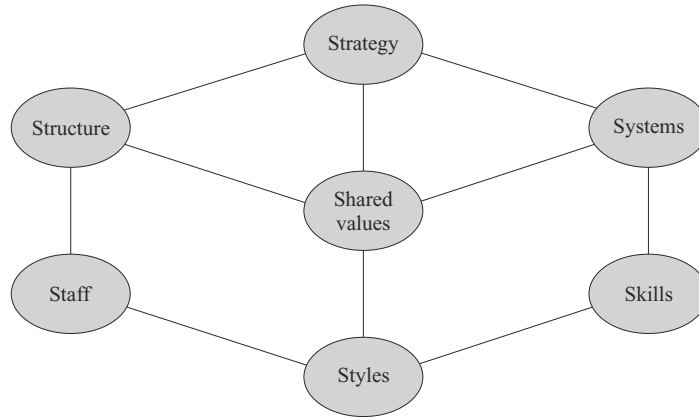
## **EMERGING TRENDS IN ORGANISATIONAL CULTURE**

### **Business Process Reengineering and Organisational Culture**

A number of companies during the 1990s have gone through a process called ‘business process reengineering’ (BPR), to dramatically improve their efficiency and performance and customers satisfaction. According to Hammer and Champy (1993) who have popularised this concept, “reengineering is the fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed.” Thus BPR involves changing policies, control systems and technologies, business practices along with creative destruction of old ways of thinking and operating.

Many organisations use McKinsey’s organisational model where BPR impacts six out of seven dimensions for organisational changes as explained in Fig. 9.4.

As explained above, BPR in an organisation would involve changing system, structure, quality and quantity of staff, competencies required by the organisation in the changed scenario, values and beliefs prevalent in the organisation and attitudes and behaviour of people from managerial to worker level. Organisations during the last decade have been going through a metamorphosis and the trend is likely to continue in the next decade. Organisational culture will continue to form the bedrock of organisational change through BPR if the change is to be sustained.



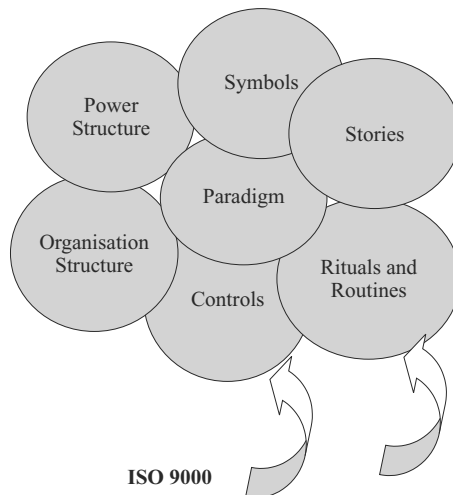
**FIG. 9.4** McKinsey's Seven S Diagramme

Source: Adapted from Hanley, (1991). *Managing People-Creating successful Organisations*. Henley on Thames, England: Henley Distance learning Ltd.

### ISO 9000 and Organisational Culture

ISO 9000 represents a model of quality assurance which includes a series of documented standards to:

- ◆ Document procedures for undertaking a task that affects product or service quality
- ◆ Perform the work according to laid down procedures



**FIG. 9.5** Cultural Web Impact

Source: Adapted from Fairbairn, (2002). *ISO 9000 and Organisational Culture*, Helsdale Quality Management, neisdale. Demon. Co., UK.



- ◆ Maintain record of activities as evidence for compliance
- ◆ Compare the performance/achievement with the plan/target to see deficiency and shortfall, if any.

Fairbairn (2002) describes ISO 9000 as an ‘adaptable system’ that incorporates benefits of exercising necessary control as companies grow. Using Johnson and Scholes (1993) model he describes how culture, as a ‘web of interlinking entities’, influences cultural paradigm of an organisation. In the above model quality control system are likely to affect rituals and routines, organisational structure and the controls which are likely to impact the overall paradigm of an organisation.

In the future ISO 9000 is expected to have greater culture fit in organisations with ‘Role Culture’ and ‘Task Culture’. A number of organisations in the private sector in India such as Wipro, Infosys, and Ranbaxy have already moved to role culture and task culture. These organisations are able to implement quality systems for better efficiency, customer service and organisational performance, which are examples of role culture. The trend is likely to continue as in competitive business environment, quality will be a decisive factor for competitive edge.

There are other international models, TL 9000 is specific to telecommunication industry and is based on ISO framework. This includes both telecom suppliers and service providers and is referred to as Quest Forum. The focus of ISO system is on the quality system of any organisation; TL is meant for certifying products. Similarly QS 9000, meant for automotive industry was first released in 1994 and has two sections—one on general requirement and another on customer-specific requirements. There are a number of tools for performance excellence like six sigma pioneered by Motorola in 1980s and Malcolm Baldrige criteria introduced in 1987. All these systems focus on performance excellence which contributes to organisational culture.

### Cultural Intelligence

Cultural intelligence has assumed significance in the context of globalisation and cultural diversity. It has been defined as “a person’s capability for successful adaptation to new cultural settings, that is, for unfamiliar settings attributable to cultural context” (Christopher, Earley; Ang, Soon and Tan, Joo-Seng, 2006). In their view cultural intelligence consists of three dimensions—cultural strategic thinking (i) understanding the manner and reasons for people behaving in a new culture; (ii) motivation involving energy and perseverance and (iii) behaviour—response in a particular manner. Knowledge about what people value or believe in a particular culture also involves understanding about routines or procedure people follow in their behaviour. These are referred to as “**declarative knowledge**” and “**procedural knowledge**”. The motivation component includes not only self motivation but also self confidence, self evaluation of personal identity, values and setting of targets.

The third dimension of behaviour or action deals with an individual’s ability to engage in culturally adaptive response. All this requires new mental framework, which psychologists refer to as **higher-order thinking** or **cultural strategic thinking**.

Recent literature highlights the positive role of cultural intelligence in competitive advantage. As organisations are becoming more culturally driven and are globalising by setting up their businesses in other countries, cultural intelligence would be an important competency for managers to be professionally effective in changed environment.

## Summary

The chapter describes the concept and perspectives of culture. Three levels of culture have been discussed. Level 1 includes artefacts, technology and visible and audible behavioural patterns. Level 2 includes validation, values in physical and social environment, and level 3 includes assumptions about human nature, human relationships and behaviour. Patterns of work culture include strong culture and weak culture and soft culture. The formal components of organisational culture include mission/vision policies, procedures, rules, and the state of organisational development. The informal components of organisational culture include power, role, task and person. Organisational culture supplements rational management, facilitates induction and socialisation and promotes code of conduct and customer focus. Sub-cultures contribute to organisational diversity. Findings of cross-cultural researches on values, attitudes and work behaviour, organisational culture and national culture form part of the chapter along with results of indigenous studies on organisational culture, leadership and firm size. Strategies for culture change and managing cross-cultural diversity have been discussed. The emerging trends in organisational culture include business process reengineering, ISO 9000 and organisational culture and cultural intelligence.

## Questions

1. What are formal and informal components of organisation culture?
2. Throw light on the role of culture in organisational change.
3. Can leadership of an organisation change its culture? Cite example from a company where leadership has played a positive role in organisational change.
4. Discuss the strategies for culture change.

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# Case 1

## Reserve Bank of India: A Case of Organisational Revolution\*

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This Report has attempted to capture the changing features of central banking in India since the inception of the Reserve Bank in 1935. The functions of the Reserve Bank have emerged out of a diversity of roles entrusted to it and its key functions have been specifically examined in this report—regulation and supervision, financial markets, the monetary fiscal interface and dynamics of the balance sheet. The changing contours of monetary policy were dealt with extensively in last year's edition of the Report on Currency and Finance (RBI, 2005). The organisational and operational evolution of the Reserve Bank has reflected its functional responsibilities as they emerged with the changing socio-economic and political conditions through its history, a phenomenon similar to most of the central banks.

