PART ONE

Understanding organizational change

The context and nature of change 01

KEY POINTS

- Driving forces that trigger the need for change can arise from the external and internal environment in which an organization operates.
- Planned change is deliberate, a product of conscious reasoning and action. In contrast, emergent change is iterative, unpredictable, often unintentional, can come from anywhere, unfolds in a spontaneous way and involves informal self-organizing groups.
- Transformational change and everyday incremental change can be viewed as different, not just in terms of their objectives but also in terms of their processes, size, scope and breadth, and what they demand of organizational members.
- When an organization becomes incapable of: looking outside; reflecting on success and failure; accepting new ideas; and developing new insights, it is in danger of losing its focus, embracing inertia and ultimately declining.

Introduction

The idea that we are constantly engaged in change to a greater or lesser degree is not a new phenomenon. In 1947 Kurt Lewin postulated that life is never without change, which is still true today. Organizations are constantly implementing multiple changes that involve engaging, discussing, thinking, influencing, negotiating, piloting, learning, evolving and making choices. This can be complex and messy and involve tolerating ambiguity, coping with uncertainty, handling the tensions and paradoxes that need balancing to identify the right interventions, making decisions, and identifying and managing benefits and risk. Although change in many organizations may be a constant, the nature of it is not always the same, as change comes in a variety of shapes and sizes and can be incremental or transformational, as well as proactive or reactive, planned or emergent. The aim of this chapter is to provide an overview of the nature of change and the context in which it operates. The chapter begins by examining what can trigger change in organizations by reviewing external as well as internal factors. The definitions of the key concepts that are used in the book are then discussed. This is followed by an overview of the theoretical perspectives of the different types of change, such as planned and emergent, that organizations may experience. The chapter concludes by examining how leaders and managers can recognize the need for change. Overall the chapter explores key issues such as: What triggers change? How can change in organizations be classified? What happens when organizations ignore the need for change? Should change be process driven or people driven?

LEARNING OUTCOMES

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

- appreciate the complex nature of change in organizations;
- critically evaluate the theoretical perspectives relating to the types of change that organizations may experience;
- evaluate the potential need for change;
- identify the most appropriate approach for instigating change in an organization in which you work or one that you are familiar with.

Drivers of change

As organizations face a dynamic and turbulent environment they are required to adapt, change and in some cases totally transform in order to survive. The forces that are driving the need for change arise from the external and internal environment in which an organization operates. Institutional theory tells us that the environment in which an organization operates can strongly influence the development of an organization. So to survive organizations must conform to the rules and belief systems prevailing in the environment (DiMaggio and Powell, 1983). In other words, they must adapt to the complex and chaotic environment in which they operate, which requires an awareness of the external forces that are driving change in organizations. These forces are multifaceted, relentless and seditious, and have the potential to disrupt traditional organizational models. Each of these forces alone is impacting on organizations but in combination they have the capacity to create radical consequences for the world of work, the workplace and the workforce.

External environment

External drivers of change for an organization come from many directions. They may be seen as challenges, opportunities or threats and include political, economic, social, technological, legal and environmental factors. Some of the key drivers in each of these areas are (but are not limited to): globalization; black elephants; technological advancements; and demographic trends. It is important to recognize that this list is not exhaustive, and to acknowledge that there are other factors, including political and regulatory influences that can also disrupt organizations and cause them to adjust their strategy and operations. However, the trends outlined in this chapter set the strategic agenda within which organizational change is currently taking place and the context in which it needs to be focused.

Globalization

Globalization is changing. Up until 2020 global consumption was growing and most of this came from the expanding consumer classes in emerging economies, such as Asia, Africa and South America (Manyika, 2017). As incomes rose, consumers were spending more on all types of goods and services, but their spending patterns were also shifting, creating more jobs in areas such as consumer durables, leisure activities, financial and telecommunication services, housing, health care and education (Ogilvy and Mather, 2016). Consequently, these consumers not only played an important economic role, but were also key agents of social change, influencers on their governments, arbiters of local lifestyles, and empowered consumers in brand attraction and interaction. All of this had an impact on the way organizations operated and also on their need to understand new markets, regions and cities. Globally, there was also a demand for highly skilled workers and a scarcity of skilled talent leading to the so-called 'war for talent'.

In 2020 this all began to change as countries across the globe faced sealed borders and disrupted commerce due to the spread of the COVID-19 virus, which was declared as a pandemic by the World Health Organization in March 2020 and caused catastrophic consequences across the world. Countries across the globe had imposed lockdowns lasting several months, for all but essential organizations such as the health care and food and drink sectors. Large-scale quarantines, travel restrictions and social-distancing measures caused a sharp fall in consumer and business spending, which impacted negatively on the global economy. It was as if a 'black elephant' was rampaging across the globe.

Black elephants

Black elephants are events that are extremely likely and predicted by experts (Gupta, 2009). They range from environmental crises to pandemic viruses and have the ability to wreak havoc across the world. A herd of environmental black elephants, such as global warming, deforestation, ocean acidification and mass biodiversity extinction, continues to trample across the global climate. As noted in the previous section, one such black elephant – the COVID-19 virus – caused a dramatic lockdown across the globe in 2020. Organizations were forced to pivot their business models in order to cater for a sudden change in demand for, and how they delivered, their products and services to customers. This required an ability to adapt to the unprecedented impact of the pandemic but also the flexibility to change back or adapt in other ways as required in order to cope with whatever the 'new' reality might bring. Consequently, organizations required agility to adapt and more importantly to survive, as well as the capability for innovation and creativity to target and retune their products and services to cope with the impact of the change and the wreckage left by the pandemic. Individuals were forced to work from home, wherever feasible, while those who could not had their salaries furloughed, or worse, their jobs were made redundant. This meant that organizations suddenly had to support an entirely remote workforce, which required the need for collaboration tools and apps, online communication strategies, and training at very short notice to enable employees to navigate remote work situations. Importantly, it also meant being cognizant of the impact on the well-being and mental health of workers as a result of self-isolation or working from home and the ongoing need for support for mental health issues.

The impact of the pandemic and its social and economic fallout created a time machine to the future with organizations having to rapidly adapt their business models, including how and where workers worked. This proved to be a wake-up call for those organizations that had placed too much focus on daily operational needs at the expense of investing in digital business and long-term resilience. As a consequence, leaders had to address these challenges with crisis and risk management. Consequently there has been an acceleration in the need to ensure that all the thinking, work and change in organizations is designed with the threat of a herd of black elephants in mind.

