

Fourth Edition

# Exploring Strategic Change

Julia Balogun  
Veronica Hope Hailey  
Stefanie Gustafsson

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To Paul, Guy and Annys  
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## Preface

When we started writing the first edition of *Exploring Strategic Change* in 1994/1995, little did we imagine that we would still be writing the book and publishing the fourth edition in 2015. In many ways, writing this book as we are as economies are starting to emerge from the financial crisis and recession of 2007/2008, and the crisis of confidence in leadership that accompanied this, the messages in this book about change have never been more relevant. The challenge of change remains, but so does the need to find new forms of leadership and new ways of engaging and motivating workforces in a context in which there is a need to rebuild trust and there are greater expectations of workplace democracy.

In this fourth edition we continue to write in a practical and applied fashion that is accessible to both practising managers and students of business, while drawing on best practice from researchers and practitioners. We continue to advocate the need for practitioners of change to develop context-sensitive approaches to change which are tailored to their particular change situations. However, we also say more about the challenges for the leadership of change, highlighting in particular the importance for senior executives leading change of developing robust relationships down through the organisation which engender the trust of others and of working in partnership with middle managers to deliver change.

We also welcome a third author to the team, Dr Stefanie Gustafsson, who has contributed significantly to the development of this fourth edition.

This fourth edition of *Exploring Strategic Change* continues to use examples from both private and public sector organisations to pursue four main themes:

- that the task of management change is context-specific and therefore an understanding of an organisation's change context is essential;
- that analysing the change context allows the change agent to make design choices on the basis of 'best fit' for the organisation;
- that once the change process has been designed the next task is to both design and manage the transition;
- that managing the transition requires certain enabling conditions that need to be put in place by the senior executives leading change through the relationships they build with their employees.

The first half of the book focuses on the design of the change process and the analysis of the change context within an organisation. **Chapters 2 and 3** address the subject of design choices by providing a menu of design options which are discussed within six overall groupings: change paths, change styles, change start-points, change targets, change levers and change roles. These are discussed at this point in the book in order that the reader is aware of the range of choices that are available to a change agent. **Chapter 4** then examines the importance of determining contextual fit when selecting appropriate design choices. Presented in these three chapters is a diagnostic framework, the change kaleidoscope, which helps identify the key contextual features in an organisation. The kaleidoscope features are

time, scope, preservation, diversity, capability, capacity, readiness and power. Not only does analysis of these features allow the reader to make appropriate design choices, it also prevents these features from becoming barriers to change during the transition process itself. **Chapter 4** illustrates how different features impact on different design choices.

The second half of the book examines the transition process in depth. **Chapter 5** explains the role of visioning in change and introduces the idea of different stages of transition: mobilise, move and sustain. It also examines various mechanisms that can be used for each stage of the transition, including some overlooked by other texts such as symbolic mechanisms, and some that have become more popular recently such as storytelling. **Chapters 6 and 7** explore the actual management of the transition process. **Chapter 6** focuses on change leadership and the nature of this role for both senior executives and middle managers, and the competences they require. It also considers the need, post the financial crisis, for senior executives to develop more relational styles of leadership and become trustworthy leaders, working in partnership with middle managers and the HR function to deliver change. These relationships contribute to an enabling context that facilitates transition. However, **Chapter 7** builds on this to explore the need for enabling conditions to also include a positive organisational climate for change. This is developed through employee engagement, trust in senior executives, employee voice and justice, all of which senior executives need to foster through the way they perform leadership. The development of such enabling conditions requires senior executives to challenge some of their traditional and long-standing assumptions about change, such as change as a leadership/resistance dynamic. **Chapter 8** revisits a theme emphasised throughout the text: namely the need for those leading change to be skilled at both reading the organisational context they are operating in, and being able to reconfigure this context to enable the change processes they wish to put in place.

The website at [www.pearsoned.co.uk/balogun](http://www.pearsoned.co.uk/balogun) provides resource material to aid in lecture and seminar presentation.

