CHANGE MANAGEMENT FUNDAMENTALS

An Introduction to Managing Change

CORPORATE EXECUTIVE BOARD®

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"CHANGE MANAGEMENT": DEFINING A BUZZWORD

"Change management" is a term that is increasingly used in today's organizations as a catch-all for anything having to do with organizational change. Change management has different meanings for different companies and experts, as evidenced by the various definitions below. Despite differing points of view for defining change management, all organizations must begin with a change problem, which is discussed further on **Page 4**.

Figure 1: Definitions of Change Management in Research

Change Management as a Competitive Tactic

Change management is the continuous process of aligning an organization with its marketplace—and doing so more responsively and effectively than competitors.

-Lisa M. Kudray and Brian H. Kleiner, "Global Trends in Managing Change," *Industrial Management*, May 1997.

Change Management as a Systematic Process

Change management is the formal process for organizational change, including a systematic approach and application of knowledge. Change management means defining and adopting corporate strategies, structures, procedures, and technologies to deal with change stemming from internal and external conditions.

-Society for Human Resource Management, *2007 Change Management Survey Report*

Change Management as Means of Transitioning People

Change management is a critical part of any project that leads, manages, and enables people to accept new processes, technologies, systems structures, and values. It is the set of activities that helps people transition from their present way of working to the desired way of working.

-Lambeth Change Management Team, *Change Management Toolkit*

Change Management as "All of the Above"

In thinking about what is meant by "change management," at least four basic definitions come to mind:

- The task of managing change
- An area of professional practice
- A body of knowledge
- A control mechanism

-Fred Nickols, "Change Management 101: A Primer," *Distance Consulting*, 2006.

DIAGNOSING THE CHANGE PROBLEM

Regardless of how an organization defines change management, managing change begins with a change problem. Some change problems are means- or process-focused, some are ends- or outcome-focused, and still others attempt to get at the root cause of a change. In short, problems either have to do with the "how," the "what," and the "why" of change. The following table describes each of these three methods for thinking through change problems, and the employee populations that gravitate toward each method:[1]

Figure 2: The How, What, and Why of Change—Methods to Determine the Change Problem

<table>
<tr><th>Type of Problem</th><th>The "How?" Problem</th><th>The "What?" Problem</th><th>The "Why?" Problem</th></tr>
<tr><td>Sample Questions</td><td>▪ How do we get employees to assume more responsibility?
▪ How do we change over from System X to System Y?</td><td>▪ What are we trying to accomplish?
▪ What indicators will signal success?
▪ What standards apply?</td><td>▪ Why does productivity need to be improved? (To increase profits.)
▪ Why do profits need to be increased? (To improve earnings per share.)
▪ Why do earnings per share need to be improved? (To attract additional capital.)
▪ Etc…</td></tr>
<tr><td>Description</td><td>"How" questions are means-centered. The goal state is implied; the questions aim to determine the means, or process, of achieving the goal state.</td><td>"What" questions determine the ends. They momentarily ignore the means to clearly define the goals organizations are trying to accomplish.</td><td>"Why" questions seek to understand both the ends and the means. They can form a chain or network until the root purpose is reached.</td></tr>
<tr><td rowspan="2">Typical Employee Population</td><td>Core units—Employees in core units, such as systems and operations, tend to focus on "how" questions because they are process-focused.</td><td>Buffer units—People in buffer units, such as in staff and support functions, typically ask "what" questions. As they are responsible for performance through planning, they need defined goals against which to measure.</td><td rowspan="2">Top Management—"Why" questions are typically asked by senior executives who have no direct responsibility for day-to-day operations or results. Senior management is more focused with the strategy behind the change and why the change will improve the success of the organization.</td></tr>
<tr><td colspan="2">Perimeter units—Employees in perimeter functions, such as sales and customer service, are usually highly accountable for performance, especially financial performance. As a result, they typically ask "how" and "what" questions: e.g., what is our new goal and how do we achieve it?</td></tr>
</table>

