

# Navigating Change

Amid relentlessly evolving technologies, accelerating globalization, and the shift to knowledge-driven markets, the very nature of organizations is changing. Shorter job tenures, disappearing benefits and pensions, and new models of employee engagement are transforming the employment relationship. Add to that a churning economy and uncertainty in capital markets, product markets, and job markets, and it's no wonder businesses today find themselves navigating some very rough terrain.

In this challenging environment, it takes a resourceful organization to stay afloat and prosper. At the heart of that challenge is the ability of the organization to embrace and manage change.





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## Take Out Your GPS

Rajshree Agarwal, John Georges Professor of Technology Management and Strategy, encourages companies to initiate change rather than merely adapting to an evolving environment. "Today, no firm can confidently predict that it will not face dramatic shifts in its external environment," she says. Major changes, as in technology or customer demand, can require that companies fundamentally alter their strategies and business models in what Agarwal calls "discontinuous strategic transformation." Further, she explains that "proactive firms also undertake incremental strategic renewal, which enables them not only to cope with external changes, but to shape the environment to their advantage." Such forward-looking renewal can include acquisitions, new products, or experimentation outside the core business.

An organization that has resolved to change must first determine exactly where it is; it needs a kind of organizational GPS. Agarwal suggests that such a compass can be created by first starting with a basic SWOT analysis—an examination of strengths, weaknesses, opportunities, and threats—and then creating a TWOS matrix of strategies that pair organizational strengths and weaknesses with environmental opportunities and threats. Assessing your position is key to setting the right course because wholesale change could lead to jettisoning valuable

attributes, such as strengths that define the organization, along with flotsam. "Know what you want to preserve about your identity, what needs to be tweaked, and what needs to be changed substantially," Agarwal says. "Then, plan course corrections leveraging existing resources."

Equally important to a successful journey is knowing your destination. Joel Cutcher-Gershenfeld, dean and professor of the School of Labor and Employment Relations, echoes Stephen Covey's advice to "begin with the end in mind." According to Cutcher-Gershenfeld, "Organizations need tools and systematic methods to create a vision of what success will look like. They need to analyze their current state and then develop a strategic plan with milestones to the goal."

## Get the Crew on Board

An essential component of strategy development is getting buy-in from employees. "Begin by consulting with your key thinkers and implementers," says Agarwal. "They often represent the very strengths you want to retain. Modify your strategies based on their input, and leverage their collective knowledge and influence to obtain buy-in from everyone else."

Creating a "chain of communication" is key to managing people, says Agarwal. "Leaders should identify three or four people to form a change leadership team. These people should not only have the

necessary expertise, but they must also be able to empower and enable others. They will each reach out to three or four more people, and so on, to create a pyramid that emphasizes communication rather than hierarchy."

As change is initiated, it's important not to view employees' initial reluctance to change as a mutiny. "Those who associate individual denial or resistance to change with recalcitrant or irrational behavior may be dismissing what are valid considerations that need attention," says Cutcher-Gershenfeld. "Individuals need to go through a process of adjustment and letting go before they can embrace change."

Terrence Sullivan, a 2007 Executive MBA graduate, agrees. He heads the Global Project Management Office (PMO) of Motorola's Home and Networks organization and has recently led a global change effort to raise the bar for the deployment of Motorola systems. "Getting people on the same page is paramount," he says. "You don't need full agreement, and you don't need absolutes. What you want is movement in the right direction. Different parts of the world may operate a bit differently, but the fundamentals of good project management will remain similar—for instance, executing around an understanding of customer requirements and allocating the right resources at the right time."

## The Path to Success

Keys to success for Sullivan's initiative have been a strong platform that focuses on gross margin erosion, the creation of a virtual team across the regional PMOs of Motorola's three major businesses, and ongoing open communication with the people needed to drive the change. "If employees wonder how the change will benefit them, give them many examples, not just one," Sullivan recommends. "Show them how it will mean less work, more fun, or greater efficiency in the long run. Change ultimately occurs at an individual level, team by team and region by region."

Cutcher-Gershenfeld emphasizes the need to appreciate the varied perspectives of all stakeholders in a change initiative. "Begin with the fundamental question: Who should be in the room when?" he suggests. "Everyone wants to be part of every stage of the process, and for legitimate reasons. Sometimes that may not be feasible. But ultimately, every stakeholder should have a voice."