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## Exploring strategic change: an introduction

### 1.1 Introduction

For many years now it has been said that the pace of change experienced by organisations and those who work in them is getting greater. Change has become a way of life, in part because organisations are experiencing many different types of change. As industries consolidate, there are increasing numbers of mergers and acquisitions. The pressures on organisations to compete in a more global arena are leading to the need for different ways of organising and competing. Rapid technological change is forcing organisations to adopt new technologies and change the way they both work and interface with their suppliers and customers. Meanwhile the political agenda of government is driving more change in the public sector. There has also been a series of management fads over the last two decades such as culture change programmes, total quality management, business process re-engineering and, more recently, employee engagement and business model innovation. In addition, many organisations need to change their strategy just to remain competitive. Yet the sad fact is that the success rate for most of the change programmes launched within organisations is poor. Figures quoted vary, but many commentators put the failure rate at around 70 per cent.<sup>1</sup>

As a result, change management has become a highly sought-after managerial competence. Indeed in mid-2014, the Chartered Institute for Personnel Development in the UK argued that as economies emerged from recession, transformational change and change management skills were once more on organisations' agenda.<sup>2</sup> Furthermore, it is increasingly recognised that implementation skills are required throughout the organisation, in both senior- and middle-management ranks. The argument of this text, therefore, is that the management of strategic change remains a skill that many organisations overlook, yet need to develop, particularly in their most senior executives but also in all levels of management.

The senior manager role in strategic change has two components. Senior managers need to devise strategies that promise strategic fit with the external environment and some form of competitive advantage, while also working internally to bring the organisation in line with that promise. Thus one role component is externally focused and to do with devising strategies that meet the external challenges. This is an exercise primarily

in strategic thinking. The other is internally focused and to do with aligning the organisation behind the intended strategy. This is about strategic acting. For the intended strategies developed in strategic plans by managers to be realised in organisations, senior managers need to have a capability in both components, although the emphasis is often on the former with the assumption that the latter is the responsibility of others. Executives comment that the challenge lies in the execution and delivery of strategy rather than its formulation.<sup>3</sup> *Exploring Strategic Change* takes up this challenge with a focus on the linking of strategic thinking and strategic acting to enable the realisation of intended strategies. Through this focus, this book aims to help managers and students alike to understand more about change management and to extend their competence in this area, by starting at the point where most other strategic texts end – with frameworks that can help managers put their strategic plans into practice.

A key feature of this book is its focus on strategic change, change that results from a shift in strategic direction for an organisation, requiring the implementation of change to processes, practices, systems and potentially even culture to enable the development of new competences and new ways of competing. While there has been a lot written on ‘change management’ in general, there is less written about how senior managers action their strategic agenda, moving from strategic plans they have formulated to the delivery of those plans. The book, therefore, recognises a key debate about the difference between intended strategy (the plan for the organisation) and realised strategy (what the organisation is actually doing), particularly in the context of mature organisations seeking to revitalise their core business areas.<sup>4</sup> Since revitalisation often requires a new form of business delivery, *Exploring Strategic Change* considers how senior teams can be successful in connecting their strategic rhetoric to change in the way that middle and lower levels go about their work. It has a focus on the actual practice of strategic change, both successful and less successful. Hence a distinctive feature of this book is its focus on managerial practice and on understanding the consequences of that practice.

In the wake of the financial crisis of 2008 both private and public sector organisations were faced with particular challenges. First, they were faced with workforces who were both shocked by the collapse of iconic institutions such as banks and more fearful for their futures as a consequence. Used to a period of growth, the reality of austerity and uncertainty bred organisational climates characterised by feelings of betrayal, bewilderment and distrust. Second, the senior managers leading these workforces had to implement negative change programmes. Transformational change was not on the menu. Rather restructurings and downsizings dominated activities as businesses sought to ride out the downturn. New change approaches were necessary and new forms of change leadership emerged. This book also reflects on these challenges.

### 1.2 Structure of the book

There are two main sections to the book. The first section, Chapters 2 to 4, explores the role of context in developing appropriate approaches to change and the need to design context-sensitive change. The focus here is on using a framework, the change kaleidoscope,

to encourage those leading the change to focus on identifying the critical features of their organisation's change context that need to be taken into account when making decisions about the most appropriate change approaches to change to adopt to give their planned changes the highest chance of success. Without a consideration of context, change is set in train without understanding whether the organisation itself is going to enable or disable the efforts to implement strategy. The kaleidoscope provides those leading change with a means of identifying the constraints and enablers in their organisation's context, so that they, as far as possible, put in place initiatives which can overcome the identified constraints yet build on identified enablers.

