Third Edition

Managing Organizational Change

A Multiple Perspectives Approach

Ian Palmer • Richard Dunford • David A. Buchanan

Mc Graw Hill Education

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MANAGING ORGANIZATIONAL CHANGE: A MULTIPLE PERSPECTIVES APPROACH, THIRD EDITION

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DEDICATIONS

From Ian	To Dianne, Matthew, and Michelle
From Richard	To Jill, Nick, and Ally
From David	To Lesley with love—and thanks

This book is also dedicated to the memory of Gib Akin, our co-author from 2005 to 2014.

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Preface

Since the previous edition of this book published in 2009, the organizational world has changed dramatically—the global financial crisis, fresh geopolitical tensions, environmental concerns, greater focus on corporate social responsibility, economic uncertainties, emerging new markets, dramatic technological developments, demographic shifts, changing consumer tastes and expectations. Add to that mix the growing significance of social media, where positive and critical views of organizations and their products and services can be shared instantly and globally with large numbers of people.

From a management perspective, it feels as though the drivers for organizational change are now more numerous, and that the pace of change has also increased; more pressure, more change, faster change. While the pace of change may only appear to have quickened, failure to respond to those pressures, and in some cases failure to respond quickly enough, can have significant individual and corporate consequences. The personal and organizational stakes appear to have increased.

The management of organizational change thus remains a topic of strategic importance for most sectors, public and private. Current conditions have, if anything, increased the importance of this area of management responsibility. This new edition, therefore, is timely with regard to updating previous content, while introducing new and emerging trends, developments, themes, debates, and practices.

In the light of this assessment, we believe that the multiple perspectives approach is particularly valuable, recognizing the variety of ways in which change can be progressed, and reinforcing the need for a tailored and creative approach to fit different contexts. Our images of how organizational change should be managed affect the approaches that we take to understanding and managing change. Adopting different images and perspectives helps to open up new and more innovative ways of approaching the change management process. We hope that this approach will help to guide and to inspire others in pursuit of their own responsibilities for managing organizational change.

This text is aimed at two main readers. The first is an experienced practicing manager enrolled in an MBA or a similar master's degree program, or taking part in a management development course that includes a module on organizational change management. The second is a senior undergraduate, who may have less practical experience, but who will probably have encountered organizational change through temporary work assignments, or indirectly through family and friends. Our senior undergraduate is also likely to be planning a management career, or to be heading for a professional role that will inevitably involve management—and change management—responsibilities. Given the needs and interests of both types of readers, we have sought to present an appropriate blend of research and theory on the one hand, and practical management application on the other.

Instructors who have used our previous edition will find many familiar features in this update. The chapter structure and sequence of the book remain much the same, with some minor adjustments to accommodate new material. The overall argument is again underpinned by the observation that the management of organizational change is in part a rational or technical task, and is also a creative activity, with the need to design novel strategies and processes that are consistent with the needs of unique local conditions. We hope that readers will find the writing style and presentation clear and engaging. We have also maintained the breadth of coverage of the different traditions and perspectives that contribute to the theory and practice of managing organizational change, with international examples where appropriate.

The development of this new edition has introduced new content and new pedagogical features. The new content for this edition includes the following:

Depth of change: Change can be categorized and understood with regard to how deeply it penetrates an organization. A "depth of change" model is explained, using a "shallow to transformational" scale, forming the basis for discussion and analysis at various points in the text (chapters 1, 4, and 12).

New tensions and debates: A new section explores contemporary dilemmas in organizational change management. One of these concerns striking the balance between large-scale transformational change (which can be disruptive) and "sweating the small stuff" (which can create a platform for further changes). A second concerns pace, with some commentators advising how to speed up change, while others warn of the dangers of "the acceleration trap" (chapter 1).

Change managers or change leaders: Some commentators claim this is an important distinction, while others argue that this is a words game. Can we resolve this debate (chapter 2)?

Post-crisis change: Recommendations for change from investigations into accidents, misconduct, and catastrophes are often not implemented. We explore why this should be the case—in conditions where it might be presumed that change would be welcome and straightforward (chapter 3). We also consider briefly the problems and practice of communication during and after crises (chapter 7).

