Are You Change-Ready? Preparing for Organizational Change

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2

Are You Change–Ready?

Preparing for Organizational Change

Key Topics Covered in This Chapter

- *Why leaders must be respected and effective for change to happen*
- *The role of motivation in change-readiness*
- *The importance of a nonhierarchical culture in implementing change*
- *Tips on how to become "change-ready"*

THE INFORMATION and advice given in this book will be of little use if your organization is not "change-ready." By change-ready we mean that the people and structure of the organization are prepared for and capable of change. An organization is change-ready when three conditions are present:

1. Leaders are respected and effective.
2. People feel personally motivated to change.
3. The organization is nonhierarchical and people are accustomed to collaborative work.

This chapter will delve into these conditions in greater detail and explain how you can cultivate them in your company.

Respected and Effective Leaders

Everything we know about management tells us that bad bosses—people who are neither respected nor effective—are absolute deterrents to organizational performance. They cannot retain good employees and they cannot motivate those who remain. A company can have terrific pay and benefits, employee-friendly policies, and all the other things that induce employee loyalty and retention, but a few bad apple managers can spoil the barrel. In addition, inept leaders in key positions can thwart well-designed plans to improve performance. In writing about the problem of "C performers," Beth Axelrod, Helen

Handfield-Jones, and Ed Michaels of McKinsey & Company pinpoint some of the key issues raised by "bad managers":

> *[K]eeping C performers in leadership positions lowers the bar for everyone—a clear danger for any company that wants to create a performance-focused culture. C performers hire other C performers, and their continued presence discourages the people around them, makes the company a less attractive place for highly talented people, and calls into question the judgment of senior leaders.*[1]

If you have lots of mediocre managers in your organization, don't expect to get very far with your change program. C performers are ineffective at motivating people to embark on difficult tasks. If it's in your capacity, culling out C performers at every level of leadership, and replacing them with individuals who are effective and respected by their people, will move you a step closer to being change-ready.

Motivation to Change

The second necessary condition for change-readiness is a high degree of motivation on the part of employees to change aspects of the organization. This motivation typically results from tangible dissatisfaction with the status quo and an eagerness for something measurably better. A certain level of nervousness, fear, or discomfort—resulting in a clear sense of *urgency*—must be in the air for real change to have a chance.

The quality revolution led by the late W. Edwards Deming demonstrated, on a broad scale, how the attitudes of individuals and institutions toward the status quo can either pave the way for change, or hold it at arm's length. Deming was a protégé of Walter Shewhart, who developed the theory and practice of statistical process control (SPC) in the 1930s at AT&T's Western Electric division. Deming diffused SPC principles to the wider world of U.S. manufacturing during the war years, but to his disappointment, those principles were abandoned and largely forgotten in the post-war era, when U.S. business found itself essentially unchallenged in the world. American manufacturing was satisfied, complacent, and comfortable, and didn't have much interest in Deming's quality principles.

Halfway around the world, however, America's competitors were extremely change-ready. Japan's industrial base had been flattened by the Allied bombings. Its resources were few, and its products were viewed as shoddy and poorly designed. Worse, millions of people were unemployed. Everyone in Japan knew that industrial revitalization was the only way out of this desperate situation. And Deming, a prophet ignored in his own land, offered a blueprint for success. As described by Richard Luecke in his book of history lessons for modern managers:

> *Deming told the Japanese leaders that following [the SPC] approach would result in a "chain reaction" of good things for their companies. Improved quality would result in decreased cost (less rework, fewer delays, less scrappage), which would result in improved productivity, which would lead to the capture of markets, business survival, and more jobs.*[2]

Eager and ready for change, Japan's industrial leaders embraced Deming's gospel on manufacturing quality and got workers and managers at all levels involved. Between 1950 and 1970, almost 15,000 engineers and many more thousands of factory supervisors were educated by Deming and others in the principles of statistical process control. Quality became something of an industrial religion in Japan, and Deming was its high priest.

The quality movement changed Japanese industry in fundamental ways, and those changes stuck. Before long, Japanese manufacturers managed to take over the motorcycle market, the small car market, the market for inexpensive wristwatches, and the consumer electronics market. From those beachheads, they began moving upstream in computers, high-end timepieces, and luxury automobiles. They were also taking most of the awards for excellence in design and reliability. And consumers were discovering that Japanese-made products, paradoxically, offered higher quality *and* lower cost.

Ironically, the United States—the nation that invented SPC—didn't begin to adopt quality methods in serious ways until the late 1970s, when Ford Motor Company's Donald Peterson hired Deming to teach his people SPC principles. What made Ford change-ready?