The second section, Chapters 5 to 7, examines how to turn the chosen change approach into a reality and make change actually happen. It examines key aspects of the change process that change agents need to focus on such as painting a convincing picture of the future state, designing and managing the transition process, and incorporating systemic change across a diverse range of organisational sub-systems. It also considers the role of leadership in the delivery of change. For leaders to be able to take the people in an organisation with them, contains a contemporary challenge. The levels and pace of changes going down through organisations has had an impact on the relationship between senior managers and others within their organisations. Thus we re-conceptualise change to show how it occurs within a dynamic relationship between senior, middle and lower levels of staff, and that this dynamic relationship needs to be developed and maintained by senior executives to create enabling conditions for change. We also pick up on the challenges that middle managers face, and their importance in fulfilling their 'Janus' type role, which involves them looking upwards to senior executives for strategic direction, yet also facing downwards for the purpose of working with the lower levels of the organisation to implement change. Finally we consider the importance of a positive organisational climate that supports enabling conditions for change.

An important theme that underpins both of these sections is the notion of 'reading' and 'reshaping' or 'rewriting' the context. 'Reading' is the systematic analysis of an organisation's context so as to identify potential blocks to the implementation of change, such as managerial capability or readiness for change, but also potential enablers, such as a capacity for change in terms of spare resources to invest in supporting the change effort. The change kaleidoscope is designed to help with this. 'Reshaping' the context is to do with using the analysis in 'reading' to as far as possible put in place initiatives aimed at making the context more receptive to and capable of absorbing change of the required depth and breadth before starting the journey. In other words, early initiatives may be more to do with changing the context itself to overcome the potential blockages, to subsequently enable the desired strategic change to be put in place. However, reading and rewriting the context is also relevant in the second half of the book, which focuses on change leaders developing an understanding of how behaviours and attitudes in the organisation need to change, and using their own behaviours to role model these shifts.

Although *Exploring Strategic Change* is aimed at both business students and practising managers, throughout the book reference is made to the *change agent*. This term is used to refer to the person with responsibility for 'making the change happen' in any organisation. Many different people can fulfil this role. In some organisations it may be the Chief Executive, in others the Human Resources Director, or even a selected team of people, who have responsibility for managing the change process.

This introduction starts by explaining some of the assumptions underpinning this text. Consideration is given to:

- the nature of strategic change and the philosophy behind this text;
- the need to develop a change approach which is suitable for the organisation's specific context;
- the managerial capabilities required by successful change agents;
- the difference between the design of recipe-driven or formulaic approaches to implementation and more context-specific approaches;
- the design and management of the transition state.

The chapter concludes with a flowchart that explains the structure and content of the book.

### 1.3 The nature of strategic change

Questions as to how to achieve organisational change, and in particular larger scale strategic change, have occupied academics and practitioners alike for three decades now. In the 1980s many were already arguing that organisations were facing unprecedented changes in their environments and that, as result, the scale and occurrence of organisational change was increasing considerably beyond that studied by earlier organisation development researchers.<sup>5</sup> As a result, there was a shift in models and theories towards large-scale (organisation wide) interventions and approaches to organisational 'transformation', plus an interest in leadership of change since this was felt to be a significant factor in its success.<sup>6</sup> This research also led to an interest in other aspects that are now almost hegemonic practices in the development of large-scale change interventions, such as the development of compelling visions, plans to close the gap between current and desired end states, and a transformation process which includes education, communication and feedback mechanisms implemented at all levels of an organisation. Many of these we discuss in the second section of the book.