Change in a recession: Is change more challenging when economic conditions are difficult? A new section argues that change may be more straightforward during a recession (chapter 3).

Innovation: We explore how change is driven by the proactive development, adoption, and diffusion of product and operational innovations, along with the distinction between sustaining and disruptive innovations, and the nature and development of innovative organization cultures (chapter 4).

Built to change: We explore the organizational capabilities that contribute to change, adaptation, responsiveness, and agility, considering mechanistic and organic management systems, segmentalist and integrative cultures, and the concept of the "built-to-change" organization (chapter 4).

Change communication strategies: This chapter has been thoroughly updated, with the emphasis on change communication, exploring the characteristics of effective change communication strategies, the potential impact and applications of social media as corporate communications tools, and the "communication escalator" (chapter 7).

Middle management blockers: The traditional stereotype has middle managers subverting top team initiatives. Recent research suggests that this image is wrong, and that middle management are often the source of creative strategic ideas as well as the "engine room" for delivery (chapters 8 and 12).

Organization development and sense-making approaches: As in the previous edition, recent developments in organization development, appreciative inquiry, positive organizational scholarship, and dialogic organization development are explored (chapter 9).

Contingency and processual approaches: Covered in the last edition, recent developments have been incorporated to update these sections, reflecting their influence on theory and practice (chapter 10).

Praiseworthy and blameworthy failures: The section on "recognizing productive failures" has been updated with recent commentary suggesting that some failures should be rewarded (chapter 11).

The effective change manager: What does it take? This new chapter explores the capabilities of change managers, considering competency frameworks, interpersonal communication processes and skills, issue-selling tactics, and the need for the change manager to be politically skilled (chapter 12).

The pedagogical features in the text include:

- learning outcomes identified at the beginning of each chapter;
- fewer, and shorter, "high-impact" case studies of organizational change and other diagnostic and self-assessment exercises for classroom use;
- movie recommendations, identifying clips that illustrate theoretical and practical dimensions of organizational change management;
- a short "roundup" section at the end of each chapter, with reflections for the practicing change manager, and summarizing the key learning points (linked to the learning outcomes);
- a small number of suggestions for further reading at the end of each chapter.

Since this book was first published, we have continued our conversations with managers who have been using it as part of their teaching, consulting, and other organizational change activities. In so many of these conversations, it was reassuring to hear how the multiple perspectives framework that underpins this book struck the right chord with them, opening up new, innovative, and different ways of seeing, thinking, conceptualizing, and practicing organizational change. We hope that this new and updated third edition will continue to inspire various change journeys, and we look forward to more conversations along the way.

Online Resources

Instructors: If you are looking for teaching materials in this subject area, such as case studies, discussion guides, organizational diagnostics, self-assessments, company websites, or audio-visual materials (feature films, YouTube clips) to use in lectures and tutorials, then go to McGraw-Hill Connect: connect.mheducation.com

Continually evolving, McGraw-Hill Connect has been redesigned to provide the only true adaptive learning experience delivered within a simple and easy-to-navigate environment, placing students at the very center.

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This seamless integration of reading, practice, and assessment ensures that the focus is on the most important content for that individual.

The Connect Management Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

The Connect Instructor Library includes:

- Instructor Manual
- PowerPoint files
- Test Bank

Students: If you are looking for additional materials to improve your understanding of this subject and improve your grades, go to McGraw-Hill Connect: connect.mheducation.com

Manager's Hot Seat: Now instructors can put students in the hot seat with access to an interactive program. Students watch real managers apply their years of experience when confronting unscripted issues. As the scenario unfolds, questions about how the manager is handling the situation pop up, forcing the student to make decisions along with the manager. At the end of the scenario, students watch a post-interview with the manager and view how their responses matched up to the manager's decisions. The Manager's Hot Seat videos are now available as assignments in Connect.

LearnSmart: LearnSmart, the most widely used adaptive learning resource, is proven to improve grades. By focusing students on the most important information each student needs to learn, LearnSmart personalizes the learning experience so they can study as efficiently as possible.

SmartBook: An extension of LearnSmart, SmartBook is an adaptive ebook that helps students focus their study time more effectively. As students read, SmartBook assesses comprehension and dynamically highlights where they need to study more.