Technological advancements

Technological advancements are revolutionizing the global business landscape and driving the demand for organizations to transform the way they operate in order to stay relevant and profitable. While they can be uncomfortable or even destructive, technological advancements also contain the seeds of opportunity and benefits. For instance, the internet of things (IoT) allows for significant connectivity and collaboration among organizations and the people who work within them. Such innovations are profoundly changing the strategic context in which organizations operate by altering the structure of competition, the conduct of business, and ultimately, performance across industries (Hirt and Willmott, 2014). This is evident in the tremendous increase in electronic data, machine learning, cognitive computing, the ubiquity of mobile interfaces and the growing power of artificial intelligence (AI). Together these developments are reshaping the expectations of consumers and creating the potential for virtually every sector to have its boundaries redrawn or redefined, at a more rapid pace than has previously been experienced. Traditional hierarchical organization structures are making way for flatter holocracies that drive speed, agility and adaptability. This is evident in digital business platforms, such as LinkedIn, which are providing the opportunity for users to miss out hierarchical tiers and communicate more directly with senior management. Similarly, individuals and teams can communicate faster and more directly through the use of platforms such as Twitter and WhatsApp.

Technological advancements are also impacting practically every phase of the employee life cycle, from recruitment and on-boarding, through to exiting and alumni management. For instance, technology is reshaping the talent marketplace and changing the fundamentals of recruiting. Vast amounts of information about talent are now out in the open and freely available, as candidates promote themselves on sites such as Facebook and LinkedIn, which means that a company and its competitors are likely to be looking at the same potential recruits at the same time. In addition, technological advances are generating demands for new skills, such as increased digital literacy and data analytics as well as for more new roles relating to digitalization, innovation and specific technologies, such as robotics and AI. Moreover, technology is impacting on the way people work, providing them with the option to work from anywhere, without being confined to a single location. It is also transforming operations so that workforces are being aligned to facilitate collaboration between employees, advanced robotics, automation and AI. Technological advancements are thus transforming traditional business models and ways of working.

In this digital, hyperconnected era, organizations are collecting and generating a tsunami of data. For example, the proliferation of application process interfaces (APIs) allows connections to be made between data sets, which provides organizations with the opportunity to gain a holistic view of organizational performance and make more informed decisions. However, as yet few organizations are able to capitalize on the full potential of so much data. According to Statista, more than 293 billion emails were sent and received each day in 2019.[1] Yet according to a global survey of 1,300 business and IT executives, an average of 55 per cent of organizational data goes unused.[2] The increase in data has, however, spawned the need for new ways of working that make the demand for knowledge management more urgent, especially since knowledge no longer sits in databases waiting to be accessed but flows dynamically across the digital communications channels that now define working relationships. Workers are also moving across jobs, projects, teams, geographies and organizations more than ever before and taking critical knowledge with them. To address this, and also to capitalize on the tools that are able to automatically index, combine, tag and organize knowledge across multiple platforms, organizations need to address the human element by stimulating within their culture the recognition that sharing their data and knowledge increases the value of individuals to the organization.

As advancements in technology gather pace and provide opportunities and benefits, there is nevertheless a need to be aware of the dark side of technological advancements. For example, with the increase in digital technology there are more and more digital footprints being left. Communicating by email, on LinkedIn or Facebook leaves a digital trail that can be followed. This is like a breadcrumb trail that can wind its way to the cookie thief since deleted emails are never really deleted and online comments are always in the system. This can affect how organizational members communicate and can also dictate what is on or off the record. As the use of technology continues to grow, organizations need to be cognizant of its darker side and put in place processes and procedures to deal with it since the use of technology is only going to escalate in organizations.

To be able to take advantage of the emerging technologies, organizations need to marry two critical elements: 1) the physical systems and infrastructures to support the technology; and 2) the processes, incentives and culture that encourage people to use it (Volini *et al*, 2020). This requires organizations to be in a constant state of preparing, supporting and enabling their employees so that they adapt, develop and grow to meet these challenges. At the same time the exponential growth of technology is coinciding with demographic trends, which are bringing generations together within a workforce that is more diverse than ever.

Demographic trends

Shifts in demographic factors are making the global workforce more diverse in terms of age, expectations and aspirations, resulting in organizations having to manage the presence of several distinct generational groups, each with its own wants, needs and motivators. On the one hand, the older generations are increasing with an estimation that by 2040, nearly one in seven people in the UK alone will be aged over 75.[3] Globally by 2030 there will be at least 300 million more people aged 65 years and above than there were in 2014 (Manyika, 2017). This unprecedented increase in ageing and life expectancy has a fundamental impact on the employment of the over-65-year-olds and the types and flexibility of work available for them, particularly since in some countries (such as the UK) the default retirement age (DRA) has been phased out and subsequently individuals over 65 years old can continue working and cannot be made to compulsorily retire. The outcome is that 65-year-old interns are working alongside 25-year-old managers, which calls into question the assumption that age is a reasonable proxy for understanding people’s workplace challenges and needs. For all generations the provision of a compelling workplace and meaningful employment experience depends on how well organizations are able to understand the evolving needs and expectations of the multigenerational workforce.

The rise of the diverse workforce raises the question of whether traditional employee segmentation approaches, anchored in generation, should remain the focus of future workforce strategies. The concept of ‘perennials’

– a group of people of all ages who transcend stereotypes and are not defined by their generation (Pell, 2018) – captures the importance of moving beyond broad demographic categories to understand people on a more meaningful level. The diminishing relevance of generation is also evident from workers becoming more vocal about their needs, which interestingly have been found to be not dissimilar among the different generations. Research (Pollak, 2019) indicates that there are similarities in what people want out of work, whatever their age, which comprise: meaning; purpose; good leaders; and professional growth. As highlighted by Schwartz *et al* (2020), what has been found to change is how each generation expresses these needs and the expectations of employers' fulfilment of them. As Schwartz *et al* (2020) say, 'Compounding the diminishing relevance of generation is the fact that the generation that has been the greatest beneficiary of a generational focus – the millennials – is often not happy at work'. The Deloitte Global Millennial Survey (2019)[4] found that 49 per cent of millennials surveyed would quit their current job in the next two years if given the choice. The reasons cited for them wanting to leave include: financial rewards (43 per cent); lack of opportunities to advance (35 per cent); lack of learning and development opportunities (28 per cent), not feeing appreciated (23 per cent); work–life balance (22 per cent), boredom (21 per cent); and culture (15 per cent). In support of this, statistics from the US Bureau of Labor Statistics reveal that the median employee tenure is higher among older workers than younger ones. For instance, the median tenure of workers aged 55 to 64 (10.1 years) was more than three times that of workers aged 25 to 34 (2.8 years). Moreover, a larger proportion of older workers than younger workers had 10 years or more of tenure, with 57 per cent of workers aged 60 to 64 having been employed for at least 10 years with their current employer, compared with 12 per cent of those aged 30 to 34.[5] These findings indicate how younger employees view their career development, with a tendency perhaps for portfolio careers rather than staying in one role or organization for several years. These statistics also suggest that there is a need for organizations to look beyond generation in order to reimagine how to segment the workforce for the future, particularly in an era of changing globalization and black elephants.

Such external factors as those outlined above can trigger the need for change in organizations. Drivers for change can also come from internal organizational factors.

The internal environment

Drivers of change emanating from the internal environment of an organization are often those related to people wanting to improve the things that they do, such as: to develop new and better ways of working to solve problems with current practices; improve operational efficiency; reduce costs; and improve the quality of products and services, as well as processes. Internal drivers of change can also include: changes in ownership through takeovers, mergers or acquisitions; the arrival of a new CEO; and/or the need to downsize. The new owners and/or CEO will normally bring their own views about the company and what needs to change and, like a new owner of an old house, will be tempted to alter or remodel the existing business model. Such drivers may result in alterations to the strategy, structure and processes, and to ways of working and behaving within the organization.