In the last century, across the world, central banks have played an increasingly important role in macroeconomic policy making and have continually reoriented their policies to cope with new challenges thrust upon them. To strengthen the monetary policy transmission channels, central banks have also played a vital role in the development of financial markets and the related institutions, especially after the South East Asian crisis of 1997. The central banks of developing countries have matured immensely in terms of policy making and have leap-frogged by adopting the best practices in the payment systems and banking technology. Indeed, many central banks have taken over a whole range of functions, becoming multitasking institutions that determine monetary policy, regulating and supervising the banking system, performing a crucial role in the payment and settlement system, and seek to maintain financial stability in the economy. Interestingly, central banking was initially practiced with a large number of informal norms, conventions and self-imposed codes of conduct. These were later formalised and institutionalised into laws that form the basis of modern central banks in recent years.

The functions of central banks have evolved with their respective financial systems and successfully transited from direct to indirect instruments of monetary policy. But,

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\*Source: Reserve Bank of India (2005) Report on Currency and Finance 2004-05, pp. 298-304. Reprinted with permission of Reserve Bank of India.

most importantly, since the early 1990s, the objectives of monetary policy have become increasingly focused and more precisely defined, consistent with the central banks' goals of price and financial stability.

In recent years, the emphasis on regulation and supervision of financial system has been intensified as central banks are increasingly focusing their attention on financial stability. Commercial banks, generally the most prominent part of the financial system, are subjected to more intense regulation as compared to the non-financial firms, as banks are much more leveraged than other firms due to their capacity to garner public deposits. In view of rapid globalisation, integration of financial markets and free movement of capital, bank regulation is increasingly becoming risk-centric. The adoption of Basel norms by many central banks, especially Basel II, has not only brought regulation and risk management in focus, but also helped in universalising uniform standards across the banks in different countries.

Central banks have served as a reservoir of expertise that is generally drawn upon by governments and institutions, both domestic and international. In this context, economic research has played a critical role in defining the functional responsibilities of any central bank. Central banks have occupied the center stage of the financial system in any economy despite a continuous change in their functions and are expected to continue to make a significant contribution in policy making and financial stability.

## **I. EVOLUTION OF CENTRAL BANKING IN INDIA**

There is no standard international model for the evolution of a central bank. The Reserve Bank has undergone incessant transformation on account of a continuous change in its environment and has successfully operated in distinctly different regimes since 1935. The only constant in the evolution of the Reserve Bank since its inception is change. During most part of the earlier phase, it was a privately owned institution, though formed under a statute and overseen by the then colonial Government. The central office of the Reserve Bank, which was initially in Calcutta, was permanently shifted to Bombay, the commercial capital, in December 1937. Establishment of the Issue and Banking Departments was the statutory responsibility of the Reserve Bank and these were set up during the inception of the Bank. The other departments were formed to perform functions that devolved on the Reserve Bank in different economic situations and political regimes.

The evolution of the Reserve Bank since independence has been marked with flexibility in responding to domestic necessities and compulsions, and an endeavour to match the best international practices. The transformation in central banking functions over the decades can be traced quite conveniently through the different phases. In the early years, the main functions were note issuance and being a banker to the Government. The Reserve Bank provided a range of services to the Government arranged—war finance, administered exchange control and ensured a smooth transition of currency management from the colonial to independent India. In its formative years, there was no formal monetary policy formulation other than regulating the supply and demand for credit in the economy. The bank rate, open market operations

and the reserve requirements were the prime mechanisms for modulating credit availability. The regulatory and supervisory role received focus only after 1949, with the nationalisation of the Reserve Bank and enactment of the Banking Regulation Act, in the backdrop of a number of bank failures.

The functions of the Reserve Bank, as the central bank of a developing country emancipated from centuries of colonial rule, became more diversified with the launch of Five-Year Plans in 1951, in terms of Plan financing and institutional development to promote savings and investment in the economy. The Reserve Bank was expected to finance the resource gap of the Government that had taken up the task of growth promotion in the economy. The system of automatic monetisation of fiscal deficit initiated in 1955, which restricted the operation of monetary policy, was extensively used until 1994. In the 1960s and 1970s, institutional development assumed importance in view of the weak financial system that existed alongwith an underdeveloped commercial banking network in the economy. To facilitate sectoral development, specialised institutions were set up. The developmental phase that followed, mainly involving nationalisation of banks and directed priority sector lending, was characterised by a number of controls and regulations.

Monetary policy assumed a new focus in the 1980s. The expanding banking network in terms of geographical coverage, even in non-viable locations, sectoral allocation of credit, maintenance of high levels of reserve ratios and concessional rates of interest in some sectors affected the quality of bank assets and strained their profitability. The high level of monetisation of the fiscal deficits and market borrowings by the Government at non-market rates of interest, alongwith administered interest rates, resulted in somewhat stunted growth of the market for financial assets. The underdeveloped state of financial markets impaired the effective transmission of policy signals.

In the 1990s, the process of liberalisation of the economy added several new dimensions to the responsibilities of the Reserve Bank. In the backdrop of financial sector reforms, the monetary policy framework was adjusted and conventional central banking functions were revamped in consonance with global trends, technological developments and domestic expediency. The first phase of reforms focused on deregulation of the banking industry, strengthening of the institutional framework in banking, non-banking financial companies and financial institutions through prudential norms, and improvements in payment and settlement systems. The second phase of reforms emphasised the adoption of prudential norms in the financial system in a gradual manner with an objective to converge to the international standards.

A number of innovative measures were undertaken by the Reserve Bank in the earlier years of reforms to overhaul the financial system. The important measures were—deregulation of interest rates, rationalisation and lowering of reserve ratios, elimination of automatic monetisation of the fiscal deficit, activation of the bank rate and introduction of indirect instruments of monetary policy, especially the Liquidity Adjustment Facility (LAF), to modulate daily liquidity. Although there is no formal targeting of overnight interest rates, the LAF has enabled the Reserve Bank to de-emphasise targeting of bank reserves and to focus increasingly on maintaining an interest

rate corridor. The introduction of measures has been gradual and has generally been done after wide consultations with market participants, policy makers, international experts and academicians through various technical committees and sub-groups.

In the context of the monetary policy framework, there has been greater activism in liquidity management and an enhanced focus on the short-end of the market. In the deregulated framework, with the role of market forces becoming critical, there has been increasing evidence of changes in the underlying transmission mechanism of monetary policy, *i.e.*, interest rates and the exchange rate gaining importance *vis-à-vis* quantity variables in India. With the liberalisation of the external sector, the monetary targeting framework came under stress owing to increasing capital inflows. These developments solicited review of the monetary policy framework and in accordance with this, the Reserve Bank switched to a more broad-based “multiple indicators approach” in 1998 in monetary policy formulation.

## II. REGULATION AND SUPERVISION

The regulatory and supervisory role of the Reserve Bank gained prominence after independence but has been in focus since the nationalisation of commercial banks in 1969. At present, the complex financial system in India, mainly consisting of commercial banks, cooperative banks, financial institutions and non-banking financial companies, is regulated and supervised by different authorities. The Reserve Bank regulates and supervises a major part of the financial system covering commercial banks, cooperative banks, some financial institutions and deposit taking non-banking finance companies. In the initial years, the regulation of the banking system was geared towards meeting the demands of a developing economy and a number of measures undertaken to strengthen the banking system were successful. Then, the regulatory and supervisory functions of the Reserve Bank focused primarily on ensuring soundness of banking operations and protection of small depositors through measures of compulsory mergers and liquidations, and introduction of deposit insurance scheme. The Reserve Bank's new era of regulation began with the ‘social control’ of banking which took the shape of nationalisation, directed lending to the priority sector and administered interest rate regime. The need for social control over banks was felt in the context of the major lacuna that banking services were not available in many rural and urban areas, as well as in many preferred sectors, notwithstanding the considerable progress made in both functional and geographic coverage of the banking system since 1951. In terms of outcome, nationalisation succeeded in spreading the network of banks in rural areas and mobilising private savings. However, the savings so mobilised were mainly used for supporting government borrowings though hitherto neglected genuine credit needs in the rural areas were also met to a certain extent. The Reserve Bank supported nationalisation of the banks to ensure compliance with social control norms. This called for significant changes in the institutional arrangements, and more stringent regulation and supervision of the banking system.