At Motorola, Sullivan's team developed a five-day "academy" that laid out management expectations to regional teams. "We had not just project managers, but engineers, sales, finance, all in the same room discussing ways to optimize the deployment of systems," he says. "Within months, we began to see dramatic results."

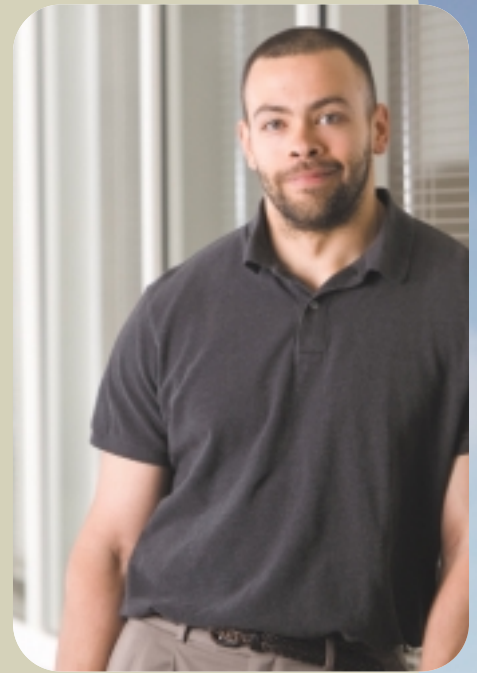
Arran Caza, assistant professor of business administration, has studied the results of one big organizational change—downsizing. "Organizations downsize to improve performance, but only one in four obtains better performance," he says. Organizations that have done so successfully share the following best practices.

**Take responsibility.** Managers who explain the reasons for downsizing and apologize to the "surviving" employees for the damage that has been done receive more support and effort from the workforce. "In difficult times, managers tend to stress the needs of the business," says Caza. "They forget that businesses are made up of human beings who have emotions. That can backfire and exacerbate the problem as survivors withdraw their support."

**Be honest.** When a company is in trouble, leaders sometimes put on a happy face to show courage and build morale. The result is that employees consider their leaders disingenuous and withdraw their trust. "If there is bad news, deliver it up front," recommends Caza. "Then, honestly lay out the possibilities—no doomsday scenario or unrealistic positive spin."

**Give employees a voice.** Take advantage of employee input in planning the downsizing. People will be much more supportive of change if they can have a say in how it will evolve. Even if their particular suggestions are not implemented, being able to communicate their thoughts to someone with authority, and feeling they have been listened to, is psychologically important.

*Along with Caza, collaborators on these best practice strategies include: Kim S. Cameron, University of Michigan; David S. Bright, Wright State University; and Lu Wang and Gang Zhang, both from the University of Illinois.*



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## Chart the Course

Establishing the form a change initiative will take is also integral to strategy development. Cutcher-Gershenfeld distinguishes three types of change: top-down reengineering or restructuring, bottom-up continuous improvement (e.g., Kaizen), and mid-level development of protocols and standards. Ultimately, every change effort involves some combination of all three, he says, and mixing them effectively requires great skill.

Agarwal has observed that organizations using exclusively a top-down approach are less adaptable than those that incorporate bottom-up input as well. “A top-down approach requires the leader to be knowledgeable about each and every aspect of the business,” she explains. “That, in today’s world, is very difficult. Thus, asserting that the CEO or owner knows best means foregoing opportunities that are visible only from the employees’ vantage point.”

In Agarwal’s model, the creation of strategies and tools for transformation derives logically from the SWOT analysis. For example, strengths can be leveraged to negate threats or can be matched to opportunities. She cites the example of IBM, which has reinvented itself at least three times in its history. “Among IBM’s traditional strengths have been brand

recognition, strong customer relationships, and good R&D,” Agarwal explains. “Weaknesses have revolved around lack of expertise in new areas it wanted to enter.” Agarwal provides an example from IBM’s very first strategic transformation from an electromechanical accounting equipment company into an electronic computing company. She discusses how IBM successfully accessed the external opportunity represented by U.S. government research on electronics during World War II and matched it with the company’s historic strengths. As a result, while several other accounting equipment firms failed to weather the external technological change, IBM prospered by navigating through it with an internal transformation.