PART 1

Groundwork: Understanding and Diagnosing Change

CHAPTER 1 Managing Change: Stories and Paradoxes

CHAPTER 2 Images of Change Management

CHAPTER 3 Why Change? Contemporary Drivers and Pressures

CHAPTER 4 What to Change? A Diagnostic Approach

The central theme of the four chapters in Part 1 is *groundwork*. How are we to approach an understanding of organizational change? With what approaches, perspectives, or images of change management should we be working? What drivers and pressures produce organizational change? What diagnostic tools can we use in order to decide what aspects of the organization and its operations will need to change or will benefit from change?

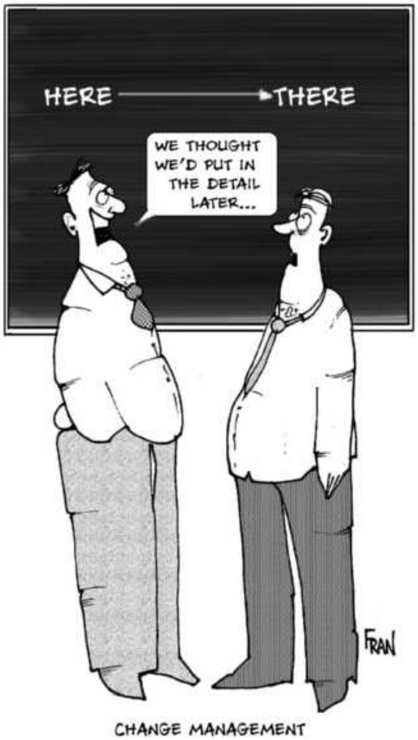
Chapter 1

Managing Change: Stories and Paradoxes

Learning objectives

By the end of this chapter you should be able to:

- **LO 1.1** Understand how stories of change can contribute to our knowledge of theory and practice.
- **LO 1.2** Explain why managing organizational change is both a creative and a rational process.
- **LO 1.3** Identify the main tensions and paradoxes in managing organizational change.
- **LO 1.4** Evaluate the strengths and limitations of our current understanding of this field.



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LO 1.1 LO 1.2 Stories About Change: What Can We Learn?

Changing organizations is as messy as it is exhilarating, as frustrating as it is satisfying, as muddling-through and creative a process as it is a rational one. This book recognizes these tensions and how they affect those who are involved in managing organizational change. Rather than pretend that these tensions do not exist, or that they are unimportant, we confront them head on, considering how they can be addressed and managed, recognizing the constraints that they can impose. We also want to demonstrate how the images that we hold about the way in which change should be managed, and of the role of change agents, affect how we approach change and the outcomes we think are possible.

To begin this exploration, we present three stories of recent changes. The first concerns the turnaround of the Beth Israel Deaconess Medical Center in Boston. The second concerns the new organizational model introduced at Sears Holdings in an attempt to restore falling sales and profits. The third concerns innovative efforts to restore falling sales and a fading brand at J. C. Penney, a retailer. These stories address different problems, but they display many common issues concerning the management of change. Each of these accounts comes with a set of assessment questions. We would like to ask you to think through the answers to those questions for yourself, or in a class discussion.

Our aim is to demonstrate that stories about change can be one valuable source of practical lessons, as well as helping to contribute to our general understanding of change. These stories are of course distinctive, one-off. How can they contribute to knowledge and practice in general, in other sectors and organizations? Stories are one of the main ways of knowing, communicating, and making sense of the world (Czarniawska, 1998; Pentland, 1999; Dawson and Andriopoulos, 2014). Our stories have actors: change leaders, other managers, staff, customers. They take decisions that lead to actions that trigger responses: acceptance, resistance, departure. There is a plot: a serious problem that could be solved by organizational change. There are consequences: to what extent did the change solve the problem, and were other problems created along the way? The sequence of events unfolds in a typical manner: … and then … and then. This tells us *why* the outcomes were reached.

Our narratives are not just descriptions of a change process, of what happened. They also provide us with *explanations*. These are *process narratives*. Process narratives have several advantages over more traditional (quantitative, statistical) research methods (Mohr, 1982; Poole et al., 2000; Van de Ven and Poole, 2005):

- they tell us about the context, give us a sense of the whole, a broader frame of reference;
- complexity can be expressed within a coherent sequence of events;
- the nature and significance of the causal factors acting on events are exposed;
- the narrative patterns transcend individual cases.