SKILLS NECESSARY TO MANAGE CHANGE

Change management requires a combination of people-focused and systems-focused competencies that play a part in overall business-focused skills. Depending on the change initiative, different competencies will play stronger roles, but both people- and systems-focused skills are always necessary to manage and gain commitment to change. The following model demonstrates the skills necessary to effectively manage change:[2]

Figure 3: Skills Necessary to Manage Change

PEOPLE-FOCUSED SKILLS

POLITICAL SKILLS

As organizations are primarily social organizations, politics can come into play in any situation. The following political skills are helpful during a change:

- Diplomacy (understand the politics but do not get involved)
- Ability to Engage a Large Group

PERSONAL SKILLS

As mentioned on the left, people are the core of an organization. In addition to political skills to engage a large group, change agents must also have more individual interpersonal skills, such as the following:

- Communication Skills
- Listening Skills
- Ability to Understand Differing Points of View

BUSINESS SKILLS

All of these skills play into one overarching change competency: fundamentally understanding the how the business works, so that you can understand how it will change.

SYSTEMS-FOCUSED SKILLS

ANALYTICAL SKILLS

In the end, a logically reasoned position is hard to argue. During a change, stakeholders must be able to formulate a clear and well-argued analysis, using skills such as the following:

- Workflow, Operations, and Systems Analysis
- Financial Analysis

SYSTEMS SKILLS

Systems skills extend beyond learning computer competencies; they include all skills having to do with utilizing methods of organization. Employees need skills to handle two types of systems:

- "Closed" System Skills—Computer and technological skills; "closed" systems are those that can operate independently.
- "Open" System Skills—An understanding of how open systems, such as people, industries, or economies, interact with each other.

STRATEGIES TO MANAGE PEOPLE THROUGH CHANGE

The four strategies outlined below are theories for understanding how large groups will react to and adopt a change. Depending on various factors affecting the change environment (see **page 7**), using any combination of these strategies might be appropriate:[3]

Figure 4: Four Major Change Management Strategies

Strategy #1: Empirical–Rational

People are rational and will follow their own self-interest—once it is revealed to them. Change is based on the communication of information and the offering of incentives.

Tactics for Empirical–Rational Strategy

- Clearly explain to employees how they will benefit from the change
- Provide performance incentives to help employees adopt change

Strategy #2: Normative–Re-educative

People are social beings and will adhere to cultural norms and values. Change is based on redefining exisiting norms and values, and developing commitment to new ones.

Tactics for Normative–Re-educative Strategy

- Seek out social or well-liked employees to champion the change
- Redefine the code of conduct or set of values to reflect the change

Strategy #3: Power–Coercive

People are basically compliant and will generally do what they are told or can be made to do. Change is based on the exercise of authority and the imposition of sanctions.

Tactics for Power–Coercive Strategy

- Implement rules or policies that require employees to follow change
- Communicate firm authority for change at all managerial levels

Strategy #4: Environmental–Adaptive

People oppose loss and disruption but they adapt readily to new circumstances. Change is based on building a new organization and gradually transferring people from the old one to the new one.

Tactics for Environmental–Adaptive Strategy

- Implement change in incremental steps
- "Test" change within one unit or function and then gradually roll out to the whole organization

SELECTING THE RIGHT CHANGE STRATEGY

As mentioned on **page 6**, any combination of strategies may be necessary to foster commitment to a change. Depending on the stakes, degree of resistance, and various other factors, one or more of the strategies will be appropriate. The following matrix reveals how different change environments call for different management strategies:[4]

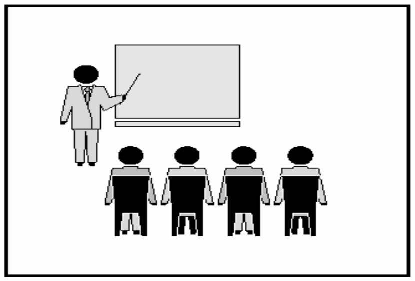
Figure 5: Factors for Selecting a Change Strategy