According to Sullivan, charting a course for change is threefold—you have to initiate it, manage it, and measure it. “Change not only needs to be planned, designed, and executed, but also managed, monitored, and sustained,” says Sullivan. “Continued reinforcement through training and communication is essential as is measurement. Change does not end when you finish a project.” Sullivan’s team used a Digital Six Sigma process as a guiding framework to define and analyze its problem and to implement, measure, and control change. Measurement went beyond internal

assessments to customer transaction surveys, which affirmed significant progress in communication and execution. “Although each region of the world did things slightly different, the project reviews were reporting the same metrics and issues for improving project gross margin,” says Sullivan. “This enabled the entire organization to speak the same language.”

## Weather the Storm

Huseyin Leblebici, professor of business administration, studies the natural evolution of industries and the outside factors that force organizations to change. He disagrees with the Darwinian model, which holds that organizations don’t adapt easily and that the environment selects the fittest. “Managers are resourceful, and enterprises have the ability to transform in response to exogenous change,” he argues. “For example, by forming new coalitions of shareholders, employees, creditors, and customers, politically savvy leaders can generate the energy to create new products and services.”

Agarwal and Cutcher-Gershenfeld also believe that organizations, like individuals, have a great capacity to learn and adapt. “For example, when hardware became a commodity and the software industry became fragmented at the turn of the 21st



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## Negotiating the Maze of Emotion

Complex organizational change situations elicit complex emotions. It's not as simple as dividing people into those who embrace change and those who fear it.

Naomi Rothman, assistant professor of business administration, studies the role of emotions in organizational change. "Giving up what you hold dear for an unknown future may elicit anxiety," she says. "But that emotion is often mixed with a feeling of hope. When confronted with change, people are usually pulled in multiple directions by simultaneous strong emotions, such as hope mixed with fear or optimism mixed with resentment."

One focus of Rothman's research is the response elicited by managerial ambivalence. "Managers are caught in the middle of the change process," she explains. "How they respond to the change that is occurring all around them impacts how their subordinates react because employees who feel uncertain about the future look to their managers for guidance."

Managerial ambivalence has both negative and positive consequences. On the downside, Rothman argues, an ambivalent manager may be perceived as indecisive,

which may diminish his or her influence. On the upside, ambivalence signals that the manager is not an impulsive decision maker who moves forward on single resolute emotions, such as anger or enthusiasm. It also suggests that the manager is a deep thinker, which in turn motivates employees to think deeply and increases their tolerance for ambiguity. Another advantage of managerial ambivalence is that it motivates employees to take charge of their areas of responsibility, according to Rothman.

"When harnessed strategically, the complexity of emotions associated with change can help managers empower their teams to think proactively, embrace ambiguity, and take the helm in change management initiatives," says Rothman.

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century, IBM combined the two and created a new trend—business computing services," says Agarwal.

What makes some companies and industries more adaptable than others? Leblebici has observed that industries that are highly dynamic by nature (e.g., technology and software) are more accustomed to adapting and thriving in a volatile environment than industries that are stable and more internally focused (e.g., railroads and steel). Young firms in young industries are the least likely to survive external storms, he believes, unless they form stakeholder coalitions with competitors, taking responsibility for the survival of the industry as a whole. "Bad times may be the best times to be innovative," Leblebici suggests. "More effective use of resources is key, rather than cost-cutting and increasing efficiency."

When new technologies cause industries to become extinct, the consumer need usually survives in altered form, to be filled by innovators with new business models. "For example, if newspaper printing were to become extinct, people would still get their news—perhaps from newspaper companies that survived by transitioning to electronic media," says Leblebici.

### Forge Ahead

Navigating change can be daunting. "There is a golden middle," says Cutcher-Gershenfeld. "If conditions are too static, it's difficult to get unfrozen and change. If circumstances are too chaotic, people become immobilized by immediate survival needs. In the present climate, quite a few organizations are fortunate to be in that healthy middle range where old processes are thawing out and key changes are on the table."

According to Agarwal, challenging times can be an opportunity for forward-thinking organizations to really shine through and forge ahead. "In prosperous times, it's easier for competitors to survive," she says. "It's when times are lean and tough, and when others cut costs and focus on short-term gains, that proactive organizations with long-term renewal strategies are more likely to flourish."

For more information on managing change, see Rajshree Agarwal and Constance Helfat, "Strategic Renewal of Organization," in the March 2009 issue of *Organization Science*.

— Alice Shepherd