08 Change and the management of change

This chapter covers syllabus section 1.8 (Higher level only)

On completing this chapter you should be able to:

- H explain the causes of change and the factors causing resistance to change
- H examine the use of Lewin's force-field analysis and the relative importance of driving and restraining forces
- H evaluate different strategies for reducing the impact of change and the resistance to change.

SETTING THE SCENE

IT drives business change at Volkswagen (VW)

Radical changes to the way the IT department supports departments within VW have led to significant cost reductions and quality improvements. VW operates in the world's most competitive car markets. It faces twin threats of changing consumer tastes and Asian rivals who operate with much lower labour costs. Constant change is needed to maintain competitiveness. VW has a clear vision for all major changes it introduces – to reduce costs, improve quality and reduce product development times. These will combine to increase sales. The number of different IT programs has been reduced from 4000 to just 300 and the company is to cut thousands of jobs across all departments over the next two years.

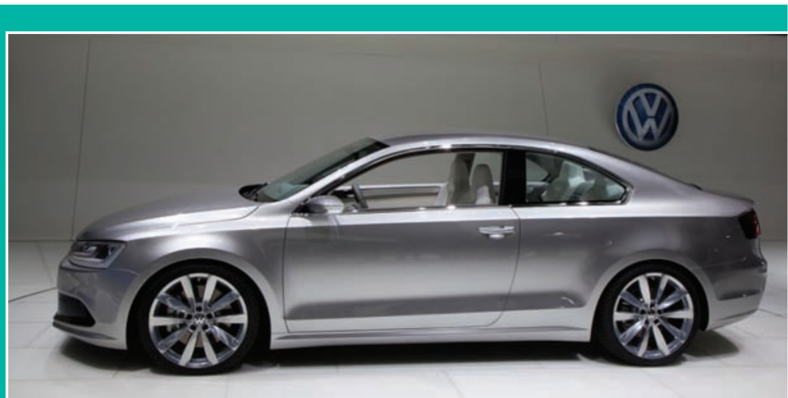
Following the complete redesign of the IT division, it now has a 'horizontal' IT team that connects different parts of the business together into processes rather than departments. For example, the IT team will bridge the gap between market research, designers who know how to design a new car and the production team who know best the process of building it. Chief technology officer Stefan Ostrowski explained that 'we want to design quality cars that are easy to build – IT acts as the link between the different departments that are involved in this process'.

VW trained 400 IT staff in business processes and in how to mediate between different departments. IT staff are rotated to different business areas every four years to give staff new skills. 'Communication was also a key part of this change as if IT does not explain its new role in clear business language you will not change anything,' said Ostrowski.

Source: www.computerworlduk.com/management

Points to think about:

- Why did VW realise that constant change is necessary?
- Why do you think a 'clear vision' or objective is important before making changes?
- Explain why improved communication and training were key features of the successful changes to the work of VW's IT department.
- Do you think important business changes could take place without the support of staff?



Introduction

Change is the continuous adoption of business strategies and structures in response to internal pressures or external forces. Change happens whether we encourage and welcome it or not. To take control of change and to ensure it is a positive process, businesses must have a vision, a strategy and a proven and adaptable process for managing change.

KEY TERM

change management planning, implementing, controlling and reviewing the movement of an organisation from its current state to a new one

Causes of change

EXTERNAL CAUSES

Today, change in business is not the exception but the rule – it has become an accelerating and ongoing process. 'Business as usual' will become increasingly rare as global, economic and technological upheavals necessitate a business response. Change management requires firms to be able to cope with dramatic one-off changes as well as more gradual evolutionary change. Table 8.1 identifies some common external causes of change and strategies for managing them.

Incremental change

Evolutionary or incremental change occurs slowly over time. The trend towards more fuel-efficient cars has been gradually taking place over the last few years. Such change can be either anticipated or unexpected. The decision to increase the London congestion charge was announced months in advance, but a sudden oil price increase may not have been expected. Incremental changes that are expected tend to be the easiest to manage.