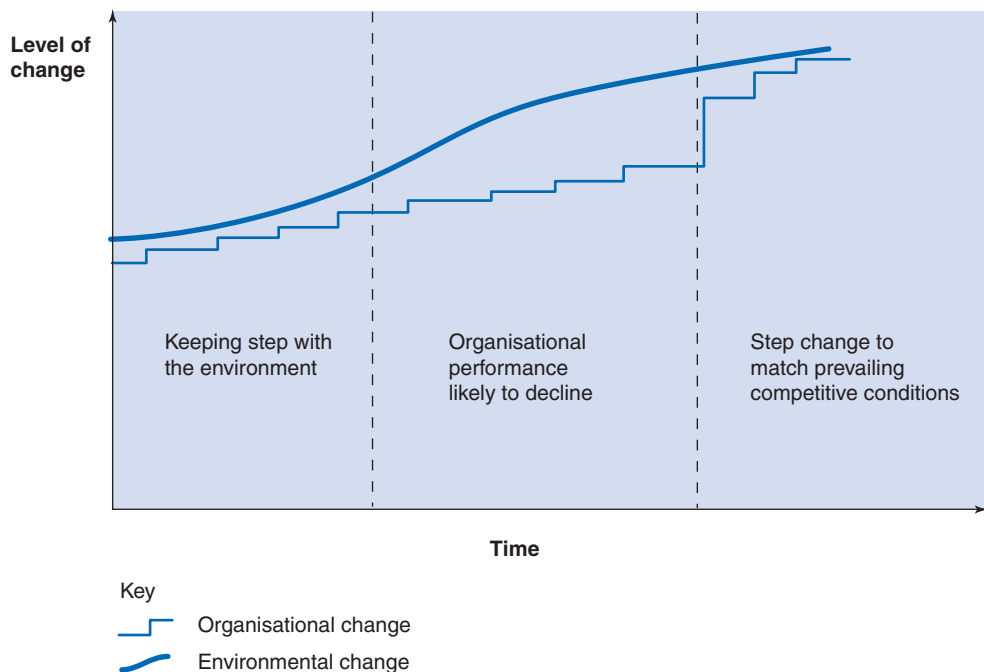
Strategic or transformational change is defined as 'descriptive of magnitude in alteration in, for example, the culture, strategy, and structure of the firm, recognising the second order effects, or multiple consequences of any such change'.<sup>7</sup> It typically involves a redefinition of mission and purpose, and a substantial shift in goals, to reflect a new direction in response to environmental threats. As such it is accompanied by significant changes in patterns of resource allocations, organisation structures and processes.<sup>8</sup> Most definitions of strategic change recognise it as being of sufficient depth to require a shift in the central assumptions and beliefs that the members of an organisation hold about the organisation, the nature of its environment and the competition and how it competes. It encompasses a fundamental shift in the business model of the organisation, touching all cultural and structural aspects of the organisation. As divergent change it is distinct from convergent change, which is to do with fine-tuning the existing way of operating within organisations.<sup>9</sup> We will spend some time considering the differences between transformational change and more incremental convergent change in Chapter 2, as these differences are fundamental to choices made about how to implement change.

Given the scope and depth of strategic change, for private and public sector organisations alike, the desire for what is more typically referred to as ‘transformational change’ often outweighs their ability to achieve it in practice. Research exploring strategy change has often focused attention on the gap that frequently arises between the formulation and implementation of strategy. Generally, there has been a questioning of the managerial assumption that strategy interventions (such as corporate planning) will achieve a change in intended strategy and that this will result in a change in the strategy an organisation is actually pursuing. There is recognition that strategic change requires changes beyond structures and systems to the patterns of behaviours and interactions within an organisation.<sup>10</sup> Furthermore, many now classic studies reveal the inertia to change that results from existing organisational cultures and power dependencies, how different understandings of change proliferate, unexpected outcomes become the norm and planned processes of change become more incremental as different groups seek to protect their interests.<sup>11</sup>

However, there are, of course, high-profile and widely documented case studies that would suggest that it is feasible for senior executives to deliver strategic change in their organisations – dating from British Airways in the 1980s, through GE under Jack Welch in the 1990s, and more recently cases such as Fiat under Marchionne. Thus there remain many disagreements and debates over the nature of strategic change in the 1990s, 2000s and into the 2010s.

### 1.3.1 Patterns of strategic change

Broadly there are two schools of thought about how change occurs in organisations. The first sees change as continuous, with organisations transforming on an on-going basis to keep pace with their changing environment. The second sees change as a process of punctuated equilibrium (see Figure 1.1).