In sum, leaders and managers need to be aware of the forces of change. Those who detect and anticipate external drivers of change will be ready to respond to them and view them as an opportunity, rather than a threat. At the same time potential internal drivers of change should not be ignored. It is, however, important to keep in mind that internal and external drivers do not in themselves bring about change and transformation but create the need for change.

Definitions

This section will clarify some of the key terms used throughout this book such as ‘change’, ‘transition’ and ‘organization’.

Change

In general terms, change is defined as a process by which organizations move from their present state to some desired future state in order to increase their effectiveness. In other words, change is an alteration to the status quo. Such a definition is, however, rather generic and vague and illustrates that what constitutes a change is ambiguous and can mean different things to different people. To provide a more specific working definition of organizational change it is important to focus on the content, process and context of change. The *content* is *what* actually changes in the organization; it is any adjustment or alteration in the organization that has the potential to influence the physical or psychological experience of organizational members. Such alterations can be at a strategic (*transformational*) or operational (*incremental*) level. Strategic change includes organization-wide and inter-organizational transformations such as mergers and acquisitions. Strategic change has an impact on the way that the organization operates – its business systems – and on the way it has been configured – its organizational system. In contrast, operational and incremental change happens all the time out of necessity and involves anything that affects the day-to-day operations of an organization such as decisions to improve the turnaround in the recruitment process or the supply chain. The content of change is, therefore, what changes whether at a strategic or operational level. The *process* is *how* the change occurs and comprises: the pace of the change; timing; the sequence of activities; how the need for change emerges; the way decisions are made and communicated; how people are engaged with change; and how they respond to transition. It is a process that is sometimes *planned* and managed with the intention of securing anticipated objectives and benefits and is, at other times, unplanned and *emergent*. The process is critical for recipients of change since their acceptance and engagement is a key determinant of success. It is also important for managers and leaders, since they are responsible for shaping and implementing the strategy in order to effect required changes. The *context* is the *environment* (internal and external) in which an organization operates and the situation in which the change is being implemented. Building upon the importance of context, content and process it is proposed that: *Change is a dynamic force that constantly seeks opportunities, identifies initiatives that will capitalize on them, and completes those initiatives swiftly and efficiently. It is a process of searching, doing, learning and modifying which unfolds intentionally or emerges within the context of the organization* (Kotter 2014).

Transition

In order for organizational change to be successful and sustained, each affected individual and/or team will have to adapt and adjust. This process of adapting to change is referred to as *transition* and involves moving from the current ways of working and behaving to new ways of working and behaving – for example, an individual changing from one role to another; a team changing from one process for dealing with customer complaints to another; or an organization moving to a new structural arrangement. The impact of this transition on people needs to be recognized and understood since it is often transition, not the change itself, that people react to. Some may, for example, resist giving up the status quo and their sense of who they are, that is, their identity as it is expressed in their current role, while others may fear the chaos and uncertainty caused by change and feel threatened by the risk of a new beginning, and of doing and being what they have never done and been before. To effectively implement and sustain change it is, therefore, important to help people through the transition, which involves letting go of existing patterns of behaviour and ways of working – and engaging with new ones.

The difference between transition and change is subtle but important. Whereas change is something that happens to people, whether or not they agree with it, transition is what happens as people go through change. Furthermore, while change can happen very quickly, transition usually occurs more slowly. Transition is, thus, about people adopting the new ways of working and behaving (Hodges and Gill, 2015).

Organization

An organization is 'a social arrangement for achieving controlled performance in pursuit of collective goals' (Buchanan and Huczynski, 2010: 8). This definition emphasizes that it is the preoccupation with performance and the need for control that distinguishes organizations from other social arrangements. Like the human body an organization is an open system. Open systems import resources such as people, materials, equipment, information and money and then transform these inputs into output through producing services and goods. Next they export those products into the environment, as goods and satisfied customers. Unlike closed systems that maintain or move towards states of homogeneity, organizations as open systems are able to adapt to and cope with their environment and are thus able to become more flexible and responsive in an increasingly turbulent and changing world.

Organizations can be understood from several perspectives. Gareth Morgan in his book *Images of Organization* (2006) introduces the use of metaphors to describe organizations. His eight metaphors define organizations as:

1. *Machines*: the basic concept of this metaphor is that the organization follows the same principles as a machine. This means that each process is carefully selected and monitored in order to make sure that it is done as

efficiently as possible. This is done through highly specifying and standardizing the parts and processes that make up the machine.

2 *Biological organisms*: this organismic view emphasizes growth, adaptation and environmental relations.
3 *Human brains*: this perspective depicts organizations as information processors that can learn.
4 *Cultures or subcultures*: organizations as cultures are based on values, norms, beliefs, assumptions, manifestations, artefacts and rituals.
5 *Political systems*: in political organizations it is interests, conflict and power issues that predominate.
6 *Psychic prisons*: organizations as psychic prisons are where people are trapped by certain ways of thinking, which restricts creativity.
7 *Systems of change and transformation*: such organizations can adapt and change.
8 *Instruments of domination*: organizations as instruments of domination have an emphasis on exploitation and the organization imposing their will on employees.

Morgan (2006) presents these metaphors as ways of thinking about organizations and suggests that by understanding the complex characteristics of organizations it becomes possible to identify novel ways in which to design, change and manage organizations. He points out that his:

> … aim is not to present an exhaustive account of every conceivable metaphor that can be used to understand and shape organizational life. Rather it is to reveal, through illustration, the power of metaphor in shaping organizational management and how the ultimate challenge is not to be seduced by the power or attractiveness of a single metaphor – old or new – so much as to develop an ability to integrate the contributions of different points of view. (2006: xii)

In support of Morgan's approach, Richard Smith (2015) points out that these, and other metaphors, can make a profound difference to the way we manage change, in particular they provide a framework for thinking about a particular change. Smith suggests that we consider which metaphor(s) provide the best insights into the current organization and how we might look at the change from other perspectives. In other words, the process is like looking through different lenses to understand change more deeply, which helps with defining the change and with understanding its potential impact.

Other terms

A quick note about some of the other main terms used in the book. Rather than '*employees*' the term *organizational members* is used to include leaders, managers and employees at all levels. This is a more inclusive term than 'employees' as it includes volunteers in not-for-profit (third sector) groups and others who are connected to organizations but who may not have an employment relationship with them. Finally, *stakeholders* is used to refer to individuals and groups who are internal and external to the organization and who may be affected by the practice of change in organizations but who also may have the power to influence it.

The nature of change

Although change in many organizations may be a constant, the nature of it is not always the same, as change comes in a variety of shapes and sizes and can be incremental or transformational, as well as proactive or reactive, planned or emergent.