The phase of excessive regulation and financial repression in the 1970s and 1980s resulted in large scale inefficiency and rigidities in the financial system. The reforms



in the 1990s mainly led to a shift of banking sector supervision from micro level intervention towards prudential regulation at the macro level, reduction in statutory pre-emptions, liberalisation of entry level norms and introduction of risk based supervision and international accounting standards, in consideration of the Basel norms.

In order to ensure financial stability in the economy alongwith the rising level of economic activity and integration of the financial system, the Reserve Bank has initiated measures to strengthen the cooperative sector, in particular the urban cooperative banks (UCBs), while recognising its low manoeuvrability due to 'duality of control'. The regulatory and supervisory measures in this direction are steered towards bringing UCBs on par with the main-stream banking system. The agreements between the Reserve Bank and some of the state governments to facilitate corrective action in a critical situation, and preparation of institution specific development action plans are important developments, given the complexity of dual control.

The banking system in India is attempting to transform itself to international standards, despite the emerging challenges. To achieve international excellence, the Reserve Bank is promoting safety and soundness while allowing the banking system to compete and innovate through induction of new technology, improved credit risk appraisal, continuous financial innovation, better internal controls and appropriate legal framework.

The Indian approach to banking sector reforms has been gradual and different from many other emerging market economies, where financial sector reforms resulted in privatisation of erstwhile public sector financial intermediaries. To infuse market discipline, a key objective of privatisation, the public sector banks have been allowed to raise capital from the market in a phased pattern and have hence been listed in the stock market. As the commercial banks are scheduled to implement Basel II with effect from end-March 2007, the Reserve Bank has begun to focus on supervisory capacity-building measures, to identify the gaps and to assess as well as quantify the extent of additional capital, which may have to be maintained by such banks. Finally, while recognising the importance of consolidation, competition and risk management to the future of banking, the Reserve Bank has increasingly stressed corporate governance and financial inclusion.

In recognition of the importance of payment and settlement systems, the RTGS system was operationalised in March 2004 to take care of all interbank transactions. In view of the positive response of the financial sector to the initiatives of the Reserve Bank and with the banking sector coming of age, the Reserve Bank has taken the policy perspective of migrating away from actual management of retail payment and settlement systems but to continue to have regulatory oversight over such functions.

The Reserve Bank has played a proactive role in the implementation of IT in the banking sector as IT based initiatives help to achieve better house keeping, improved customer service and overall systemic efficiency. Consequently, many new processes, products and services offered by banks and other financial intermediaries are now IT-centered.

### III. FINANCIAL MARKET DEVELOPMENTS

The Reserve Bank, like other central banks, has taken a keen interest in the development of financial markets, especially the money, government securities and forex markets in view of their critical role in the transmission mechanism and implementation of monetary policy. The money market is the focal point in intervention by the Reserve Bank for equilibrating short-term liquidity flows, and on account of its linkages with the rest-of-the-world, the foreign exchange market. Similarly, the government securities market has become important for the entire debt market as it serves as a benchmark for pricing of market instruments.

The conscious efforts by the Reserve Bank to develop efficient, stable and healthy financial markets gained importance as they were repressed in several ways, in the past, by law, regulation and policies. Several factors, mainly administered interest rates, directed credit, weak banking structure, lack of proper accounting and risk management systems hindered market development in India until the 1990s. It was realised early in the reform process that mere easing of restrictions would not automatically help to create vibrant financial markets. Hence, the Reserve Bank initiated measures to facilitate the development of markets through necessary institutional changes and dynamic improvements in market microstructure. Over the years, several measures were taken by the Reserve Bank to address these issues and create a supportive environment for market development. The pace of the reform was contingent upon putting in place appropriate systems and procedures, technologies and market practices. The experience of India indicates that financial market development is a complex process and depends on several factors like sound financial institutions, a favourable legal framework, technological support and congenial policy environment.

In India, the Reserve Bank has followed a gradual and well-calibrated policy of market reform. The markets have now grown in size, depth and activity, paving the way for a flexible use of indirect monetary policy instruments by the monetary authority. There has also been greater coordination between the Government and the Reserve Bank, as also between the various regulators of financial markets, which has helped in orderly and smooth development of the financial markets in India. Though the various initiatives have resulted in developing deep, wide and liquid, money, government securities and foreign exchange markets, the reform process continues. In context of the integration of the Indian financial markets with global markets, the Reserve Bank has been constantly refining the operating procedures and instruments as also various aspects of financial institutions, markets and financial infrastructure, consistent with international best practices to minimise the domino effect.

A review of market developments in India during the past seven decades reveals that there is a close link between reforms in the banking sector, monetary policy and financial markets, and that they have to develop together to reap the benefits of reforms so as to avoid disruptions. Financial markets have enabled banks and financial institutions to improve the management of liquidity and treasury operations, and thereby strengthen their fund-based income and profitability. Financial markets development in India, apart from improving monetary policy transmission mechanism, has also

facilitated the switchover of emphasis of the monetary policy from credit allocation to monetary targeting and subsequently to the multiple indicator approach.

#### **IV. MONETARY FISCAL INTERFACE**

The monetary fiscal interface in India post-Independence, followed a sequence typical of a developing country whereby monetary policy was expected to accommodate the expansionary fiscal policy. With the onset of development planning requiring large public investment, the fiscal monetary-inflation nexus was apparent by the end of the 1980s whereby excessive monetary expansion on account of monetisation of fiscal deficits fuelled inflation.

The history of monetary fiscal interface in India offers useful lessons from the Reserve Bank's experience over the past seven decades. The Reserve Bank had to cope with the challenges emerging from the changing phases of fiscal policy—from fiscal neutrality to fiscal dominance and further to fiscal consolidation, and adapted its instruments and operating procedures suitably so as to foster monetary and financial stability. It was the macroeconomic crisis of 1991 which highlighted the urgency to address the fiscal dominance over monetary policy. Therefore, to phase out automatic monetisation of fiscal deficits, a historic agreement was signed between the Government and the Reserve Bank—a significant step in cooperation and understanding between the fiscal and monetary authorities.

In view of the high levels of public debt in India, continuation of high fiscal deficit and a history of fiscal dominance, the case for separation of monetary and debt management has evoked some debate. In theory, separation between the two functions would enhance the efficiency in monetary policy formulation and debt management, but the debate in the Indian context needs to recognise certain key dynamics of fiscal monetary nexus. First, in India, the joint policy initiatives by the Government and the Reserve Bank have facilitated the achievement of a remarkable degree of coordination between debt management and monetary policy formulation. While fiscal discipline and reduced monetisation of deficits have imparted considerable autonomy to the operation of monetary policy in recent years, the Reserve Bank's proactive debt management techniques have also facilitated the conduct of monetary policy, particularly through the use of indirect instruments. In fact, the substantial stock of Government securities held in the portfolio of the Reserve Bank was used to sterilise the monetary impact of the capital flows. Second, the Reserve Bank's experience in managing government borrowings over the years has equipped it with the requisite technical expertise to efficiently fulfill the twin responsibilities of debt and monetary management and simultaneously meet the expectations of the Government and the markets. Third, in the next few years, significant changes are slated to unfold in the Indian fiscal system—a) the Central Government would cease to operate as an intermediary for mobilising resources for states with the latter having to raise funds directly from the market (as per the recommendations of the Twelfth Finance Commission); b) the Reserve Bank's withdrawal from participation in the primary market of Government securities from April 1, 2006 would have implications on the management of interest rate expectations;

and c) the implementation of the proposed amendment to the Banking Regulation Act permitting flexibility in reserve ratios to banks would reduce the captive subscription to Government securities. Therefore, in view of the concerns expressed above, a pragmatic view needs to emerge on the issue to ensure smooth functioning of the financial markets.