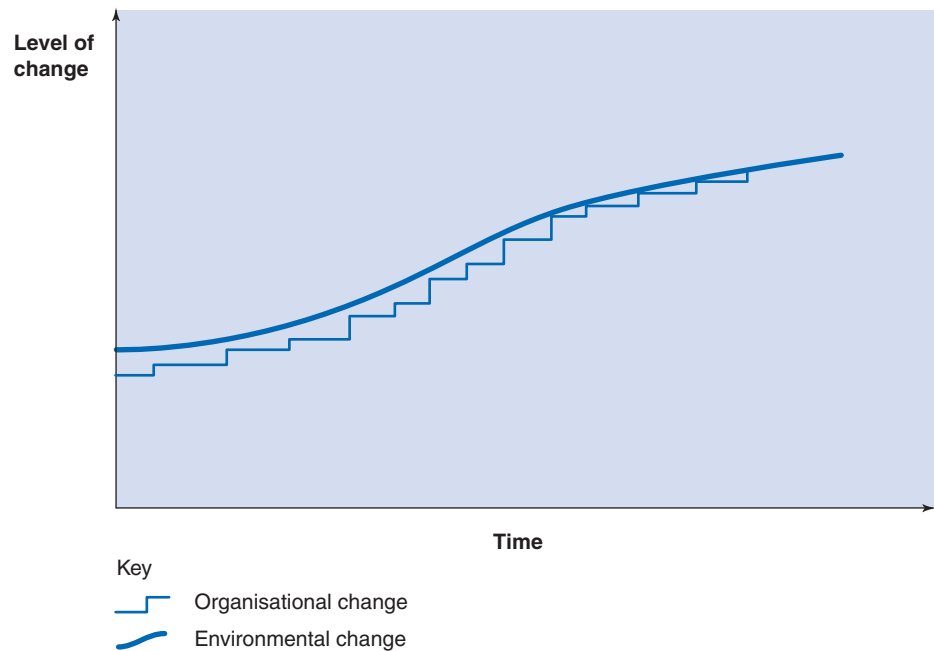
**Figure 1.1** A punctuated equilibrium model of change

Punctuated equilibrium models of change characterised much strategy research in the 1980s and 1990s and continue to shape thinking about strategic change. From this perspective, organisations evolve through relatively long periods of stability (periods of evolutionary and incremental convergent change) that are then interspersed by shorter periods of more fundamental revolutionary change.<sup>12</sup> Convergent change is adaptation within the existing way of doing things – it leads to extension and continuity of the past. However, revolutionary change is transformational change achieved through a simultaneous change in the strategy, structure, systems and culture of an organisation leading to a radically different way of operating. Convergent adaptation through time leads to increasing independence between different organisational domains of activity, such as organisational culture, strategy, structure, power distributions and control systems building considerable inertia for change and strategy lock-in.<sup>13</sup> Once the strategy ceases to work in the face of shifting competitive conditions, radical corrective action is required owing to the considerable levels of inertia that have developed.

Thus revolutionary change is likely to be reactive and forced by an impending crisis. An organisation becomes a victim of its own success as past ways of competing become embedded and taken for granted. A good example of this pattern of change has been seen at the British retailer, Marks and Spencer, over recent years. M&S had a particular way of doing things. It offered customers a selective range of quality merchandise at reasonable prices under the St Michael brand, focusing on classic wearable basics and essentials rather than fashions. It worked with British suppliers to ensure quality control. Specialist buyers operated (on the assumption that they knew what M&S customers wanted) from a central buying office which then allocated goods to stores. Central policies on store layout and management were followed to ensure consistency of image and standards. As the stores had no changing rooms, M&S provided a no-quibble refund on all items purchased. Credit cards were not accepted – only the M&S store card. This formula worked for years, until changes in the retail industry in the 1990s rendered it uncompetitive, forcing change upon M&S from 1998 onwards.<sup>14</sup> In 2015, as this 4th edition of *Exploring Strategic Change* is being written, M&S under Marc Bolland is still struggling to find a return to its former more successful days, although there have been several points in the last 10 years where it does appear to have achieved success once again. It would seem that another great British retailer, Tesco, has similarly become a captive of its past and it is now struggling to reinvent itself.