Incremental change

In terms of scale organizational change can be operational (incremental) or strategic (transformational). Incremental change is constant, evolving and cumulative and aims to provide improvements. Nearly 95 per cent of organizational changes are estimated to be incremental (Burke, 2008). A key feature of this type of change is that it builds on what has already been accomplished and has the flavour of continuous improvement (or *kaizen*, as termed by the Japanese). For instance, incremental change can include changing a product formula in such a way that customers may not notice any difference. For example, Kellogg's might change the recipe of one of its cereals by adding more dried fruit or less sugar; a retail company might outsource a function such as pensions (providing it does not lead to roles being made redundant); or an HR department might change the format but not the content of written documents such as policies, procedures or job descriptions. Incremental changes are not, however, necessarily small changes. They can be large in terms of the resources needed and their impact on people, such as adapting bonus systems to the changing consumer markets; enhancing customer resource management (CRM) systems; introducing a new type of commission on sales for how salespeople are rewarded;

developing a new product for a market on the basis of local demand; or modifying the structure of a department. Furthermore, incremental changes can lead to major improvements. For example, the family-owned US shoe company Keen, since it was founded in 2003, has taken small steps towards sustainability, both in its operations and how it gives back to society. This was illustrated when the company began manufacturing some of its shoes in Portland in the United States, and created local jobs. The company went on to design 15 per cent smaller shoeboxes that used a folding technique rather than glue to seal the box. Although this was an incremental change it had a major impact on the company's sustainability agenda. Similarly, Appalatch, an ethically driven outdoor apparel company in North Carolina uses organic cotton for its products and has incrementally transitioned all of its dyes to natural, plant-based dyes. As these examples illustrate, the potential for a business to make a difference with incremental change can be massive.

Transformational change

While change involves anything that is different from the norm, a transformation involves a 'metamorphosis' from one state to another. It is similar to a caterpillar transforming into a butterfly, which involves a marked change in its form, nature and appearance. Transformational or strategic change and everyday incremental change are different, not just in terms of their objectives but also in terms of their size, scope and breadth, and what they demand of individuals. A transformational change can occur in response to, or in anticipation of, major trends in the environment in which an organization operates. In addition, these trends frequently necessitate a significant revision of the organization's strategy, which, in turn, may require modifying internal structures and processes – which are all elements of the organization's culture – to support the new direction of the business. Since a transformation involves a paradigm shift and completely new behaviours, it means doing things differently rather than doing things better. For example, in just a few years, internet-enabled portable devices have gone from a luxury item for a few individuals to a way of life for many people who own iPhones or Android products. The ubiquitous connectivity of such devices has transformed how users go about their daily work, providing new ways of knowing, perceiving, interacting and working with people across the world. Another example is 3D printing, which can take an idea directly from a design file to a finished part or product, skipping many traditional manufacturing steps. Importantly, 3D printing enables on-demand production, which has implications for supply chains and for stocking spare parts. It can reduce the amount of material wasted in manufacturing and create objects that are difficult or impossible to produce with traditional techniques. Scientists have even bio-printed organs, using an inkjet printing technique to layer human stem cells along with supporting scaffolding. Such transformations are powerful ways in which companies are changing their business models, as is illustrated in the case below of PepsiCo.

CASE STUDY PepsiCo

PepsiCo is an example of a company that has gone through transformational change by diversifying its portfolio in response to changing consumer needs. Due to a declining soft drinks market, the company has moved away from its core product offerings to concentrate on healthy snacks. PepsiCo has invested in companies like Bare, who sell baked apple, coconut and vegetable crisps. It has also set up incubators such as Nutrition Greenhouse to accelerate the growth of early-phase food and beverage brands. Clearly, this is a transformational change for the iconic business to move away from its core offering, especially when it turns over $35 billion annually. Transformations such as that of PepsiCo involve radical changes not only in how organizations operate but also in how people perceive, think and behave at work. These changes go far beyond making the existing organization better or fine-tuning parts of it but instead are concerned with fundamentally altering the prevailing assumptions about how the organization functions and relates to its environment. Changing these assumptions entails significant shifts in the organization's values and norms and in its structures and processes that shape employees' behaviour. Not only is the magnitude of change greater, but also the change fundamentally alters the qualitative nature of the organization (Cummings and Worley, 2014). Transformational change such as that experienced by PepsiCo impacts on the deep structure of the organization, which consists of its culture, strategy, structure, business models and its people, thus disrupting what organizational members do and the way in which they work.

Discussion questions

- What were the key drivers of the change at PepsiCo?
- Why was transformational rather than incremental change needed in the company?

- How might the transformation have impacted the employees within the company?

A mix of incremental and transformational change

Rather than change being either incremental or transformational, an alternative approach that has gained widespread currency is that there is an interplay between incremental and transformational change. Traditionally known as *punctuated equilibrium*, this refers to change oscillating between long periods of stability and short bursts of transformational change that fundamentally alter an organization. The inspiration for this approach arose from two sources: first from Stephen Gould (1978) who, as a natural historian with an interest in Charles Darwin's theory of evolution, argues that there is evidence pointing to a world punctuated with periods of mass extinction and rapid origination among long stretches of relative tranquillity; and second from the research of Connie Gersick (1991), who defines the punctuated equilibrium as relatively long periods of stability (equilibrium) punctuated by brief periods of intense and pervasive transformational change that leads first to the formulation of new missions and then to the initiation of new periods of equilibrium. This pattern of punctuated equilibrium is evident, for example, in the banking sector, which is traditionally cautious, and by nature more likely to implement incremental change. Very few industries have the long history and stability that the banking industry has enjoyed. Banks depend on the firm trust of their customers, and as a result, change usually takes a long time. However, in recent years, members of the banking sector have realized that transformation is essential if they are to remain relevant in a global economy. One of the biggest changes to the banking industry is being caused by blockchain-based solutions, which enable nearly instant peer-to-peer transfer of money. Furthermore, decentralized finance solutions based on smart contract platforms, such as Ethereum, are already enabling lending platforms without the need for financial institutions. Such solutions are beginning to dominate financial services. As in banking, patterns of incremental and transformational change will vary across sectors, although in almost all industries the rate of change is increasing and the time between periods of discontinuity is decreasing.

Incremental and transformational change requires implementation at the right time, pace and level. Eric Abrahamson (2004), in his book *Change*

Without Pain, cites the example of Lou Gerstner who, when working in senior leadership positions at IBM, American Express Travel Related Services (TRS) and RJR Nabisco, knew when to implement transformational change and when to stick to incremental change. In Gerstner's first nine months at TRS he launched a massive reorganization of the card and traveller's cheque businesses, which was followed by a rash of new product introductions. This transformation was, in Gerstner's words, like 'breaking the four-minute mile'. Although Gerstner also knew when it was time to rest and was alert to how people were responding to change as well as to the early signs of change fatigue, cynicism and burnout. Furthermore, he recognized that the success of the transformation depended on the stability of the business units involved, and was mindful about how and when to implement incremental changes rather than transformational ones. At TRS no new products were launched and no new executives were brought in from outside for 18 months after Gerstner's initial transformation, but he did not sit back and do nothing. He tinkered constantly in order to prevent the company from drifting into inertia and he also fine-tuned the structure, the compensation system and the product offerings. The incremental nature of such changes allowed the company to be ready for the next wave of product launches and restructurings. Like Gerstner, managers and leaders must learn to manage the paradoxical tensions between incremental and transformational change. As Abrahamson (2004) reminds us, it is particularly easy for companies in the hurly-burly of everyday business to forget the importance of slowing down. Although being first does not necessarily mean being fastest. Indeed we would do well to remember the story of the two unfortunate campers in the jungle who noticed a jaguar stalking them. One of them sat down and put on his running shoes, while the other looked at him incredulously and said, 'You're crazy. You're never going to outrun that jaguar.' The first camper responded, 'I don't need to, I only need to outrun you.'