This approach is based on what is called *narrative knowing* (Langley, 2009). Because stories can reveal the mechanisms or logics behind a sequence of events, they are *process theories*. (We will explore process perspectives on change in chapter 10.) What combinations of factors drive, slow down, accelerate, block the change process? The three stories that follow explain the relative success of the organizational changes at Beth Israel, Sears, and J. C. Penney. We will ask you to consider the extent to which those explanations, each based on a single unique case narrative, can be applied to managing organizational change in general, in other settings.

Although our three stories are quite different from each other, they have common features, with regard to the issues and processes that shape the outcomes of organizational change. Despite the differences, they demonstrate common tensions and the choices that are involved in the change process. When you have made your own assessments, in response to the questions that precede each story, you will find our suggested answers in the Roundup section at the end of the chapter.

LO 1.1 The Story of Beth Israel Deaconess Medical Center

Issues to Consider as You Read This Story

1. Identify five factors that explain the success of this corporate turnaround.
2. How would you describe Paul Levy's role and contributions to this turnaround?
3. What insights does this story have to offer concerning the role of the change leader?
4. What lessons about managing organizational change can we take from this experience and apply to other organizations, in healthcare and in other sectors? Or, are the lessons unique to Beth Israel Deaconess Medical Center?

The Setting

This is the story of a corporate turnaround, rescuing the organization from financial disaster and restoring its reputation, competitiveness, and profitability. Based in Boston, Massachusetts, the Beth Israel Deaconess Medical Center (BID) was created in 1996 by the merger of two hospitals. The business case for the merger was that the larger organization (over 600 beds) would be better able to compete with, for example, the Massachusetts General Hospital and the Brigham Women's Hospital. The two merged hospitals had different cultures. Beth Israel had a casual management style that encouraged professional autonomy and creativity. Deaconess Hospital was known for its rules-based, top-down management. Staff were loyal to their own organization. After the merger, the Beth Israel culture dominated, and many Deaconess staff, especially nurses, left to join the competition.

The Problems

By 2002, BID was losing $100 million a year and faced "financial meltdown." There were problems with the quality and safety of care, with low staff morale, and with poor relationships between clinical staff and management. The media attention was damaging BID's reputation.

The Solutions

External management consultants recommended drastic measures to turn around the hospital's finances, and Paul Levy was appointed chief executive officer of BID in 2002. Levy had no healthcare background and little knowledge of hospitals. He felt that gave him an advantage, as he was a "straight talker" and could act as an "honest broker." But staff were skeptical at first.

Levy's turnaround strategy was based on two themes: transparency and commitment to quality. His first action was to share with all staff the full scale of the financial difficulties, to create "a burning platform," from which escape would only be possible by making radical changes. His second approach was to signal absolute commitment to the continuous improvement of quality, in order to build trust and to establish a sense of common purpose. Levy described his management style:

> Perhaps I had an overly developed sense of confidence, but my management approach is that people want to do well and want to do good and I create an appropriate environment. I trust people. When people make mistakes it isn't incompetence, it's insufficient training or the wrong environment. What I've learned is that my management style can work.

Phase 1: With the hospital "bleeding money," urgent action was necessary. Levy accepted some of the management consultants' recommendations, and several hundred jobs were lost, in an attempt to restore financial balance. He refused to reduce nursing levels, but the financial crisis was resolved.

Phase 2: Medical staff were tired of poor relationships with management. In 2003, Levy hired Michael Epstein, a doctor, as chief operating officer. Epstein met with each clinical department to win their support for the hospital's nonclinical objectives and to break down silo working. Kathleen Murray, who had joined BID in 2002, was director of performance assessment and regulatory compliance. The hospital had no annual operating plans, and she set out to correct this, starting with two departments that had volunteered to take part in phase 1, orthopaedics and pancreatic surgery. Other departments soon joined in. Operating plans had four goals, addressing quality and safety, patient satisfaction, finance, and staff and referrer satisfaction. One aim was to make staff proud of the outcomes and create a sense of achievement. Although the performance of doctors would now be closely monitored, the introduction of operating plans was seen as a major turning point.