Factor	Description	Strategies			
		Strategy #1: Empirical–Rational	Strategy #2: Normative–Re-educative	Strategy #3: Power–Coercive	Strategy #4: Environmental–Adaptive
Degree of Resistance	Strong resistance			X	X
	Weak resistance	X	X		
Target Population	A large population requires "something for everyone"	X	X	X	X
"The Stakes"	High stakes require a lot of control; nothing left to chance	X	X	X	X
Time Frame	Short timeframes			X	
	Longer timeframes	X	X		X
Expertise	Available and adequate expertise	X	X	X	X
	No relevant expertise			X	
Dependency	If the organization is dependent on its people, management's ability to command or demand is limited. Conversely, if people are dependent upon the organization, their ability to oppose or resist change is limited. Mutual dependency almost always signals a requirement for some level of negotiation.				

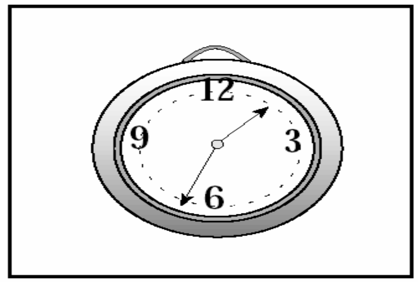
CHANGE RESISTANCE: COMMON BARRIERS TO CHANGE

A Harvard Business Review study finds that two-thirds of change initiatives fail to achieve successful results. Change is difficult for most companies, and success factors largely depend on the unique circumstances of the changing organization. Despite a wide variety of strategies and situational factors, most companies nonetheless encounter problems in three predictable areas:[5]

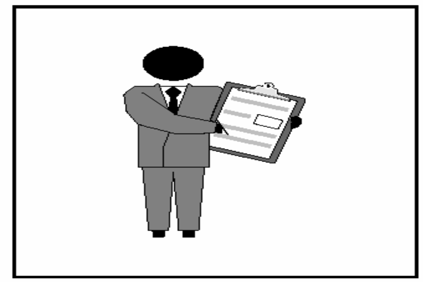
Figure 6: Common Barriers to Change



Ineffectual Leadership



Poor Timing



Inadequate Behavior Management

Ineffectual Leadership	Poor Timing	Inadequate Behavior Management
BARRIER: Disagreement between top leaders can produce an inconsistent change vision. **SOLUTION**: Create a change coalition by uniting the board of directors and the CEO.	**BARRIER**: Attempts to complete broad changes simultaneously can prompt a total rejection of the change program. **SOLUTION**: Prioritize initiatives instead of trying to change everything at once.	**BARRIER**: Disengaged groups can become islands of resistance, preventing the broad promotion of change. **SOLUTION**: Alleviate anxiety and encourage participation in change by employing a thorough communication plan.
BARRIER: Insular leadership and traditional corporate culture can prevent the recognition of risks and opportunities. **SOLUTION**: Involve outsiders to add perspective to the leadership's vision.	**BARRIER**: Changing the largest or most profitable business units first can preempt "warm up" learning opportunities. **SOLUTION**: Expect a substantial delay before change initiatives gain acceptance and generate results.	**BARRIER**: Silent resisters can undermine the change vision by promoting personal agendas. **SOLUTION**: Identify change resisters through careful performance monitoring.
BARRIER: Minimal involvement by top management can diminish company-wide enthusiasm for change and slow implementation. **SOLUTION**: Engage top management to execute change.	**BARRIER**: Premature satisfaction with initial successes can halt change momentum. **SOLUTION**: Sustain change momentum through constant adjustments and the introduction of new challenges.	**BARRIER**: Poor alignment between rewards and expectations can present an ambiguous change message and discourage changed behavior. **SOLUTION**: Facilitate behavior change by aligning compensation systems with the strategic vision.

LESSONS LEARNED FROM THREE MEMBER COMPANIES

The following profiles come from interviews with member companies regarding their change situation and critical lessons learned. These profiles highlight some of the more surprising lessons learned from each of these organizations:[6]

Figure 7: Lessons Learned from Changes in Three Organizations

Company A
Shifting Focus to Branding/Marketing

Company A, a large consumer products company, operated as a holding company for 14 business units that were run relatively autonomously. Following turnover in top leadership, the new CEO brought a new vision: shift from a manufacturing focus to a marketing focus. The CEO consolidated the autonomous business units into five coalitions with shared services and branding/marketing efforts.