An important aspect of the monetary fiscal interface relates to the autonomy of the central bank. In the process of evolution, globally, while the spectrum of activities of the central banks has widened, the stance regarding the independence of central banks has taken interesting turns. In the Indian context, two related aspects regarding central bank autonomy are being emphasised. The first one relates to the fiscal dominance over monetary policy. The second aspect pertains to the legislative provisions, which clearly provide for government direction of the Reserve Bank, including the appointment of its top management. During the development phase, the growing market borrowings of the government and its monetisation by the Reserve Bank gave rise to questions regarding the relative roles of fiscal policy and monetary policy. Monetary policy, particularly in the 1980s, had to address the task of neutralising the inflationary impact of rising fiscal deficits by mopping up the large increases in reserve money. However, in recent years, the phasing out of automatic monetisation of fiscal deficits in 1997 and the enactment of FRBM legislation in 2003 are two important milestones in the direction of providing safeguards to monetary policy from the consequences of expansionary fiscal policy and ensuring a healthy monetary fiscal relationship.

It is also imperative to take cognisance of an important issue that could shape the future course of the monetary fiscal interface. As per the FRBM stipulations, the Reserve Bank would not be accommodating the Government in the primary market from April 2006. This measure, while imparting greater functional autonomy to the monetary authority, would necessitate a strict vigil on interest rate movements and sharpening of other tools to transmit monetary signals to the market.

## **V. THE RESERVE BANK BALANCE SHEET**

The balance sheet of a central bank is, in many ways, unique in character and portrays the financial outcome of its diverse roles and responsibilities in a changing environment in the economy. The Reserve Bank balance sheet has undergone a fundamental change over the past seven decades alongwith transformation of the Indian economy. From the primacy of the note issuance function during the formative years to steady fiscal ascendancy during the early phase of planning which culminated into a period of fiscal supremacy coupled with strong developmental role, the Reserve Bank balance sheet has indeed come a long way in the 1990s to achieve dominance of foreign assets, considerable downsizing of investment in Government securities and reduction in reserve requirements. With a compositional shift in Reserve Bank's balance sheet, the risk profile assumes significance especially in a situation characterised by relatively lower rate of return on foreign currency assets, volatility in exchange and interest rates in the global markets, and adoption of mark to market valuation norms with asymmetric treatment for appreciation gains. This situation intensifies the need for

adoption of effective and adequate risk management measures. Therefore, the Reserve Bank has not only initiated several measures to ensure revaluation of both domestic and foreign assets on a prudential basis, but also built an adequate cushion in the form of contingency reserves to impart policy flexibility and maintain public confidence.

In the case of a central bank, larger balance sheet does not necessarily connote a sound macro economy. In contrast, a transparent balance sheet enhances the credibility of the central bank and infuses efficiency in the conduct of monetary policy. A distinctive feature of the Reserve Bank since its inception has been preparation of two separate balance sheets—one for the issue department and the other for the banking department—providing transparency in its conduct of monetary policy. The balance sheet data is disseminated regularly at weekly intervals to the public. Similarly, the compilation and publication of broad money data at fortnightly frequency, and the reserve money at weekly frequency by the Reserve Bank, compares well with some of the leading central banks in the world.

## **VI. COMMUNICATION POLICY**

The Reserve Bank has, over the years, transformed functionally and structurally to the changing domestic and external needs through appropriate policy responses. Transparency has assumed renewed focus with a clear communication policy of the Bank, which enables it to disseminate a wide range of information regularly to the public. The focus of the communication policy until 1991 was on a healthy interaction with the press so as to highlight the transparent manner in which the Reserve Bank conducted the tasks associated with central banking. In recent years, the Reserve Bank has been laying emphasis on a well-designed communication policy with three main features—transparency, timeliness and credibility. The objective of the communication policy is achieved through extensive dissemination of information on the Bank's policies and the processes of their formation. The Reserve Bank extensively uses its website for dissemination of information. The publications of the Reserve Bank, also available on the website, containing data, research studies and speeches of top-management of the Reserve Bank, provide rationale and explanations behind the policy decisions. In an interesting development in recent years, the Reserve Bank regularly solicits feedback on important issues placed on its website.

## **VII. ASSESSMENT**

The evolution of central banking, not only in India but also globally, indicates that the central banks have successfully continued to adapt to the changing economic environment. In the interaction between the financial intermediaries and the central bank, the focus has been the welfare of the general public. Central banks carefully watch the market trends and monitor numerous variables, both quantity and rates, in the domestic and global economy. The information contained in these indicators and the direct feedback from the market participants helps in calibrating and crafting an appropriate monetary policy to ensure price and financial stability. In the last hundred years, when

most central banks were established, the markets, the objectives and instruments of monetary policy have changed. Despite these changes, the central banks have established themselves as a necessary and a permanent part of the financial system.

The Reserve Bank, presently in its seventieth year, has had a fair degree of success in achieving the twin objectives of growth with stability, especially in the post-reform period. The well calibrated strategies of the Reserve Bank in refining monetary policy operating procedures, managing the capital flows, ensuring evolution of competitive markets and sustaining a healthy financial system, while also performing the developmental role have yielded visible results. While successfully facing the challenges of globalisation, the Reserve Bank has earned international credibility in terms of efficacy of its policies. It has achieved commendable transparency in its operations, especially in terms of evolving a communication policy aimed at addressing a wide range of audiences. In sum, notwithstanding the changing challenges of different regimes, the Reserve Bank has managed to evolve constructively on a continuous basis to cope with demands for stable macroeconomic management and financial stability, while meeting the objectives of economic growth and development. As the economy becomes increasingly open and global, the role of the Reserve Bank will undergo further change and it will need to equip itself for coping with these emerging challenges on a continuous basis.

# Case 2

## Key Strategic Decisions that Govern Trans-generational Family Business Continuity: The Case of Exor-Fiat

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**Bernardo Bertoldi, Roberto Quaglia, Roberta Delmastro**

This case study considers the strategic decision making process in the context of trans-generational development of Exor-Fiat, which is controlled by one of the oldest industrial families in business in Europe—the Agnelli dynasty. It expounds the key dimensions of the decision-making processes that have safeguarded the successful turnaround of Exor-Fiat during 2003–2009.

The analysis offers the guiding principles which constitute the DNA of the trans-generational entrepreneurial spirit, namely long-term planning perspective, multi-dimensional governance structures and support for the nurturing of talented management.

The case study illustrates best practices in terms of trans-generational strategic planning that hopefully can enlighten other owner-managed family firms and thus improve their survival, growth and prosperity across generations.

Family businesses are often among the top players in their respective sectors. For example, within the global automotive industry, six family businesses are ranked among the top ten players, dominating the world corporate landscape. The family business model is well established both in Europe and worldwide. Despite this, the longevity of family businesses is under threat, especially when the macro-economy is in crisis. Empirical research consistently highlights that about one in ten of owner-managed family businesses reach the third generation of family ownership. More specifically, Ibrahim *et al* (2000) show that only 12% of family businesses survive to the third generation, while only 3% continue into the fourth generation and beyond.