It's simple. The company was in a death spiral; it was losing money hand over fist, and the Ford name had become an acronym for "Fix Or Repair Daily." Both management and rank-and-file employees knew in their bones that something had to change. Unlike Ford, crosstown rival General Motors remained complacent, continuing to bask in the delusion that everything was just fine for another five years. In fact, when GM's own Quality & Reliability staff confronted top management with the depth of the company's quality problems, their study was dismissed. The CEO and his circle remained solid in their conviction that GM was the world's finest automaker, and the company against which all others had to be measured.[3] Only a harsh awakening would launch GM into the change it required.

Eventually, SPC principles were widely embraced by U.S. manufacturers, but not until managers and employees at many levels had lost their complacency and were ready to receive them.

Challenging Complacency

Many successful change programs grow out of crisis. Ford's "change-or-die" story was repeated at Continental Airlines, Harley-Davidson, the Martin guitar company, IBM, and many others. This raises an important question: Does an organization have to wait for a crisis before change is possible? According to Harvard Business School professor Mike Beer, the answer is no. He believes that change leaders can raise concerns about a current, problematic situation, and urge management to challenge the complacency that fosters it—without resorting to "crisis mode" tactics. He offers the following four approaches for accomplishing this goal:[4]

1. **Use information about the organization's competitive situation to generate discussion with employees about current and prospective problems.** Top management, he says, often fails to understand why employees are not concerned about productivity, customer service, or costs. Too often this is because management has failed to put employees in touch with the relevant data. In the absence of that data, everything appears to be fine.

2. **Create opportunities for employees to educate management about the dissatisfaction and problems they experience.** In some cases, top management is out of touch with weaknesses of the business or emerging threats—things that frontline employees understand through daily experience on the factory floor or in face-to-face dealings with customers. If this is your company's problem, find ways to improve communications between top management and frontline people.

3. **Create dialogue on the data.** Providing data is one thing. Creating dialogue on the data is something entirely different and more productive. Dialogue should aim for a joint understanding of company problems. Dialogue is a means by which both managers and employees can inform each other of their assumptions and their diagnoses.

4. **Set high standards and expect people to meet them.** The act of setting high standards creates dissatisfaction with the current level of performance.

Complacency is a barrier to change. When people are comfortable with the way things are, they are oblivious to things that need changing. How complacent is your organization? Table 2-1 details some signs of complacency to be on the lookout for. Challenge every one you see!

Rewards

In exploring the subject of motivating change, it is important to include some discussion of rewards. Almost all fundamental changes in organizations involve some changes in the rewards system. Most people would agree that personal rewards act as a powerful "invisible hand" in altering behavior and encouraging change.

Much academic research has reached what seems to be an obvious conclusion: a well-aligned compensation system encourages more of the behaviors (or outcomes) you want and fewer of the behaviors (or outcomes) you hope to discourage. If you want a clear example, you needn't look any farther than Nucor's steelmaking

TABLE 2 - 1

Is Your Organization Complacent?

Signs of Complacency	Examples
No highly visible crisis.	The company is not losing money; no big layoffs are threatened.
The company measures itself against low standards.	The company compares itself to the industry average, not to the industry leader.
Organizational structure focuses attention on narrow functional goals instead of broad business performance.	Marketing has one measurement criterion; manufacturing has another that is unrelated. Only the CEO uses broader measures (return on invested capital, economic value added, etc.).
Planning and control systems are rigged to make it easy for everyone to make their functional goals.	The typical manager or employee can work for months without encountering an unsatisfied or frustrated customer or supplier.
Performance feedback is strictly internal. Feedback from customers, suppliers, and shareholders is not encouraged.	The culture dictates that external feedback is either without value or likely to be uninformed. "Customers really don't know what they want. We do."
Evidence that change is needed results in finger-pointing.	"It's manufacturing's problem, not ours."
Management focuses on marginal issues.	"The ship is sinking. Let's rearrange the deck chairs."
The culture sends subliminal messages of success.	Plush offices, wood paneling, and fine art adorn corporate offices.
Management believes its own press releases and mythology.	"We are the greatest ad agency in the country. We set the standard for our industry."

Source: Adapted from John P. Kotter, *Leading Change* (Boston, MA: Harvard Business School Press, 1996), 39–41.

operations, where output and pay are closely linked, and where employees are more productive than steelworkers anywhere else.

Less obvious to the change planner/leader is which behaviors and outputs to reward. These must be situationally determined. Making a mistake in the rewards regime can throw a monkey wrench into the works. So, to make your organization more change-ready, check the alignment of your rewards system and the behaviors you want to encourage. Business professor Edward Lawler makes the point that different reward systems are more appropriate at different phases of a change initiative.[5] For example:

- Performance-based pay plans, such as stock options and profit sharing, are most appropriate during the motivation stage of change.
- During the implementation phase, bonuses for achieving performance targets and successful implementation are useful.
- Finally, once change has been effected, the organization may want to change to a pay-for-performance regime that focuses on the strategic performance and the attraction/retention of talented people.