Dramatic change

Dramatic or revolutionary change, especially if unanticipated, causes many more problems. Civil conflict in Kenya in 2008 forced many safari holiday companies to re-establish themselves in other countries or markets. In extreme cases, dramatic change might lead to a total rethink of the operation of an organisation – this is called business process re-engineering.

KEY TERM

business process re-engineering fundamentally rethinking and redesigning the processes of a business to achieve a dramatic improvement in performance

EXAM TIP

When discussing how change will affect a business and its strategies, try to analyse whether the change was incremental or dramatic, anticipated or unanticipated.

ACTIVITY 8.1

8 marks, 12 minutes

1 Identify some recent changes in the external business environment that have an incremental impact on business. [4]

2 Identify other recent changes that have had a dramatic impact on business. [4]

ACTIVITY 8.2

Demographic, social and cultural changes can have an impact on business decisions. Research the most significant social or cultural factors that have occurred in your country in recent years, for example migration, employment of women or population changes such as an ageing population.

Analyse how any one business in your country has responded to the changes you have identified.

INTERNAL CAUSES

Table 8.2 identifies some common internal causes of change and strategies for managing them.

Factors causing resistance to change

This is one of the biggest problems faced by organisations when they attempt to introduce change. The managers and workforce of a business may resent and resist change for any of the following reasons:

- Fear of the unknown – change means uncertainty, which worries some people. Not knowing what may happen to your job or the future of the business leads to increased anxiety – this results in resistance.
- Fear of failure – change may require new skills and abilities that, despite training, may be beyond a worker's capabilities. People know how the current system works, but will they be able to cope with the new one?
- Losing something of value – workers could lose income, status or job security as a result of change and they will want to know precisely how the change will affect them.
- False beliefs about the need for change – to allay their fears and to avoid the risks of change, some people fool themselves into believing that the existing system will continue to work without the need for radical change.

Nature of change	Examples	Strategies for management
Globalisation – increasing interdependence of countries' economies through free trade and multinational company investment	• New opportunities to sell products in other countries. • Increased competition from products made more cheaply in other countries – often by multinationals.	• Use either pan-global marketing or localisation strategies. • Achieve and try to maintain a competitive advantage.
Technological advances – leading to new products and new processes	• Products: new computer games, iPods and iPhones, hybrid-powered cars. • Processes: robots in production; computer-assisted design (CAD) in design offices and computer systems for stock control.	• Staff retraining. • Purchase of new equipment. • Additions to product portfolio – other products may be dropped. • Need for quicker product development which may require new organisational structures and teams.
Macro-economic changes – fiscal policy, interest rates, business cycle	• Changes in consumers' disposable incomes – and demand patterns that result from this. • Boom or recession conditions – need for extra capacity or rationalisation.	• Need for flexible production systems – including staff flexibility – to cope with demand changes. • Explain need for extra capacity or the need to rationalise. • Deal with staff cutbacks in a way that encourages staff who remain to accept change.
Legal changes	• Changes to what can be sold (e.g. raising age of buying cigarettes). • Changes to working hours and conditions.	• Staff training on company policy (e.g. on sale of cigarettes). • Flexible working hours and practices.
Competitors' actions	• New products. • Lower prices – based on higher competitiveness/lower costs. • Higher promotional budgets.	• Encourage new ideas from staff. • Increase efficiency by staff accepting the need to change production methods. • Ensure resources are available to meet the challenge.
Environmental factors	• Increasing 'green consumerism'. • Growing concern about climate change and industry's contribution to it.	• Social and environmental audits supported by strategic changes, e.g. Marks and Spencer's 'Plan A', which includes the aim to recycle all packaging.

Table 8.1 *Major external causes of change and possible strategies for managing them*

Nature of change	Examples	Strategies for management
Organisational changes	• Delayering. • Hierarchical structure replaced by matrix structure (see Chapter 11, page 114).	• Retraining of less senior staff to accept more responsibility. • Reassurances on job security. • Retraining of staff in teamwork and project management.
Relocation	• Moving operations to another region or country.	• Redundancy schemes for workers who lose their job. • Relocation grants for those willing to move.
Cost cutting to improve competitiveness	• Capital-intensive rather than labour-intensive methods. • Rationalisation of operations, e.g. closing some operations.	• Retraining of staff to operate advanced equipment. • Redundancy schemes for workers who lose their jobs. • Flexible employment contracts and working practices.