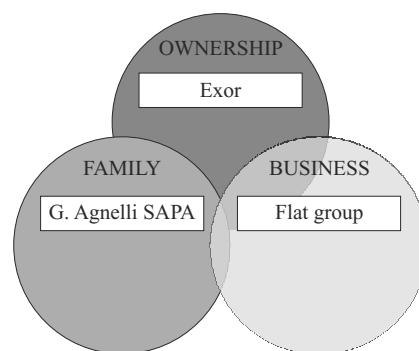
According to researchers, an enterprise is family-controlled when the owning family can effectively control the strategic direction of the business; and the family benefits from the business, or derives a significant portion of its wealth, income or identity from the business (Astrachan et al. 2002). In *The Handbook of Research in Family Business*, Poutziouris et al (2006) provide a range of open and closed definitions as to what is a family in business. In line with such definitions, Fiat Group Automobiles is a family-controlled business, as the Agnelli family is a major owner with over 30% of the shareholding via Exor, which is the family investment company. Furthermore, Fiat Group represents about 57% of the net asset value of Exor.

The objective of the case study is to offer an analytical discussion about Exor-Fiat and how key strategic decisions taken during 2003–2009 has contributed towards the long-term sustainability of the ‘family in business model’.

## THE CONCEPTUAL FRAMEWORK

The rationale to investigate Exor-Fiat case is based on the fact that the Agnelli family for five generations has effective family control of the business which represents a substantial part of the family wealth. Thus, in accordance with the views of Andrews (1980) who advocated that a strategic decision “...is one that is effective over long periods of time, affects the company in many different ways, and focuses and commits a large amount of its resources to the expected outcomes,” this case study analysis of Exor-Fiat will enlighten how practically the overlapping sub-systems of family, ownership and business (Davis and Tagiuri, 1982) are inter-dependent.

As Fig. 1 demonstrates, the unit of analysis constitutes the key strategic decisions taken by the family owner-managers and how these affect the *Family* (Giovanni Agnelli e C, Società in Accomandita per azioni – GaeC Sapaz), the *Ownership* (Exor) and the *Business* (Fiat Group: representing about 57% of the NAV of the investment company Exor).



**FIG. 1** Exor-Fiat—Family owner-managed business model

The conceptual framework of effective decision-making process has the following dimensions: *long-term strategic thinking*, *governance for reaching timely decisions* and *nurturing talented management*.



### Long-term Strategic Perspective

As demonstrated by Miller & Le Breton-Miller (2005), family businesses and business families are characterised by long-term strategic planning where owner-managers *take bold and risky decisions with an impact across inter-generational horizon*. From a financial point of view, the long-term approach refers to long-term investments (James, 1999; Kang 2000), higher investments in R&D (Weber *et al*, 2003), and disproportionate higher retention of profits and undistributed profits (Anderson *et al*, 2003; Daily & Dollinger, 1992; Gallo & Vilaseca, 1996; Poutziouris, 2006). From a strategic point of view, the long-term approach tends to build core competences and resource capabilities that are not easily imitable (Barney, 1991; Dierickx & Cool, 1991; Teece, Pisano & Shuen, 1997).

### Governance Mechanisms

Autio and Zahra (2002) suggest that the governance mechanisms found in family firms influence the quality of strategic decision-making. Such governance is proving effective *for timely decisions that can be executed promptly with a clear chain of command*. Most scholars agree that the separation of ownership and management creates agency costs, as managers who are not owners will not watch over the affairs of a firm as diligently as owner-managers. According to Chrisman, Chua, Litz (2004), such agency costs do not prevail in the owner-managed family business regime. On the other hand, Anderson and Reeb (2004) found that superior performing quoted family companies tend to have a more balanced board of directors where they often have independent board members.

Evidence from Exor-Fiat shows that although the Agnellis are in the minority on the FIAT Group board (with the majority coming from outside the family), they do have the responsibility of picking the CEO. The CEO has always been (at least since 1939 when Giovanni Agnelli nominated Vittorio Valletta) a non-family member. Thus, independent board members represent the majority of the FIAT Group board, regulating the power of family ownership (Anderson & Reeb, 2004; Carney 2005; Miller & Le Breton-Miller, 2006).

### Ensuring the Support of Talented Management

The growth and development of the family business group calls for professionalisation of the management team by choosing, attracting and developing talented outsiders, non-family professional management to support the family in business. Reid and Adams (2001) state that family business practices within Human Resource Management (HRM) are different from those in non-family businesses and should be treated differently. The decision of a family business owner to delegate to professional managers requires shared beliefs, attitudes and values, a process which requires time and investment. Furthermore, family businesses that have experienced growth tend to pay a lot of attention to finding, motivating and retaining good staff (Mazzarol, 2003). These two factors increase the average tenure of CEOs in family businesses.

Therefore, the endurance of a CEO in an owner-managed family firm is an advantage more characteristic of the family business sector, as it seems more difficult for non-family firms to achieve. The emotional link with the family and the business can easily be created in the family-controlled business (Miller & Le Breton-Miller, 2005b; Barnett & Kellermanns, 2006); and the managerial satisfaction is higher, even before compensation is taken into consideration (Beehr, Drexler & Faulkner, 1997). Finding, grooming and retaining top management for a family business are both a key strategic challenge and a long-term investment.

## CASE STUDY STRUCTURE AND RESEARCH METHODOLOGY

The structure of the case study is based on the five components of a research design, as defined by Yin (2003). The structure is: research question, proposition, and unit of analysis, logic linking the data and the proposition, and criteria for interpreting the findings.

The case study examines events spanning from the beginning of 2003 to mid-2009 and throws light on the following research question: *How did the Agnellis and associates make strategic key decisions for the successful turnaround of FIAT group during 2003–2009?*

The proposition of the authors is that key strategic decisions taken by families in business can be linked to a limited number of guiding principles or decision criteria which constitute the DNA of their entrepreneurialism. With respect to the unit of analysis, the focus is on key strategic decisions taken by the family council and governing bodies during 2003-2009, post the death of the founder, G. Agnelli. Furthermore, during this period the company had to make swift and savvy decisions that had major impact on its future strategic path and helped it overcome both internal and external challenges.

In this case study, the 'family in business' refers to the family business leaders entitled to take such action, which in the case of EXOR-FIAT are the president of one or more of three legal entities as follows: *Giovanni Agnelli e C Sapaz*, *EXOR* and *FIAT Group*.

## THE EXOR-FIAT CASE

In line with Davis and Tagiuri (1982), the overlapping subsystems, which characterise the owner-managed family business model, require effective communication and decision-making process within and across the family, the business and the ownership regimes. Using the framework to analyse the Exor-Fiat case, we have identified three legal entities which help the Agnelli family to govern the inter-dependent family, ownership and business sub-systems:

- ◆ **Giovanni Agnelli e C Sapaz:** The Agnelli family council formed by integrating the holdings in IFI (Istituto Finanziario Italiano), the main shareholder of Exor, led by G. Agnelli (until 2003), U. Agnelli (until 2004), G. Gabetti (until 2010) and J. Elkann (due to take the position in 2010). All family members

**Table 1** The Presidents and CEOs of the Family in Business Group

<b>FAMILY</b> <i>G. Agnelli SAPA</i>	<b>OWNERSHIP</b> <i>IF/EXOR</i>	<b>BUSINESSES</b> <i>FIAT GROUP</i>	
<b>PRESIDENT</b> <b>John Elkann</b> from 2010	<b>PRESIDENT</b> <b>John Elkann</b> from 04/07 -Vicepresident from 02/07 to 04/07 -Board member from 03/03	<b>PRESIDENT</b> <b>Luca Cordero di Motezemolo</b> from 05/04 (John Elkann vicepresident from 2004)	<b>CEO</b> <b>Sergio Marchonne</b> from 05/04
<b>Gianluigi Gabetti</b> from 06/04 -vicepresident from 03/03	<b>Gianluigi Gabetti</b> from 06/04 to 04/07 and now board member -Vicepresident from 06/97 -AD from 09/91	<b>Umberto Agnelli</b> from 02,03 to 05/04 (mortis causa)	<b>Giuseppe Morcio</b> from 02/03 to 05/04
<b>Umberto Agnelli</b> from 02/03 to 05/04 (mortis causa)	<b>Umberto Agnelli</b> from 01/03 to 05/04 (mortis causa)	<b>Paolo Fresco</b> from 06/02 to 02/03	<b>Alessandro Barberis</b> from 12/02 to 02/03
<b>Giovanni Agnelli</b> from 11/96 to 01/03 (mortis causa)	<b>Giovanni Agnelli</b> from 09/01 to 01/03 (mortis causa)	<b>Cesare Romiti</b> from 02/96 to 08/98	<b>Gabriele Galateri di Genala</b> from 06/02 to 12/02
		<b>Giovanni Agnelli</b> from 1966 to 02/96	<b>paolo Cantarell</b> from 02/96 to 06/02
			<b>Cesare Romiti</b> from 04/76 to 02/96

are represented in the family council which currently has about 90 heirs as shareholders bringing the family to the 5th generation. The major shareholder is Vice President and President-elect J. Elkann, grandson of G. Agnelli and leader of the 5th generation of Agnelli. The President of the GAeC Sapaz is G. Gabetti, a long-time serving manager of family companies and trusted by all past leaders and present members of the Agnelli family. The GAeC Sapaz represents the family sub-system whereas a legal entity allows them to formally group a huge number of shareholders representing different generations.