Yet there are questions about the feasibility of delivering strategic change in a revolutionary, rapid and all-at-once fashion consistent with the punctuated equilibrium models of change. Thus proponents of the more continuous models of change argue that it is possible to transform an organisation incrementally through time, leading to the same outcome as revolutionary change, but in a less dramatic fashion.<sup>15</sup> Indeed, until recently, Tesco was often held up as an example of such an organisation. Models of continuous change argue for a higher and more consistent level of on-going change (see Figure 1.2).

Models of continuous change often switch the focus from organisations as largely stable, punctuated occasionally by change, to a focus to the on-going actions and interactions that occur as part of everyday organisational life gradually altering what an organisation does over time.<sup>16</sup> Models of continuous change also point to the role of emergent change. Change is conceptualised more as a continuous process of accommodations and adaptations that produce change without any necessarily ‘a priori’ intentions to do so. It is therefore conceptualised as a constant and iterative process. Change can also arise bottom-up as



**Figure 1.2** A continuous model of change

members of an organisation put forward strategic initiatives to senior managers, and the senior managers decide which they will support. However, owing to its incremental nature, emergent change may be slower and its outcomes small scale in the short term. It may, therefore, be an unsuitable approach for responding to major competitive threats or significant downturns, as well as providing little assurance for external stakeholders in the case of on-going performance decline, merger and acquisition or privatisation. Some suggest that emergent change in general is suited to a more operational level rather than strategic change and that, since it is more diffuse, it is less likely to deliver a transformational shift.<sup>17</sup>

Attempts to reconcile the two models talk of 'episodic shocks'<sup>18</sup> inserted into continuously evolving organisations, or allow for both convergent and divergent change to occur through continuous or episodic means.<sup>19</sup> Some differences may be attributable to context. Thus others have suggested that more incremental patterns of change identified in, for example, not-for-profit organisations, might be a function of the highly political nature of these organisations.<sup>20</sup> It might be that when organisations undergoing the need for change are private sector, the performance imperative forces them into a more rapid and punctuated equilibrium type of change, whereas not-for-profit organisations do not suffer from the same imperative, and have other contextual factors influencing the way change occurs.

In reality, there is little empirical evidence to support either view over the other. It seems that both these models of change are suitable, but apply to different types of organisations, and maybe different stages of an organisation's life-cycle.<sup>21</sup> More continuous change models may be appropriate for organisations operating in industries where the pace of change in the competitive environment and new technologies is rapid, such as



hi-tech industries, where constant organisational change is necessary for survival. However, it is still not clear what form continuous transformation takes. Some argue for strategic renewal enabled through a strategic organisational context that allows for the championing of bottom-up initiatives that currently sit outside an organisation's strategic core. Others argue that semi-structures, links in time and sequenced steps within particular organisational processes, such as NPD (new product development), enable incremental and on-going continuous change by providing the structure for the planning of change, yet not the rigidity to prevent that change from then happening. Others argue for the creation of ambidextrous organisations capable of simultaneous exploitation and exploration.<sup>22</sup> Punctuated equilibrium models are more likely to apply to industries where changes to the competitive conditions occur less frequently and it is possible to remain competitive for a period of time without making any significant changes to the way an organisation operates.

Yet if we leave aside the debate on how strategic change occurs, and whether evolutionary and continuous models of change, or punctuated equilibrium models, more accurately capture how organisations undergo change and long-term adaptation, there is ample evidence that successful organisations breed their own downfall through building inertia and rigidity into their systems, processes and people as they configure themselves to deliver only against a recipe that has delivered success in the past.<sup>23</sup> Despite arguments about the validity of punctuated equilibrium models of change versus more continuous models of change, evidence from the private sector where it is possible to measure 'performance' through financial measures suggests that there are few organisations that do manage continuously to evolve to maintain levels of competitiveness over long periods of time.<sup>24</sup> Some famous organisations, such as ITT, a vast diversified conglomerate which was celebrated in its heyday for much managerial innovation, never recovered and have disappeared from the landscape, whereas others, such as IBM and the British retailer Marks & Spencer, have managed to effect some level of change and have survived to tell the tale. Yet this pattern can also occur in high-tech industries. Intel Corporation, the microprocessor manufacturer, was in the position at the end of the 1990s where it had been configured to ensure exploitation of Intel's opportunities in the PC market to such an extent, that the internal corporate venturing that had enabled more continuous strategic renewal over the previous 20 years, had been driven out.<sup>25</sup>