Phase 3: To help address the view that medical errors were inevitable, Levy appointed Mark Zeidel as chief of medicine. Zeidel introduced an initiative that cut "central line infection" rates, reducing costs as well as harm to patients and providing the motivation for more improvements. The board of directors were not at first convinced that performance data should be published, but Levy was persuasive, and he put the information on his public blog, which he started in 2006, and which became popular with staff, the public, and the media, with over 10,000 visitors a day. Levy explained:

> The transparency website is the engine of our work. People like to see how they compare with others, they like to see improvements. Transparency is also important for clinical leaders and our external audience of patients and insurers. We receive encouraging feedback from patients. We've also managed to avoid a major controversy with the media despite our openness. Transparency's major societal and strategic imperative is to provide creative tension within hospitals so that they hold themselves accountable. This accountability is what will drive doctors, nurses and administrators to seek constant improvements in the quality and safety of patient care.

Other performance data were published, for the hospital and for individual departments. This included measures to assess whether care was evidence-based, effective, safe, patient-centered, timely, efficient, and equitable. Progress in meeting priorities for quality and safety could be tracked on the hospital's website, and the data were used by staff to drive quality improvements. The board also set tough goals to eliminate preventable harm and increase patient satisfaction. Every year, staff were invited to summarize their improvement work in poster sessions, featuring the work of 95 process improvement teams from across the hospital.

Levy hired staff with expertise in lean methods. Previously an option, training in quality and safety became mandatory for trainee doctors, who had to take part in improvement projects. The culture was collaborative, and nurses had the respect of doctors. Patients often chose BID for the quality of nursing care. The departmental quality improvement directors met twice a month to share experiences. Department meetings routinely discussed adverse events. A patient care committee fulfilled a statutory requirement for board oversight of quality and safety. The office of decision support collected data on complication rates, infection rates, department-specific quality measures, and financial goals. A senior nurse said: "We felt a sense of ownership with issues of quality. We have dashboards up in the units to see how we are doing. Staff know what the annual operating goals are, as they are actively involved in setting them and integrating them into their work."

The Outcomes

By 2010, BID was one of the leading academic health centers in the United States, with 6,000 employees and state-of-the-art clinical care, research, and teaching. Competing effectively with other major healthcare organizations, BID was generating annual revenues of over $1.2 billion.

Postscript

Paul Levy resigned in January 2011. He explained his decision in a letter to the board of directors, making this available to staff and the public on his blog. The letter included the following remarks:

> I have been coming to a conclusion over the last several months, perhaps prompted by reaching my 60th birthday, which is often a time for checking in and deciding on the next stage of life. I realized that my own place here at BID had run its course. While I remain strongly committed to the fight for patient quality and safety, worker-led process improvement, and transparency, our organization needs a fresh perspective to reach new heights in these arenas. Likewise, for me personally, while it has been nine great years working with outstanding people, that is longer than I have spent in any one job, and I need some new challenges.

Story Sources

Abbasi, K. (2010) *Improvement in Practice: Beth Israel Deaconess Case Study*. London: The Health Foundation.

http://www.bidmc.org/

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LO 1.1 The Story of Sears Holdings

Issues to Consider as You Read This Story

1. How would you describe Eddie Lampert's leadership style?
2. How would you assess his approach to implementing major organizational change—in this case, restructuring the whole company with a new organizational model?
3. On balance, would you assess his organizational model as having been a success, or not?
4. What lessons about managing organizational change can we take from this experience and apply to other organizations, in this or other sectors?

The Setting

Sears Holdings Corporation was a specialty retailer, formed in 2005 by the merger of Kmart and Sears Roebuck. The merger was the idea of Eddie Lampert, a billionaire hedge fund manager who owned 55 percent of the new company and who became chairman. Based in Illinois, the company operated in the United States and Canada, with 274,000 employees, 4,000 retail stores, and annual revenues (2013) of $40 billion. Sears and Kmart stores sold home merchandise, clothing, and automotive products and services. The merged company was successful at first, due to aggressive cost cutting.