- ◆ **Exor:** This is the family investment company with 5 billion worth of investment, and it is the main shareholder of Fiat Group. Exor is the result of the merger between IFIL (Istituto Finanziario Italiano Laniero) and IFI, led by G. Agnelli (until 2003), U. Agnelli (until 2004), G. Gabetti (until 2007) and J. Elkann. Exor represents the ownership sub-system and has the role of making investment decisions on behalf of the family and other shareholders. Among other businesses, Exor controls Fiat Group, which as block shareholders owns around 30%. The family equity stake ensures strong representation of the family-nominated members on the board. Furthermore, EXOR's status as a listed company brings several advantages to the family: up-to-date market based value of the wealth, shareholders maximisation culture, liquidity of the asset base and the option to raise additional capital whenever needed.

- ◆ **Fiat Group:** This is the major holding of the family in business, led by P. Fresco (until 2003), U. Agnelli (until 2004) and L. Cordero di Montezemolo. It was founded by Giovanni Agnelli Senior in 1899. The Fiat Group is a listed holding company, owning several other subsidiary companies : automobiles (Fiat Group Automobiles), agricultural and construction equipment (CNH), truck and commercial vehicles (IVECO), components and production systems (Magneti Marelli, Teksid, FIAT Power Train, Comau), etc. Today, Fiat Group is one of ten biggest automotive companies in the world, with 203 factories, 198,000 employees, with sales across five continents which exceed two million cars, trucks, industrial vehicles and agriculture machinery.

In May 2009, Fiat Group agreed to a strategic alliance with Chrysler that will consistently increase its performance indicators. Fiat Group is active in a number of industries such as automotives, trucks, excavators, tractors and combine harvesters. The company was founded by Giovanni Agnelli Senior, the offspring of the Agnelli family, and today is the largest industrial company in Italy.

## THE SIX KEY DECISIONS OF THE STRATEGIC DECISION MAKING PROCESS

During the year 2003 to mid-2009, the Agnelli family and EXOR managed to transform a near-bankrupt company that apparently had only one last chance to be saved, to one that could be sold to GM, a solid company, and a firm ready to take up the Chrysler challenge. In 2009, Fiat Group signed a Memorandum of Understanding (MOU) for a strategic agreement with Chrysler, a deal which had the full support of the Obama administration.

During the preceding seven years, many events occurred and many decisions were taken. We have summed up six key strategic decisions which represent the milestones of the post-2003 turnaround. Several factors contributed to taking these strategic decisions, namely hands-on responsible ownership, business and family connected thinking as well as the ability of the family leaders to manage and make decisions in the best interests of both the business and the family.

### J. Elkann Succeeded G. Agnelli (2003-2007)

This succession decision was taken by Giovanni, the family leader, at the end of the 1990s, and was supported by his brother Umberto and various trusted family business managers and advisers (e.g. Gabetti and F. Grande Stevens). The decision was necessary due to the old age of both Giovanni and Umberto Agnelli.

The transitional process was not a smooth one. The succession planning was actually launched in the late 1980s, when the GAeC Sapaz was set up. The first nominated successor was Giovanni Alberto Agnelli, son of Umberto, who died young at 33. Therefore G. Agnelli, as the previous generation leader, started to build up a structure (GAeC Sapaz) to keep the family united and also to attract the new generation to the business. The involvement of family business managers (Gabetti) and advisers (F. Grande Stevens) was important to ensure the continuity of the family given the

young age of the nominated successor (Elkann was only 26 years old when Giovanni died and 28 when Umberto died).

### **The Family Kept Investing in Fiat Group After the Death of the Family Leader (2003)**

On January 24, 2003, Giovanni, the family leader for more than 30 years, died. Fiat Group's financial year closed on December 31, 2002 showing a net loss of 3.955 million EUR and a negative ROE (-39.9%) and ROI (-4,7%). The company was losing a lot of money and there was no clear plan how to recover the business. Furthermore, the existence of a put option to sell the automotive business to GM with the banks holding convertible bonds contributed to this unstable situation. The put option to sell was included in a partnership agreement signed with GM. Through this agreement, the American giant acquired 20% of Fiat Group Automobiles. At the same time, Fiat Group had the right to sell the remaining 80% at fair market value. Even if merging the low-margin automotive business with the world's biggest company appeared to be a sound strategic decision, from the management point of view, it actually proved to be constraining their decision making power, the development of new products and the forging of partnerships. It was a company waiting to be sold.

On the other hand, the 3 billion EUR convertible bonds were due in September 2005. If Fiat Group would have failed to repay the debt, the banks would have had the right to convert it into equity and become the first shareholder of the company, holding around 30% of the shares, reducing the shareholding of the Agnelli family to 20%.

At the beginning of 2003, the loss-making company had a gloomy future in front of it due to a combination of factors: the economic results of the business; the put option to sell would have been exercised at a price close to zero; and the banks held convertible bonds that would have entitled them to a 30% shareholding, giving them control of Fiat Group. In an investor presentation at the end of 2006, Sergio Marchionne, the current CEO of Fiat Group, said:

“The death of Fiat was widely expected. In 2002/2003, it was clear to everyone that Fiat was in dire straits. The number of rescue plans increased in inverse proportion to the number of cars sold. Everyone has a magic recipe for saving the company. The government had one, the banks had one and you [investors], labour unions and individual businessmen had yet others.”<sup>1</sup>

Despite the desperate situation, on March 25, 2003, two months after the death of Giovanni Agnelli, given the family commitment to support the group, the GAeC Sapaz approved a capital increase of 250 million EUR. The increase was partly done through a convertible bond and added to the 1.8 billion million EUR capital increase of Fiat Group. The objective was to turn around the Fiat Group automobile business. Even

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<sup>1</sup>Sergio Marchionne, “From Balocco to Lingotto”, Speech by CEO at Fiat Group—2006 FIAT Investors and Analyst Meeting, November 8–9 2006.

though the capital increase seemed to lack economic sense because of the very difficult situation, all shareholders approved it and every member of the family supported the investment, giving the market a signal of confidence in the future of the business. The family members decided to follow their leaders. The option was supported by Gabetti, who became Vice President of the GAeC Sapaz in the same general assembly which approved the capital increase. The risk of the investment was mitigated by the presence of a promising new generation leader: J. Elkann.

### **The FIAT Group Drops the Exit Option to Sell the Automotive Business to GM; Marchionne Takes Control of the Turnaround Strategy (2004-05)**

In 2001, Fiat Group and GM signed a partnership: the contract gave a put option to Fiat Group to sell the remaining 80% of Fiat Group Automobiles in February 2004. The put option blocked the strategic development of Fiat Group Automobiles, with managers and employees waiting effectively for the sale to GM and watching the company losing its development strength. In January 2003, the Fiat Group President, P. Fresco, and the CEO, A. Barberis, negotiated a possible settlement of 1 billion EUR cash with GM, in exchange for Fiat to renounce the put option. A few days later, Giovanni Agnelli died and Fresco and Barberis were replaced by U. Agnelli and Morchio. The discussions were frozen until the end of 2004.