Rewards alone cannot produce desired changes if the people charged with making change happen lack the knowledge, information, and power they need to do the job. Thus, rewards must be part of a larger package of transformational levers.

A Nonhierarchical Organization

If an organization needs to undergo economically driven change, involving selling off assets, laying people off, and reorganizing around a more manageable core, a hierarchical structure may not be an impediment. In fact, a highly managed, command-and-control structure may be optimal for such an initiative to take hold. But other types of change—of processes and culture—require something much different.

For such changes, hierarchy must be reduced before an organization is truly change-ready. Trying to change a hierarchical, command-and-control organization is like swimming upstream. It can be done, but it will wear you out and reduce your odds of success. Here's why:

- In hierarchical organizations, decisions are made at the top and passed down through intermediaries. But people resist solutions imposed by people who lack familiarity with day-to-day operations.

- Organizations that aim to change need a certain number of entrepreneurial employees—people who like to try new things and who are comfortable with taking risks. But these entrepreneurial spirits are usually rarities in hierarchical firms.
- Hierarchy protects two enemies of change: bureaucracy (the protectors of "how we do things around here") and a sense of entitlement among employees—that is, a sense that "If I just stay in my little cubicle and continue doing what I've always done, my job will be guaranteed."
- Effective change demands collaboration between willing and motivated parties. Unfortunately, hierarchical companies are better at telling people what to do than at getting employees to collaborate.

The problem with hierarchy is that it simply doesn't facilitate collaborative work—one of the important skills that employees must have in a change-ready organization. When hierarchy dominates the culture, corporate commissars do all the thinking, control access to information, and tell everyone what to do. Under these circumstances, collaboration is an unnatural act.

There are two ways to overcome the problem of hierarchy. The first is to push the organization toward a more decentralized business model in which individual units have greater autonomy. This in itself would be a major "Theory O" change initiative. If that organizational makeover is not possible in the short run, then follow the second course: create opportunities for collaboration between people in different units and at different levels. For example, set up cross-functional teams to deal with key issues such as employee benefits or improvement of processes that span several departments.

Becoming Change-Ready

If your organization isn't change-ready, the following sections outline things you can do to push it closer to this goal.

Do a Unit-by-Unit Change-Readiness Assessment

Although the organization as a whole may be unprepared, specific units are often ready to go—that is, they have respected and effective leaders, they are motivated to change, and people in those units are accustomed to working together in collaborative ways. Start change programs in these prepared units, and use them as test beds for your change initiative.

Develop More Participative Approaches to How Everyday Business Is Handled

Do what you can to develop the "habits" of participative work. Specifically:

- push decision-making down to the lowest possible levels;
- begin sharing information freely;
- make communication a two-way street—talk, but also listen;
- eliminate unnecessary symbols of hierarchy and unequal status—executive lunch rooms and parking spaces, high- and low-status offices;
- encourage participatory management;
- get into the trenches with frontline employees—and encourage other managers to do the same;
- give people practice in collaborative work between functions by attacking projects and problems through cross-functional teams; and
- help people see the "why" of change, and work with them to discover the "what."

Give People a Voice

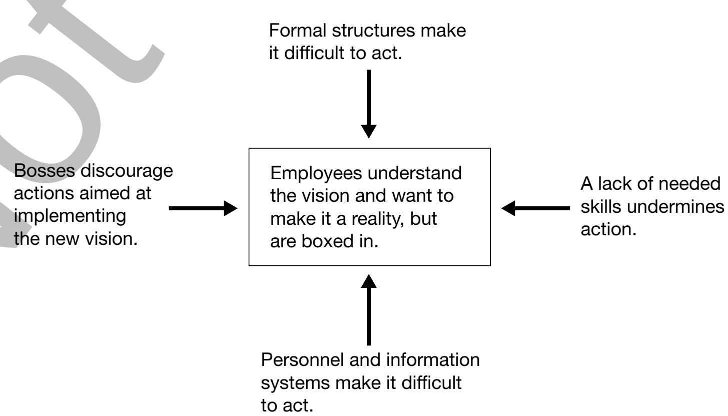
Voice empowers people to act. Richard Axelrod writes that:

> *The cornerstone of any democratic process is* voice*—the power to be heard and to influence outcomes. Maximizing voice means widening the circle of involvement to encompass those likely to be affected by the change process, including those who might be opposed or who think differently. When people really believe their voice counts, a critical mass for change spontaneously emerges. But in companies that lack interactive discourse, it's harder to mobilize the energy and the innovation required to reverse sagging fortunes.*[6]

John Kotter makes the point that employees generally won't help—or cannot help—with a change effort if they feel relatively powerless or voiceless. He has also identified barriers to empowerment that the rest of us are likely to overlook (see figure 2-1). The formal structure of an organization is one of these barriers. If, for example, the goal or vision is to "focus on the customer," an organizational structure that fragments resources and responsibilities into disconnected silos will be an impediment to change. Likewise, a structure built on phalanxes of middle managers will probably block any plan to empower lower-level employees.