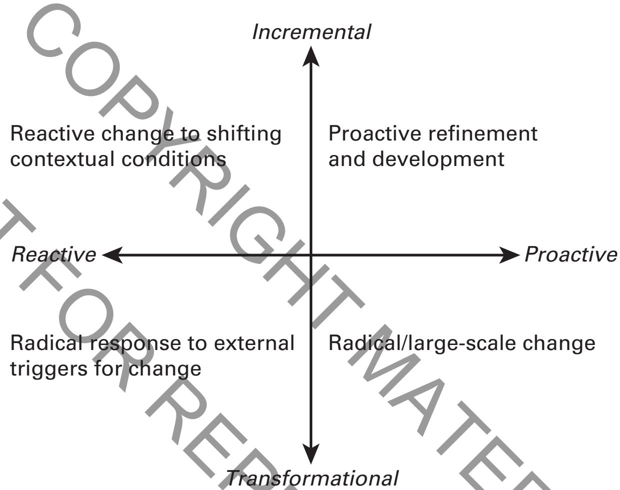
Activity

Analyse a change that you or a colleague/friend are considering introducing, for instance as part of a team you are involved in (such as a sports team). Is the change a transformational change or incremental change, or is it a blend of both? What kind of change does the team really need?

Proactive or reactive change

As outlined earlier in this chapter organizational change is triggered by a proactive or reactive response to perceived threats or opportunities in the external environment or internally in the organization. The interaction between proactive and reactive, and incremental and transformational change, is shown in Figure 1.1.

Figure 1.1 The nature of change



Incremental–reactive change occurs in response to shifting contextual issues; while *incremental–proactive* change involves refinement and development. In contrast, *proactive–-transformational* change involves large-scale change across an organization, such as structural change or a major realignment of the strategy and purpose of the organization. For example, ***Apple*** identified an opportunity for proactive–transformational change when the company reviewed the options for extensions of its product offering and as a result it eschewed the digital and video camera market and launched the iPod, followed by the iPhone. Such proactive–transformational change has earned the company billions of dollars in revenues. Proactive–transformational change is an opportunistic change, one in which a company creates strategic advantage because of something anticipated either internally or externally in the environment in which they operate.

Reactive–transformational change is a radical response to factors in the external environment or within the organization that has already occurred rather than those that are anticipated in the future. For example, ***Lego*** – a family-owned company based in Billund, Denmark, and best known for the manufacture of Lego brand toys – announced in 2004 losses of over US $400 million on annual sales of just over $1 billion. In response to this, the company was forced to take a hard look at every area of its operation including costs, overheads, margins, sales, marketing and its product offering. The leadership team implemented a reactive–transformational change plan for recovery and growth, including cutting the costs of non-performing assets. This resulted the company's Legoland parks being sold. Since then company revenues have increased and in 2019, Lego was the top ranked toy brand in the world with a brand value of approximately 6.7 billion U.S. dollars. As illustrated in the case of Lego, reactive–transformational change is something that has to happen in order to deal with unexpected external or internal triggers.

As well as being either reactive or proactive, change can also be planned or emergent.

Planned or emergent change

There are different approaches in how change emerges and evolves over time. Sometimes change is deliberate, a product of conscious reasoning and action. This type of change is *planned*. In contrast, change can unfold in spontaneous and unplanned ways. This type of change is referred to as *emergent*. The differences between the two are illustrated in Table 1.1.

Table 1.1 Characteristics of planned and emergent change

Planned change	Emergent change
Driven from the top	Initiated from anywhere in the organization
Structured	Flowing
Linear	Holistic
Deliberate	Open-ended
Logical	Evolving
Conscious	Unconscious

Planned change is an intentional intervention and is best characterized as deliberate and structured, and is a response to a need for change driven by factors in the internal and external environment in which the organization operates. This approach to change is based on the assumption that organizations are stable entities and that, in order to bring about change, an organization can be moved from its unsatisfactory current state to a desired future state, through a series of sequential steps.

Models that propose a step approach are numerous and include: Shields's (1999) five steps for transforming organizations; Beer's (1990) six steps for change; Luecke's (2003) seven steps for change; Kotter's (1996) eight-step model; Kanter, Stein and Jick's (1992) 10 commandments for successful change; and Mento, Jones and Dirndorfer's (2002) 12-step integrative framework. The number of steps proposed in each of these models may vary as well as the order in which they should be taken (see Table 1.2). However, they are all united in their proposal that change can be achieved as long as the correct steps are taken. John Kotter (1996) maintains that although change is full of surprises, his eight-step model will produce a satisfying result as long as the steps are followed. Similarly, Rosabeth Kanter and colleagues (1992) stress that with their 10 commandments of change it is an unwise manager who chooses to ignore any one of the steps. Such proponents of planned change argue in favour of change occurring through carefully phased or sequenced processes.

Models of planned change (such as those in Table 1.2) provide useful checklists for managers and leaders in terms of what needs to be considered when planning change. They provide logical and sequential prescriptions for organizational change as they map out the process from the first recognition of the need for change through to the practicalities of implementation. There is, however, no one model that is sufficient to use on its own; instead, using steps from several of the models can provide a more complete checklist. Leaders and managers should also consider adding key elements that are missing from these models such as engaging stakeholders and gaining commitment from them (these factors are discussed further in Chapters 4 and 5). When using such models it is important to remember that change rarely happens in a linear manner but instead that there is frequently a need to go back to a step not just once but several times. It may, therefore, be more appropriate to see change as a cyclical process.