On February 13, 2005, Marchionne, CEO of Fiat Group, agreed with GM to renounce the put option for 1.5 billion EUR; on the February 17, he became CEO of Fiat Group Automobiles and began the turnaround of the automotive business. From the beginning of 2004 to the beginning of 2005, Exor started to understand that selling the firm would not be effective and the only way to increase the value of their automotive business was to embark on a turnaround. It was a bold decision: who would have bet on a business that GM paid 1.5 billion EUR *not* to own?

The appointment of a strong CEO (Marchionne) had several effects: the settlement of the put option; the change in the mindset of the management; a massive launch of new products; and the exploitation of the Fiat dynamic capabilities in engineering and engines. The company's mindset was transformed and Marchionne was the driving force for this change. As he wrote in his article *FIAT's Extreme Makeover*<sup>2</sup>: "My job as CEO is not to make business decisions – it's to push managers to be leaders."

On March 21, 2003, Marchionne appointed new managers for the departments of design and development of product portfolio. Soon after that Fiat Group Automobiles launched a number of new models. In order to exploit Fiat capabilities in engineering and engines, on March 24, 2003 Marchionne created the Fiat Power Train. The Group's collective engineering skill base was focused on this initiative. From this point onwards, Fiat Group closed a number of strategic alliances on the basis of the value of its technology: Ford (2005), Tata (2006), SAIC (2006), DaimlerChrysler Truck (2007), Chevy (2007) and Severstal Auto (2007). These partnerships were the prelude to the Chrysler partnership which was signed in 2009.

<sup>2</sup>Sergio Marchionne, *Fiat's Extreme Makeover*, Harvard Business Review, December 2008.

### **Exor has Preserved the Control of Fiat Group (2005)**

The GAeC Sapaz owns 59.1% of Exor, which in turn owns 30.45% of Fiat Group. EXOR, as the main shareholder of Fiat Group, appointed the CEO and the President of the board whose synthesis revealed a majority of independent members. On two occasions, the Agnelli family (collectively the main shareholder) acted to keep a strict control on Fiat Group.

The first occasion was after the death of Umberto on May 27, 2004. G. Morchio, Fiat Group's CEO, insisted on becoming President and keeping his CEO role, as well as having the opportunity to invest in GAeC Sapaz. This went against the second guiding principle, namely the maintaining of a clear chain of command. Therefore, the board of directors was called on May 30 to nominate a new board president. The decision to replace G. Morchio demonstrates the importance of a clear chain of command for the family and accountability for business affairs. It was Morchio's turnaround plan, approved by shareholders and banks, which gave the first positive signs after three years of deep crisis. Furthermore, the new CEO would have been the fifth nominated CEO in less than one year.

Despite all this, Gabetti, representing the family after the death of the two leaders, Giovanni and Umberto, acted to keep the separation of power between shareholders, represented by the President, management and the CEO. He also appointed new managers for the troubled company. The Fiat Group board nominated L. Cordero di Montezemolo as President and S. Marchionne as CEO. Montezemolo was the President of Ferrari (a subsidiary of Fiat Group) and of Confindustria (the Italian industrial association). He was also a manager with Fiat Group for a long time and was very close to both Giovanni and Umberto. The new CEO, S. Marchionne, was a Fiat Group board member and the CEO of SGS, one of the companies in which Exor invested. Before his death, Umberto indicated him as a successor of G. Morchio. At the same meeting, the board nominated J. Elkann as Vice President, giving a strong sign of continuity of the Agnelli family.

The second occasion was the conversion, in September 2005, of the 3 billion EUR convertible bonds subscribed by a group of banks in September 2002. The capital increase originated by the conversion of these bonds would have diluted the Exor participation to roughly 20%, creating a new major Fiat Group shareholder, the banks.

There are many hypothetical scenarios as to how the banks would have exercised their new role. The most prevalent one is the splitting of Fiat Group on a financial basis and retaining Alfa Romeo to create a luxury car company in partnership with another manufacturer, supposedly Volkswagen. Fortunately for Fiat Group, we will never know how things might have gone had this option been followed. In the event, G. Gabetti acted boldly and vigorously to protect the family guidelines for the second time in less than one year. The day when the capital increase became effective, Exor bought through an equity swap the quantity of shares necessary to maintain the 30% of Fiat Group and its controlling shareholding. The financial transaction was put under scrutiny by the CONSOB (Italian Stock Exchange Commission) and was criticised by

the financial market because Exor bought the shares from a subsidiary company, and such valuable ties were emphatically communicated. However, the transaction kept the ownership in the hands of the industrial shareholder and without this decision, the Fiat Group turnaround would have never come to a successful end.

### **EXOR Launched the New Growing Phase of Fiat Group from 2 to 6 Million Cars Per Year (2008)**

The 2008 financial crisis dramatically changed the automotive industry's outlook. Fiat Group, led by its CEO Marchionne, acted quickly to respond to the shrinking market and to seize new opportunities by creating a new growth strategy, approved early in the financial crisis by J. Elkann. In 2008, Elkann declared to the *Wall Street Journal*, "In a consolidation scenario, finding the right partner and the right combination would be the priority; the level of the shareholding would be secondary to the competitive position and the value any new combination would produce."<sup>3</sup>

In an interview to *Automotive News*, Marchionne said:

"It cannot continue as it did in the past. Independence in this business is no longer sustainable. I cannot keep working on cars on my own. I need a much larger machine to help me. I need a shared machine."<sup>4</sup>

This common vision allowed Exor-Fiat to seize the opportunity of the Chrysler deal and to bid for Opel. The perfect timing, the clear roles and the quick chain of command permitted Marchionne to close a Memorandum of Understanding with Chrysler in January, which also proved to be a key part of the financial aid granted to the new Fiat-Chrysler company by the US government. The same perfect tuning was clear in the Opel bid when Fiat Group, in agreement with Exor, declared the intention to create a Fiat-Chrysler-Opel New Co which would be listed in the financial markets.

### **FIAT Group Pursues the Deal with Chrysler, Launching a New Phase of Growth (2009)**

*President Obama, 2009:*

"Recently, Chrysler reached out and found what could be a potential partner: the international car company Fiat, where the current management team has executed an impressive turnaround. Fiat is prepared to transfer its cutting-edge technology to Chrysler, and has committed to building new fuel-efficient cars and engines right here in the United States... . I'm committed on doing all I can to see if a deal can be struck in a way that upholds the interests of American taxpayers."<sup>5</sup>

<sup>3</sup>Stacy Meichtry, "Fiat seeks a partner, but pickings may be slim", *The Wall Street Journal Europe*, December 9, 2008

<sup>4</sup>Luca Ciferri, "Talk from the Top Marchionne: The party is over", *Autonewseurope.com* December 8, 2008, p 16

<sup>5</sup>The White House—Office of the Press Secretary, Remarks by the President on the American Automotive Industry, March 30, 2009.



President Obama supported the agreement between Fiat Group and Chrysler on March 3, 2009. The first news reports on a possible partnership between the two companies were published in the *Financial Times* in August 2008, and said: “Chrysler confirmed on Wednesday that it had held talks with Fiat to use some of its idle North American capacity to build vehicles for the Italian carmaker.”<sup>6</sup> On January 20, 2009 Obama took his oath at the presidency inauguration ceremony.