### 1.3.2 Organisations and strategic change

The position of this book is that, leaving aside the debate captured above, many organisations are forced to change reactively as their performance declines, maybe owing to unexpected changes in their competitive environment, and face the need to implement strategic change to address their lack of competitiveness. A key concept is that of 'strategic drift'.<sup>26</sup> This term captures the notion that even as senior managers continue to exploit the capabilities and sources of performance and advantage that have delivered success for their organisation in the past, they will engage in some level of change. The problem is that these changes are likely to be only incremental in nature, investing time and resources in initiatives that provide some level of response to competitive challenges in the market place, yet are still consistent with existing strategic priorities. As a result, over time these changes are not adequate for the organisation to keep in step with changes in its competitive environment. The result is 'strategic drift', a gap between what the organisation is doing and what it

needs to be doing to be competitive in its market place (see Figure 1.1). As the gap widens, performance starts to decline consistent with punctuated equilibrium models of change.

In some organisations executives notice the drift and act to proactively address it. In Chapter 4 (see Illustration 4.2), we discuss how Unilever addressed issues of a lack of competitiveness in time to be able to respond proactively with the Sustainable Living Plan. This business plan was announced in 2010, under the leadership of CEO Paul Polman, and sought to fundamentally change the way business is done in Unilever, by fully integrating sustainability into the organisation's business model and making it the driver for organisational growth, innovation and profitability. It was a response to a sharp decline in profits between 2008 and 2009. However, in other organisations, as we explain above, the inertia and rigidity in their systems, processes and people leave their executives either in the situation where they do not notice that they are not changing rapidly enough, or in a situation where they are unable to respond in a relatively timely manner to changing competitive conditions. If there is then a radical shift in competitive conditions, such organisations are likely to exhibit a significant fall in profitability. This was the situation facing Tesco come mid-2014 when Dave Lewis from Unilever was appointed to replace CEO Philip Clarke following a second profit warning. Additionally other changes may happen that force change in a top-down way on organisations, such as mergers and acquisitions. This is true of public sector organisations as much as private sector, even though there may be less pressure driving change from a financial performance perspective.

This book is, therefore, most concerned with organisations undertaking a step change, either in a proactive manner in recognition of the need for pre-emptive change given potential threats that may arise in the future or are currently arising, or in a reactive manner in response to an immediate need, such as a new direct competitive threat or increasing under performance as drift sets in. The focus is on intentional, planned change: change circumstances in which the leaders of an organisation (or maybe even a division or a department) have examined their strategic position and deliberately formulated a new strategy which requires the organisation, and the people within it, to operate differently in some way. This could be, for example, a decision to enter a new market with existing products, requiring minimal changes within the organisation. Alternatively, it could involve a radical shift in strategy, and therefore the structures, systems and culture of the organisation, as at Unilever, or as in other examples we include in this book, such as Deutsche Telekom (see Chapter 2, Illustration 2.5), Santander (see Chapter 3, Illustration 3.7), EveryChild (see Chapter 3, Illustrations 3.9 and 3.12) or Statoil (see Chapter 4, Illustration 4.7 and Chapter 5, Illustration 5.9).

Our position as the authors of this book is that despite the rhetoric frequently heard today about the need for organisations to be more flexible, and to be capable of reinventing themselves through on-going continuous and emergent change, there are still many organisations, who for a variety of reasons, find themselves in the situation where they need to undertake a step change in their strategy, as in 2014 it was argued that Tesco certainly needed to, and as Unilever needed to do in 2010. The authors frequently encounter such organisations in the course of their work. However, such step change does not have to occur in a revolutionary manner. It can take many different forms. Indeed, the skill of change agency lies in having the competence to assess where an organisation is strategically, and the nature of the strategic change design required. As we will go on to discuss in the following chapters, proactive and reactive change often require very different approaches. Furthermore, this does not mean that more continuous models of change