The Problem

By 2007, two years after the merger, profits were down by 45 percent.

The Chairman's Solution

Lampert decided to restructure the company. Sears was organized like a classic retailer. Department heads ran their own product lines, but they all worked for the same merchandising and marketing leaders, with the same financial goals. The new model ran Sears like a hedge fund portfolio with autonomous businesses competing for resources. This "internal market" would promote efficiency and improve corporate performance. At first, the new structure had around 30 business units, including product divisions, support functions, and brands, along with units focusing on e-commerce and real estate. By 2009, there were over 40 divisions. Each division had its own president, chief marketing officer, board of directors, profit and loss statement, and strategy that had to be approved by Lampert's executive committee. With all those positions to fill at the head of each unit, executives jostled for the roles, each eager to run his or her own multibillion-dollar business. The new model was called SOAR: Sears Holdings Organization, Actions, and Responsibilities.

When the reorganization was announced in January 2008, the company's share price rose 12 percent. Most retail companies prefer integrated structures, in which different divisions can be compelled to make sacrifices, such as discounting goods, to attract more shoppers. Lampert's colleagues argued that his new approach would create rival factions. Lampert disagreed. He believed that decentralized structures, although they might appear "messy," were more effective, and that they produced better information. This would give him access to better data, enabling him to assess more effectively the individual components of the company and its assets. Lampert also argued that SOAR made it easier to divest businesses and open new ones, such as the online "Shop Your Way" division.

Sears was an "early adopter" of online shopping. Lampert (who allegedly did all his own shopping online) wanted to grow this side of the business, and investment in the stores was cut back. He had innovative ideas: smartphone apps, netbooks in stores, a multiplayer game for employees. He set up a company social network, "Pebble," which he joined under the pseudonym "Eli Wexler," so that he could engage with employees. However, he criticized other people's posts and argued with store associates. When staff worked out that Wexler was Lampert, unit managers began tracking how often their employees were "Pebbling." One group organized Pebble conversations about random topics so that they would appear to be active users.

The Chairman

At the time of the merger, investors were confident that Lampert could turn the two companies around. One analyst described him as "lightning fast, razor-sharp smart, very direct." Many of those who worked for him described him as brilliant (although he could overestimate his abilities). The son of a lawyer, it was rumored that he read corporate reports and finance textbooks in high school, before going to Yale University. He hated focus groups and was sensitive to jargon such as "vendor." His brands chief once used the word "consumer" in a presentation. Lampert interrupted, with a lecture on why he should have used the word "customer" instead. He often argued with experienced retailers, but he had good relationships with managers who had finance and technology backgrounds.

From 2008, Sears' business unit heads had an annual personal videoconference with the chairman. They went to a conference room at the headquarters in Illinois, with some of Lampert's senior aides, and waited while an assistant turned on the screen on the wall opposite the U-shaped table and Lampert appeared. Lampert ran these meetings from his homes in Greenwich, Connecticut; Aspen, Colorado; and subsequently Florida, earning him the nickname "The Wizard of Oz." He visited the headquarters in person only twice a year, because he hated flying. While the unit head worked through the PowerPoint presentation, Lampert didn't look up, but dealt with his emails, or studied a spreadsheet, until he heard something that he didn't like—which would then lead to lengthy questioning.

In 2012, he bought a family home in Miami Beach for $38 million and moved his hedge fund to Florida. Some industry analysts felt that Sears' problems were exacerbated by Lampert's "penny pinching" cost savings, which stifled investment in its stores. Instead of store improvements, Sears bought back stock and increased its online presence. In 2013, Lampert became chairman and chief executive, the company having gone through four other chief executives since the merger.

The Outcomes

Instead of improving performance, the new model encouraged the divisions to turn against each other. Lampert evaluated the divisions, and calculated executives' bonuses, using a measure called "business operating profit" (BOP). The result was that individual business units focused exclusively on their own profitability, rather than on the welfare of the company. For example, the clothing division cut labor to save money, knowing that floor salesmen in other units would have to pick up the slack. Nobody wanted to sacrifice business operating profits to increase shopping traffic. The business was ravaged by infighting as the divisions—behaving in the words of one executive like "warring tribes"—battled