Fiat Group signed an MOU for a strategic agreement with Chrysler, including a clause to take a 35% share of the company. The basic elements of the agreement were announced officially by Fiat Group on April 30, 2009. They are as follows:

- ◆ In exchange for providing small-car technology, Fiat received a 20% stake in the Chrysler NewCo.
- ◆ Fiat’s equity interest could increase incrementally by up to 15% in the event that certain targets mandated by the agreement are achieved. These refer to producing Fiat’s fire engines in the US, selling Chrysler vehicles outside of NAFTA, and producing a Chrysler model based on Fiat technology.
- ◆ Fiat got an option of a further 16% of Chrysler, which could be exercised between 2013 and 2016.
- ◆ Chrysler granted 55% of its equity to the VEBA (Voluntary Employee Benefit Association), and 10% to the US and Canadian governments.
- ◆ Chrysler NewCo will also benefit from the 6.5 billion dollar US government facility and the new collective bargaining agreements with UAW (United Auto Workers).
- ◆ Fiat Group had to increase the dimension of its automotive business to 4-6 million cars (see decision no. 4). This was possible because of the engineering competences enhanced in the turnaround phase.

The Exor President, in his role of major shareholder and Vice President of Fiat Group, was not only ready to make fundamental decisions on adapting the company to the new situation, but also to endorse the execution process, taking ultimate responsibility for the other shareholders and stakeholders of the biggest Italian industrial company. According to a financial analyst calculation<sup>7</sup>, on March, 2009 the value of Fiat Group increased by 1.9-3.7 billion EUR, providing a successful execution of the Chrysler plan.

## THE THREE GUIDING PRINCIPLES

An analysis the above mentioned six key dimensions of strategic decisions clearly expounds three guiding principles that Agnelli adhered to, in order to safeguard the long-term continuity of the family in business. Here are these three principles that are a testimony of the entrepreneurialism of the family in business:

<sup>6</sup>Bernard Simon and John Reed, “Chrysler held talks to build Fiats in US,” *Financial Times*, August 13, 2008.

<sup>7</sup>Stuart Pearson, Fiat, Credit Suisse Equity Research, April 30, 2009.

### **Long-term Perspective—take Bold and Risky Decisions with an Inter-generational Horizon**

Despite a number of unforeseen fatalities, the Agnelli family have been busy grooming a fifth-generation family member to take the role of the leader. This required Giovanni and Umberto to work on reorganising leadership until the last days of their lives. By itself, this was not a sufficient action, and it became necessary to leverage another family asset to bridge the inter-generational gap. The investment they made in choosing a fifth-generation member will ensure a longer period of stability in the leadership, ideally for the next 30-40 years.

The family also decided to keep investing in a near-bankrupt company, betting on a turnaround that would provide returns in the long term. Exor opted to remain the key shareholder of Fiat Group, opposing the break-up of the company, which was preferred by the banks due to its short-term and less risky return. Exor also decided to keep investing in the automotive business even during the 2009 financial crisis, thereby pursuing growth through acquisitions and reaching a suitable position to compete in the market in the long run. Seizing this opportunity will allow Fiat to be a stronger player when the financial and macro-economic crisis ends.

Furthermore, FIAT decided to face the difficult circumstances and not allow the firm to be sold to GM. Instead, they put Sergio Marchionne in charge of the turnaround, which required additional investment and risk-taking decisions. In the long term, this has proven to be a far better decision. Fiat pursued the Chrysler deal despite evidence that profits would not be made for another five years, proving again their long-term commitment.

### **Governance for Timely Decisions—execute Promptly with a Clear Chain of Command**

This represented a formal investiture as leader of the family business: this decision was a clear indication that having a single head in command has been a key decision-making criterion in the succession planning. John became board member of Fiat Group and was indicated as successor directly by Giovanni Agnelli. Umberto took the leadership of the family after the death of Giovanni, and with the capital increase in process he became the new GAeC Sapaz president, the new Exor president and the new Fiat Group president, assuring the continuity of the chain of command while John was preparing for the leadership.

As Fiat Group president, Umberto substituted P. Fresco, a non-family manager, confirming the clear chain of command. When the family decided to keep investing in Fiat Group, it was also decided to (re)define the governance to ensure accountability and a clear chain of command. In April 2005, when it was clear that the conversion of convertible bonds by the banks was sufficiently large, Exor invested in equity position sufficiently to maintain the Fiat Group control. Thus, the chain of command remained in the hands of the Agnelli family leader, indicating that having a single head in

command has been again a guiding criterion. Without this decision, Fiat Group would have had two shareholders: a group of banks with a 30% stake and Exor with 20%, creating unclear governance.

Exor (with president Elkann) launched a new growing phase of Fiat Group, considering possible mergers/partnerships only where Fiat would have led operations (e.g. Chrysler and Opel) and dismissing mergers (e.g. Peugeot) where the chain of command was not clear. The renouncing of the put option (re)created clear governance in the business: the governance for timely decision-making produced in these circumstances and quick execution with a clear chain of command.

On February 13, 2005, the GM agreement was closed and the put option abandoned. On February 17, Marchionne became CEO of Fiat Group Automobile (remaining CEO of Fiat Group), taking full responsibility of the automotive business turnaround. Fiat Group acquired, thanks to the Chrysler deal, the operational management responsibility from day one (e.g. Marchionne is the CEO of Chrysler), and the right to increase its shareholding up to 51%. The majority shareholding and the management control were, again, guiding principles in the discussion with the US government and Chrysler shareholders.

### **Ensuring the Support of Talented Management: Choose, Attract and Develop Talented Non-family Managers**

Gabetti came out of retirement to supervise the succession from the old generation to the next, taking responsibility for difficult decisions, coaching and protecting the new leader, and demonstrating an uncommon loyalty towards the family and the business. This also shows that the Agnelli family has always been investing in grooming talented and trustworthy management. Umberto chose Morchio to manage the new phase of Fiat Group after the capital increase, giving a new stability to the group, creating trust with the banks and launching a turnaround plan. Umberto's intent was to keep the manager for a long period of time, but unfortunately, Morchio left the group one year later in attempt to break the second guiding principle in asking to become both President and CEO of Fiat Group and investor in the family holding structure.

Exor retained control thanks to the actions undertaken by Gabetti. He took personal responsibility for protecting the family's control and the mission he inherited from the previous generation. Without the presence of Gabetti, the decision to preserve the control of Fiat Group would not have been taken. Ensuring the management capabilities to retain control of the investment was necessary and vital.

The new phase of growth was decided as a result of the presence of Marchionne. He acted to seize the opportunities of the new automotive outlook, leveraging his ability to turn around troubled companies and inject a new driving force. This decision prolonged the employment of the talented managers. Umberto chose Marchionne as CEO of Fiat Group, and the US government and Fiat Group wrote in the agreement a mandatory obligation for Fiat to supply Chrysler with the talented management necessary to accomplish the turnaround. This criterion was stated openly in the contract.

## CONCLUSION

The case shows that savvy decision-making processes can shape the long-term survival, growth and longevity of families in business, and that finding, grooming and retaining top management for a family business are both a key strategic challenge and a long-term investment. It also offers a conceptual framework based on three guiding principles: long-term perspective, governance for timely decisions and support of talented managers, all of which can help family businesses and business families to safeguard their sustainable success and longevity.

This framework adds to the panoply available to advisers working with family firms. There is scope for scholars to empirically validate this explorative model. Moreover, the following related topics warrant further discussion:

*How HRM practices of family firms evolve across their life cycle?*

*How do governance structures evolve as family businesses transform to business families?*

*How the capital structure and funding strategies evolve as the independent family firm becomes part of complex holding structures?*

## Questions

1. Being Gabetti should you accept Morchio's proposal or go for the new CEO? Give pros and cons for the two options?
2. What if Fiat Group was not a family business? Would then the process and timing of the decision-making process be the same?
3. How do you see the family meeting on the Sunday morning: Was it in line with the Agnelli governance system? Was it in line with the corporate governance of a public company?
4. Why did Montezemolo accept the proposal?
5. How much responsibility Gabetti took on his shoulders? Which were the risks and rewards? Why he did it?

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