Kotter's accelerator model

Instead of seeing change purely as a linear process it is more advantageous to see it as cyclical. This is emphasized by John Kotter (2014) who has reshaped his traditional step approach to change it to a cyclical model. Kotter's revised model proposes that there are eight processes or accelerators that enable change to be successful, which are:

Table 1.2 Comparison of models of planned change

Shield (1999)	Beer (1990)	Kotter (1996)	Luecke (2003)	Kanter, Stein and Jick (1992)	Mento, Jones and Dirndorfer (2002)
Define the desired result and change plans	Mobilize commitment to the change through joint diagnosis	Create a sense of urgency	Mobilize energy and commitment through joint identification	Analyse the organization and its needs for change	The idea and its concept
Create capability	Develop a shared vision	Form a guiding coalition	Develop a shared vision	Create a shared vision and common direction	Define the change initiative
Define innovative solutions	Foster support for the new vision, competence to enact it and cohesion to move it along	Develop a vision	Identify the leadership	Separate from the past	Evaluate the climate for change
Select and deploy solutions	Spread revitalization	Empower broad-based action	Focus on results, not activities	Create a sense of urgency	Develop a change plan
Reinforce and sustain business benefits	Institutionalize revitalization through policies, systems and structure	Communicate the change vision	Start change at the periphery	Support a strong leader	Find and cultivate a sponsor
	Monitor and adjust strategies in response to problems in the revitalization process	Generate short-term wins	Institutionalize success through formal policies, systems and structures	Line up political sponsorship	Prepare target audience

Table 1.2 *continued*

Shield (1999)	Beer (1990)	Kotter (1996)	Luecke (2003)	Kanter, Stein and Jick (1992)	Mento, Jones and Dirndorfer (2002)
		Consolidate gains and produce more change	Monitor and adjust strategies in response to problems	Craft an implementation plan	Create the cultural fit – making the change last
		Anchor new approaches in culture		Develop enabling structures	Develop and choose a change leader team
				Communicate, involve people and be honest	Create small wins for motivation
				Reinforce and institutionalize change	Constantly and strategically communicate the change
					Measure progress and integrate lessons learnt

1 *Creating a sense of urgency*. Urgency should start at the top of the hierarchy and leaders need to keep acknowledging and reinforcing it so that people will wake up every morning determined to find some action they can take in their day to achieve the change. According to Kotter this is absolutely critical to heightening the organization's awareness that it needs continual strategic adjustments/changes that are aligned to opportunities.

2 *Building and maintaining a guiding coalition*. The guiding coalition (GC) should be made up of volunteers from throughout the organization and represent each of the hierarchy's departments and levels, with a broad range of skills. It must be made up of people whom the leadership trusts, and include some outstanding leaders and managers.

3 *Formulating a strategic vision and developing change initiatives designed to capitalize on the opportunity*. The right vision should be feasible and easy to communicate, as well as emotionally appealing and strategically smart. It should also provide a picture of success and enough information and direction to make consequential decisions, without having to seek permission at every turn.

4 *Communicating the vision and the strategy to create buy-in and attract a growing volunteer army*. A vividly formulated, high-stakes vision and strategy, promulgated by a GC in ways that are both memorable and authentic, will prompt people to discuss them without the cynicism that often greets messages about change and that cascade down the hierarchy. If done properly, with creativity, such communications will go viral, and attract employees who buy in to the ambition of the change and share a commitment to it.

5 *Accelerating movement towards the vision and the opportunity by ensuring that the network of people removes barriers*. This involves empowering people throughout the organization to remove the barriers to successful change rather than it being the sole responsibility of leaders or managers.

6 *Celebrating visible, significant short-term wins*. To ensure success, the best short-term wins should be obvious, unambiguous and clearly related to the vision. Since people have only so much patience, proof must come quickly.

7 *Never letting up*. This means that organizations should keep learning from change and not declare victory too soon. They must continue to carry out strategic initiatives and create new ones in order to adapt

to shifting business environments and enhance their competitive positions.

8 *Institutionalizing strategic changes in the culture*. No strategic change initiative, big or small, is complete until it has been incorporated into day-to-day activities. A new direction or method must sink into the culture of the organization and it will only do so if the change produces visible results.

Although this cyclical model expands on Kotter's eight-step method, there are a number of differences between the eight steps and the eight accelerators, which are: the steps are often used in rigid, finite and sequential ways, in effecting or responding to episodic change, whereas the accelerators are concurrent and always at work; the steps are usually driven by a small, powerful core group, whereas the accelerators involve as many people as possible from throughout the organization to form the guiding coalition – the 'volunteer army'; and the steps are designed to function within a traditional hierarchy, whereas the accelerators require the flexibility and agility of a network. This means that the accelerators can serve as a continuous and holistic approach and one that accelerates momentum and agility. This cyclical approach is therefore a more realistic way to view change than the traditional step approach, since change rarely happens in a rational linear manner.

Criticisms of planned change

There are various criticisms aimed at the planned approach to change. David Buchanan and John Storey argue that those who advocate planned change are attempting to impose an 'order and linear sequence on processes that are in reality messy and untidy, and which unfold in an iterative fashion with much backbreaking' (1997: 127). Similarly, Robert Paton and James McCalman (2008) point out that the difficulty is that most organizations view the concept of change as a highly programmed process that takes as its starting point the problem that needs to be rectified, then breaks it down into constituent parts, analyses possible alternatives, selects the preferred solution and applies this relentlessly. The planned approach is thus criticized for being based on the assumption that organizations operate under constant conditions and that they can move in a pre-planned manner from one stable state to another. These assumptions are challenged by critics who argue that the rapidly changing environment weakens this theory and that organizational change is more an open-ended and continuous process than a set of pre-identified discrete and self-contained events (Burnes, 2009). As change is a complex and dynamic process it should not therefore be solidified or treated as a series of linear events. Furthermore, critics argue that the planned approach is not applicable to situations that require rapid and transformational change (Senior, 2002) – for instance, political uprisings or natural disasters such as hurricanes, tsunamis or global pandemics. In such situations, planned change may be considered an unethical, fear-producing vehicle for domination that extends existing top-down power structures (Hatch, 2012). Planned change is, therefore, criticized as slow, static and only suitable for times of stability.

These criticisms of planned change are not unfounded. Even advocates of the planned approach to change identify why it fails. For example, John Kotter (1995) identifies eight reasons that planned change efforts fail, which include: failure to establish adequate urgency to change; an insufficiently powerful guiding coalition; a missing, blocked or under-communicated vision; failure to create short-term wins; declaring victory too soon; and not anchoring changes in the corporation's culture. Other factors for the failure of planned change include: difficulty in negotiating conflicting group identities (McInnes *et al*, 2006), as well as failure to appreciate the interdependencies between the organization and the environment (Sackmann, Eggenhofer and Friesl, 2009). As Karl Weick (2000) says, although planned changes often get the credit for the success of delivering new strategies for survival, such change rarely affects the organization's underlying nature and subsequently problems usually recur.

Although planned change is the most common type of change in organizations, it is not without its limitations. It represents change as a programmatic, step-by-step process with a clear beginning, middle and end, largely choreographed and controlled from the top of the organization. Change within this context is about establishing a new order, setting new boundaries, and putting in place new structures, systems and processes. The focus is on re-establishing order and stability. This tends to ignore the complexities and contradictory nature of organizations and sidesteps the concept of change as a naturally occurring, ongoing phenomenon that emerges in an unplanned way.

Emergent change

In contrast to those who advocate a planned approach to change is the view that if change is to be truly transformational and to break new ground, it cannot be predetermined. Think for a moment about how our lives have been changed by social media such as Facebook, Pinterest, Snapchat, Twitter and all the rest. No single individual or entity invented these social media sites. They emerged, in all their weird and wonderful varieties because the internet is a powerful platform for making connections and entrepreneurs were free to develop new business models to harness that power. Emergent change, such as social media, gives everyone the right to suggest options that are diverse, radical and nuanced.