Lessons Learned from Company A's Restructuring

☑ **You can't anticipate enough.** Company A did not anticipate the large amount of issues as a result of the change, including the most trivial concerns, such as how to label stationery.

☑ **You can't communicate enough.** Though the company communicated quickly and often, there remained questions that senior management still could not answer.

Company B
Post-Acquisition Culture Renewal

Company B, a large manufacturing company, was acquired by a new parent company. Employees did not initially react favorably, so Company B implemented steps to install a new "performance culture" that revolved around a makeover of the performance management program and linking pay to performance.

Lessons Learned from Company B's Cultural Change

☑ **Change attitudes are different from change behaviors.** Employees at Company B understood what they had to do to adapt to the change, but did not yet have behavioral or emotional acceptance of the change.

☑ **Every organization has a finite capacity for change.** Organizations can reach a saturation point for the amount of change employees can withstand. Between an acquisition, cultural change, and new performance management system, Company B reached the limit.

Company C
Assets Reduction Due to Slowed Growth

Company C, another large manufacturing company, experienced a large decline from peak prices and high growth. As a result, it decided to let go of some its less critical assets. This proved to be a difficult task as many senior executives were attached to these assets for various reasons. Senior executives conducted a peer review of each other's business units to identify core assets necessary fpr the whole company.

Lessons Learned from Company C's Assets Reduction

☑ **The ideal leader to dismantle an operation might not be the architect who designed and installed it.** Major change often brings top-level casualties and requires careful monitoring of senior leadership. Company C's board of directors decided the best people to implement the change was a new staff of leadership.

☑ **Sustaining change is often as difficult as initiating it.**

BEFORE YOU BEGIN: QUESTIONS TO ASK YOURSELF

Now that you understand how to diagnose the change problem, identify necessary competencies, pick a strategy, and avoid common barriers to change, this quick exercise can help you identify any additional challenges or potential barriers. Before beginning any change project, consider the following questions to help you gauge your preparedness for the initiative:[7]

Understanding the Change
- ❑ Do I know the changes, their impact, and benefits?
- ❑ Could I explain them to anyone I work with?

Communicating Urgency
- ❑ How can I communicate the need for change, the first steps, how people will be supported, and when we have achieved quick wins?

Integration
- ❑ Are there other parallel projects that will have an impact on the changes I'm managing?
- ❑ Will the changes impact the same groups?
- ❑ Can we combine forces and integrate plans and communication?

Capacity to Change
- ❑ What changes will happen and when?
- ❑ Can I stagger the impact or combine them sensibly to lessen the impact?

Leadership Alignment
- ❑ Do change leaders know their responsibilities and the commitment expectations?

Trust and Experience
- ❑ Has change successfully occurred in these groups in the past?
- ❑ Can we learn from what did or did not work well?
- ❑ What level of trust exists between groups and how can this be improved?

Communication
- ❑ When is communication necessary?
- ❑ How can I make the messages clear, interesting, and engaging?

[1] Nickols, Fred, "Change Management 101: A Primer," *Distance Consulting* (2006). (Obtained through http://home.att.net/~nickols/change.htm). [Accessed 11 June 2008].
[2] Nickols, Fred, "Change Management 101: A Primer."
[3] Nickols, Fred, "Change Management 101: A Primer."
[4] Nickols, Fred, "Change Management 101: A Primer."
[5] Corporate Strategy Board, *Change Management: "Red Flags" and Lessons Learned*, Washington: Corporate Executive Board (1999).
[6] Corporate Strategy Board, *Change Management: "Red Flags" and Lessons Learned*.
[7] Lambeth Change Management Team, "Change Management Toolkit," (2004). (Obtained through www.lamip.org/lambethAcademy/files/More%20About%20Change%20Management.doc). [Accessed 11 June 2008].