FIGURE 2-1

Barriers to Empowerment



Source: John P. Kotter, *Leading Change* (Boston, MA: Harvard Business School Press, 1996), 102.

If you're serious about making the organization change-ready, you'll have to eliminate or lower these barriers. (See "Tips for Empowering People" for more information about this process.)

Drive Out Fear

The quality methodology developed by W. Edwards Deming included fourteen points for effective management. One of those points urged managers to drive fear out of the workplace. An organizational culture dominated by fear is incapable of serious change. Fear encourages everyone to avoid risks, hunker down, and keep their mouths shut—even to conceal disappointing results. Consider this example, which demonstrates how an atmosphere of fear hides the truth and keeps people from coming to grips with needed change.

Tips for Empowering People

Employees who are empowered are essential for successful organizational change. Here are some tips to empower the people who work for you:

- Encourage innovative thinking.
- Demonstrate respect for employees—and do it regularly.
- Delegate, and don't micromanage.
- Extend trust. If you are dissatisfied with the result, identify the cause and work on it.
- Be flexible, and demonstrate that flexibility to others.
- Release control of a project to others at the first opportunity.
- Encourage risk-taking and be tolerant of failures.
- Spread decision-making authority around.

Back in the early 1980s, before General Motors's leadership faced up to its quality problems, a group of managers and engineers conducted a study to determine what had gone wrong with the company's X-car and J-car projects, which were plagued with quality problems in their early production years. As described by Gregory Watson in his book *Strategic Benchmarking:*

> *J-car veterans purged themselves in these [interview] sessions, describing how the pressure to keep to schedule and avoid reporting bad news to top management had led them to take shortcuts, compromise on quality, and even fudge test results on the J-car. It was revealed that when then-President and CEO James McDonald arrived with his entourage at the Arizona test track to try out the pre-production J-car, he unknowingly got behind the wheel of a vehicle whose engine had been secretly souped up and filled with special fuel to conceal its anemic performance. The test track itself had been redesigned during the previous few days to eliminate grades the car could not master.*[7]

Obviously, change cannot happen in an environment gripped with fear. For example, people in despotic nations know that the best way to survive is to shut up, follow orders, and cover up mistakes when necessary. But before long, these countries find themselves outpaced by their more open rivals. Companies are no different. Employees at all levels must feel free to challenge the status quo, identify problems, and suggest solutions—even when their views conflict with those of the leadership. They must also feel free to try new things without fear of retribution if they fail.

Summing Up

Launching a change initiative is not likely to succeed if the organization is not change-ready. This chapter described three characteristics of change-readiness that your company should possess before you launch a change initiative:

- **The organization has effective and respected leaders.** Leaders who lack those qualities cannot get people to change. If you don't have the right kinds of leaders, get them.
- **People in the organization are personally motivated to change.** They are sufficiently dissatisfied with the status quo that they are willing to make the effort and accept the risks involved with doing something new. Even in the absence of a crisis, good managers can get people motivated to change.
- **The organization has a nonhierarchical structure.** Hierarchy may present no impediment to a strictly economically driven change program, but it is a barrier to all others. Managers need to either reduce the hierarchy or work around it by giving people collaborative work assignments.

In addition, four suggestions were offered for making an organization change-ready:

- Do a unit-by-unit change-readiness assessment.
- Develop more participative approaches to how everyday business is handled.
- Give people a voice.
- Drive out fear.

Notes

Chapter 2

1. Beth Axelrod, Helen Handfield-Jones, and Ed Michaels, "A New Game for C Players," *Harvard Business Review* 80, no. 1 (January 2002): 83.

2. Richard Luecke, *Scuttle Your Ships Before Advancing* (New York: Oxford University Press, 1994), 73.

3. For a fascinating account of GM's slow awakening to its quality problems, see Gregory H. Watson, *Strategic Benchmarking* (New York: John Wiley & Sons, Inc., 1993), 129–143.

4. Michael Beer, "Leading Change," Class note 9-488-037 (Boston: Harvard Business School, 1988, revised 1991), 2.

5. Edward E. Lawler III, "Pay System Change: Lag, Lead, or Both?" in *Breaking the Code of Change,* eds. Michael Beer and Nitin Nohria (Boston, MA: Harvard Business School Press, 2000), 323–336.

6. Richard Axelrod, "Democratic Approaches to Change Make a Big Difference in Turbulent Times," *Harvard Management Update,* November 2001, 3.

7. Gregory H. Watson, *Strategic Benchmarking* (New York: John Wiley & Sons, Inc., 1993), 131.

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