Emergent change is iterative, unpredictable, often unintentional, can come from anywhere and involves informal self-organizing groups. Advocates of emergent change emphasize that it is the uncertainty of the external and internal environment that make it more pertinent than the planned approach (Bamford and Forrester, 2003). The essential unforeseeable character of change means that the process cannot be predicted and that outcomes are often only understood in retrospect. To cope with uncertainty it is argued that organizations need to become open-learning systems where the development of strategy and change emerge from the way a company as a whole acquires, interprets and processes information about the environment. This approach stresses an:

> Extensive and in-depth understanding of strategy, structure, systems, people, style and culture, and how these can function either as sources of inertia that can block change, or alternatively, as levers to encourage an effective change process. Successful change is less dependent on detailed plans and projections than on reaching an understanding of the complexity of the issues concerned and identifying the range of available option. (Burnes 1996: 13–14)

Consequently, emergent change occurs in a similar way to musical noodling where improvisation leads to something unexpected. As such emergent change is continuous and any attempts to impose a linear sequence of planned actions, which unfold in an iterative fashion, on its untidy processes, are likely to fail.

A practical example of emergent change occurred when a small group of trainee clinicians, young leaders and improvement facilitators in the UK's National Health Service (NHS) developed and ran the first NHS Change Day, which was the biggest improvement effort in the history of the NHS. Internal activists, multiplying their impact through social media, spawned a grass-roots movement of 189,000 people who pledged to take concrete action to improve health-care outcomes. When Change Day was repeated the following year, the number of pledges exceeded 800,000. Advocates of such emergent change (see for example Dawson, 2003), say that the applicability and validity of the approach is suitable for all organizations that operate in dynamic, complex and unpredictable environments.

Despite such advantages emergent change does have a number of limitations. Research has found that it takes longer to deliver results and can be messy (Shaw, 2002). Furthermore, it has been criticized for its lack of coherence and its potential to create confusion and uncertainty due to a lack of clear objectives (Bamford and Forrester, 2003). This uncertainty can be unnerving to organizational members, especially as they will need to be able to tolerate the unknown and to cope with the paradoxes that emergent change brings about. In other words, not everyone will have the skills or the inclination to participate in such an unplanned, open-ended approach to change. As with planned change, therefore, the emergent approach has pros and cons that need to be considered.

Rather than seeing change as being either planned or emergent a number of research projects have attempted to understand the interplay between planned and emergent change. For instance, Alexander Styhre (2002) provides an example of a Swedish telecommunication company whose planned attempt to implement a new manufacturing unit was derailed by an unanticipated recession that thwarted its original plans, resulting in them being transformed into a more emergent approach. Similarly, Miguel Cunha and Rita Cunha (2003) cite the socialist Cuban government's planned, top-down regulatory change as being combined successfully with emergent, entrepreneurial efforts. To view the interplay between planned and emergent change requires, according to Reut Livne-Tarandach and Jean Bartunek, the reconceptualization of the role of leaders and decision makers. These authors propose that:

> Leaders should no longer be considered... solely as initiators and implementers of pre-planned organizational change; nor should they be seen... solely as reactive agents to emergent change forces. Rather they should develop the ability to connect the two to create synergy. (2009: 28)

In other words, instead of following either a planned or emergent approach the issue for leaders and managers is to create synergy between the two and adopt the most appropriate approach that matches the context in which the organization is operating.

Either/or approaches

Contingency model of change

The contingency theory is based upon contextual factors determining whether a planned or emergent approach to change is adopted. As Dexter Dunphy and Doug Stace point out managers:

> … need a model of change that is essentially a 'situational' or 'contingency model', one that indicates how to vary change strategies to achieve 'optimum' fit with the changing environment. (1993: 905)

Instead of seeking a 'one best way' to change, the contingency approach is founded on the theory that the structure and performance of an organization are dependent on the situational variables that it faces. This approach shares with planned change the assumption that change can be directed through a series of steps. However, it parts company with the planned approach in proposing that the nature of change depends on, or is contingent on, a range of organizational factors such as the urgency of the change, the scale of the change and receptivity to the change. There will therefore be different types of steps that managers will need to take, depending on the confluence of various factors. The strength of the contingency theory is that it explains organizational change from a behavioural viewpoint where managers make decisions that account for specific circumstances, focusing on those that are the most directly relevant, and intervening with the most appropriate actions. The best course of action is the one that is fundamentally situational, matched to the needs of the circumstances. The contingency approach proposes no formulas or guiding principles for organizational change, instead the focus is on achieving alignment and a good fit to ensure stability and control.

Critics of the contingency approach argue that the theory assumes that leaders and managers do not have any significant influence and choice over situational variables and structure. Instead critics argue that an organization does not necessarily have to adapt to the external environment, while organizations wishing to maintain or promote a particular approach can choose to influence situational variables to achieve this. So rather than having little choice, and being forced to change their internal practices to fit in with external variables, organizations can exercise some choice over these issues (By, 2005).

The flexible nature of the contingency perspective means that change can be adapted to the environment and can be fast or slow, incremental or transformational, loosely or tightly controlled, driven by internal or external triggers, and appropriate to varying levels of uncertainty. It just depends on the situation.

Process-driven or people-driven change?

Change in organizations is often either process driven to create benefits and economic value, or people driven. Michael Beer and Nitin Nohria (2000) refer to the former as Theory E and the latter as Theory O. The purpose of Theory E, they argue, is the creation of economic value, often expressed as shareholder value. As such it is planned, programmatic change, based on formal structures and systems, driven from the top of an organization. This type of change usually involves the use of economic incentives, drastic redundancies, downsizing and restructuring. In contrast, Theory O focuses on the development of employees in order to implement the change as well as opportunities to learn from the experience. Moreover, it advocates encouraging participation from employees and in fostering employee behaviours and attitudes that will sustain change.

So which is the best approach to adopt? Unfortunately neither method guarantees success. Theory E, which aims for rapid improvements in profitability, often succeeds in the short term but does so at the expense of future sustainability. By reducing employee roles, it often leaves survivors demoralized with any commitment that these employees have to the company quickly evaporating, and talented members that the company want to retain often being the first to snap up redundancy packages and look for a job in another company. Theory O is not an ideal solution either. This necessitates reorientating the organizational culture around employee commitment and learning, which can be a long-term proposition. Although this may produce smarter, more adaptive employees in a few years, many companies will not be able to wait that long for results.

So instead of an either/or approach leaders need to consider using a mix of Theory E and Theory O. General Electric (GE) is an example of a company that has employed both approaches in turn. When former CEO Jack Welsh took over he initially implemented a host of redundancies and got rid of underperforming work units through draconian Theory E methods. He followed this with Theory O change initiatives, which were designed to: improve the competitiveness of the company's culture by making it faster, less bureaucratic and more customer-focused; and also to develop the capabilities and motivation of employees.

As in the case of GE, organizations can use Theory O and Theory E in sequence. However, such an approach can often take years to fully implement. Additionally, if there is a change in the senior leadership team during the change process then the sequencing may lose momentum and direction, or be stopped altogether, which can cause uncertainty and cynicism about the change. Instead of using only one theory or sequencing both theories, organizations should consider implementing both theories at the same time, since the simultaneous implementation of both Theory E and Theory O is likely to lead to a more sustainable transformation. As Beer and Nohria conclude:

> Companies that effectively combine hard and soft approaches to change can reap big payoffs in profitability and productivity... Those companies are more likely to achieve a sustainable competitive advantage [and]... reduce the anxiety that grips whole societies in the face of corporate restructuring. (2000: 134)

In other words, the challenge for organizations is to combine Theory O and Theory E because only one on its own has limitations whereas together they can reap benefits.

Recognizing the need for change

Organizations are being constantly challenged to grow and change within the context of a volatile, uncertain, complex and ambiguous (VUCA) world. To achieve this there must first be recognition that change is desirable and feasible. Microsoft is a company that is cognizant of the changing environment in which it operates and of the need to transform its business in order to stay ahead of competitors and survive. In July 2013 Steve Balmer announced on the online Microsoft News Centre that, 'as the times change so must our company'. The vision to have 'a computer on every desktop and in every home' that had been in place since Microsoft's inception in 1975 seemed long surpassed in many parts of the world. Balmer replaced it with 'creating a family of devices and services for individuals and businesses that empower people around the globe at home, at work and on the go, for the activities they value most'.

Not all companies that are successful are like Microsoft and recognize the need for change. One of the paradoxes of organizational life is that success often sets the stage for failure. This is illustrated in what David Nadler and Robert Shaw (1995) call the 'trap of success', which means that after a prolonged period of success organizations become locked into the patterns of behaviour that produced their original success. These patterns become codified or institutionalized and are rarely questioned, which can lead to complacency, arrogance and an internal focus only. As a result, it is taken for granted that the relation between the organization and its environment will automatically be successful. This can result in an organization becoming *learning disabled*, in that it becomes incapable of looking outside, reflecting on success and failure, accepting new ideas and developing new insights. Consequently, it decreases its customer focus, and costs increase. If unchecked, the ultimate outcome of this trap of success can be the 'death spiral', which involves a decline in performance, denial about what is happening and more of the same behaviours and approaches that result in a negative impact on customer focus, cost and innovation. The list of companies that have entered the death spiral is long and growing and includes BlackBerry, Nokia, EMI, Time Warner, AOL, Toys 'R' Us and Kodak. The implosion of these companies, and others, is a reminder of what happens when organizations either fail to adapt to the need for change, or cannot flex their business model enough to meet customer needs.

Most companies that become learning disabled die relatively slow deaths rather than suffering a sudden collapse. Sometimes extinction is inevitable because the business is so fundamentally deficient or structural changes in markets mean the business model is uneconomic. Companies can, however, be saved by transformational change if the decay is not too extensive. Netflix is one such company that has weathered the storms of the external environment and transformed its business model as is illustrated in the case below.

CASE STUDY Netflix

Netflix has consistently disrupted the media business through its ability to innovate relentlessly. Its online subscription model upended the movie rental business and drove industry giant Blockbuster into bankruptcy. Later, Netflix pioneered streaming video and introduced binge-watching to the world. To begin with Netflix earned most of its money selling movies, not renting them. However, before long the co-founders Reed Hastings and Marc Randolph who wanted to ride the new e-commerce wave and become the 'Amazon of' something, realized that it was only a matter of time before Amazon and Walmart would begin selling DVDs as well. Once that happened, it was unlikely that Netflix would be able to compete and they would have to find a way to make the rental model work. To address this the company conducted a major restructuring and rebranding exercise focusing on two lines of businesses: DVD home delivery; and video streaming. This was poorly managed, and in October 2011 Netflix announced that it had lost 800,000 US subscribers because of the badly managed change. The subscription model had begun as an experiment but no one seemed to want to rent movies by mail, so Netflix were desperate to find a different model and kept trying things until through trial and error they hit on something that worked – streaming and making programmes.

As Netflix began to grow it was constantly looking for ways to increase its business. One idea that continually came up was expanding to Canada, since it is just over the border from Netflix's US base, is largely English speaking, has a business-friendly regulatory environment and shares many cultural traits with the US. It just seemed like an obvious way to increase sales. But Hastings and Randolph decided against this for a number of reasons. First, while Canada is very similar to the US, it is still another country, with its own currency, laws and other complicating factors. Also, while English is commonly spoken in most parts of Canada, in some regions French predominates. So what looked simple at first had the potential to become complex. The second and more important reason was that it would have diluted their focus. This became what Randolph called the 'Canada Principle', or the idea that the company needed to maximize its focus by limiting the number of opportunities that it pursued. It is why Netflix dropped DVD sales to focus on renting movies and then dropped a la carte rental to focus on the subscription business. That singularity of focus played a big part in Netflix's success, which is more of a guiding business philosophy. For every good idea, Randolph believes that there are a thousand bad ideas from which it is indistinguishable. The only real way to tell the difference, he believes, is to go out and try them, see what works, discard the failures and build on the successes. What has made Netflix successful is not just one big idea. In fact, just about every assumption they made when they started the company was wrong. Rather, it was what they learned along the way that made the difference. The company has done what many other companies in the entertainment industry have been unable to do: execute a major change. One of its earlier competitors, Blockbuster, no longer exists because it was unable to make the change that Netflix has made.

Discussion questions

- Conduct a search on the internet to find out what makes Netflix so innovative.

- How might the lessons learned by the co-founders be applied to other organizations?
- Identify other companies that have been successful through an innovative approach to change. What have these companies done that works well and what lessons have they learned?

Summary

We are living in an age of accelerating complexity and turbulence where change is an ever-present feature of organizational life, both at an operational and strategic level. Against a backdrop of external and internal factors – including shifts in globalization, black elephants, the rapid pace of technology advancements and changes in demographic trends – few would dispute that the primary priority for organizations is change, whether planned or emergent, incremental or transformational.

Whatever its nature, change is an opportunity to make or become different through new ways of organizing, working and behaving. Transformational change and everyday incremental change can be viewed as different, not just in terms of their objectives but also in terms of their processes and size, scope and breadth, and what they demand of leaders and managers. Transformational change can be much more disruptive to what people do and the way that they work. Furthermore, change can be planned or emergent depending on the context in which an organization is operating. Planned change is an intentional intervention for bringing about change and is best characterized as deliberate, structured and linear. In contrast, emergent change is described as unpredictable and often unintentional; it can come from anywhere and involves relatively informal self-organizing.

Organizations may fail to recognize the need for change because leaders and managers pay insufficient attention to what is happening in the external environment. Even if they are aware of what is happening, they may fail to recognize the implications for their organization. This can lead to the trap of success and, ultimately, the death spiral. When identifying the need for change, leaders and managers need to be cognizant of how change will impact on individuals – as discussed in the next chapter.

Notes

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