Table 8.2 *Major internal causes of change and possible strategies for managing them*

- Lack of trust – perhaps because of past experiences, there may be a lack of trust between workers and managers who are introducing the change. Workers may not believe the reasons given to them for change or the reassurances from managers about the impact of it.
- Inertia – many people suffer from inertia or reluctance to change and try to maintain the status quo. Since change often requires considerable effort, the fear of having to work harder to introduce it may cause resistance.

The importance of resistance factors will vary from business to business. In those firms where previous change has gone well, where workers are kept informed and even consulted about change and where managers offer support and training to the staff involved, resistance to change is likely to be low. Resistance to change is likely to be greatest in businesses where there is a lack of trust and little communication.

EXAM TIP

When discussing possible resistance to changes proposed by management, try to think of the leadership style being used to implement the change. This could be a major contributory factor in determining the degree of resistance.

Strategies to reduce impact of, and resistance to, change

CHANGE MANAGEMENT

Managing and leading change successfully is the mark of a good manager. Before setting the change process in motion, managers need to ask four questions:

- Is the change anticipated or unexpected?
- Is the change likely to have a dramatic or less significant impact on the business?
- Have managers planned for change?
- To what extent can management control the change process?

EXAM TIP

The IB Business and Management syllabus puts business change at the core of much business decision-making. Many evaluative questions are set on this topic. When answering an evaluative question on change and the management of change, you could start by asking yourself, in the context of the case study, the four questions above.

Key stages in successful change management

Here is a checklist of essential points that managers should consider before attempting to introduce significant changes in an organisation:

1. Where are we now and why is change necessary? It is important to recognise why a business needs to introduce change from the situation it currently finds itself in.
2. New vision and objectives. For substantial changes a new vision for the business may be needed – and this must be communicated to those affected by the change.
3. Ensure resources are in place to enable change to happen. Starting a change and then finding there is too little finance to complete it could be disastrous.
4. Give maximum warning of the change. Staff in particular should not be taken by surprise by change – this will increase their resistance to it (see section above on ‘Factors causing resistance to change’).
5. Involve staff in the plan for change and its implementation. This will encourage them to accept change and lead to proposals from them to improve the change process.
6. Communicate. The vital importance of communicating effectively with the workforce is a feature of all the stages.
7. Introduce initial changes that bring quick results. This will help all involved in the change to see the point of it.
8. Focus on training. This will allow staff to feel that they are able to make a real contribution to the changed organisation.
9. Sell the benefits. Staff and other stakeholders may benefit directly from changes – these need to be explained to them.
10. Always remember the effects on individuals. A ‘soft’ human resource approach will often bring future rewards in terms of staff loyalty when they have been supported and communicated with during the change process.
11. Check on how individuals are coping and remember to support them. Some people will need more support than others – a ‘sink or swim’ philosophy will damage the business if it leads to low quality output or poor customer service because staff were poorly supported during the change period.

EXAM TIP

Your understanding of communication from studying Chapter 12 will allow you to assess the importance of two-way communication in motivating staff to accept change.

LEWIN'S FORCE-FIELD ANALYSIS

Force-field analysis, first developed by Kurt Lewin, provides a framework for looking at the factors (forces) that influence change. These forces can either be 'driving forces for change' that help the organisation towards a goal or 'restraining forces against change' that might prevent an organisation reaching its goal.

KEY TERM

force-field analysis an analytical process used to map the opposing forces within an environment (such as a business) where change is taking place

Steps in force-field analysis

1. Outline the proposal for change – insert in the middle of a force-field diagram, as shown in Figure 8.1.
2. List forces for change in one column and forces against change in the other.
3. Assign an estimated score for each force, with 1 being weak and 5 being strong.

Figure 8.1 shows a proposal for installing IT-controlled manufacturing equipment in a factory.

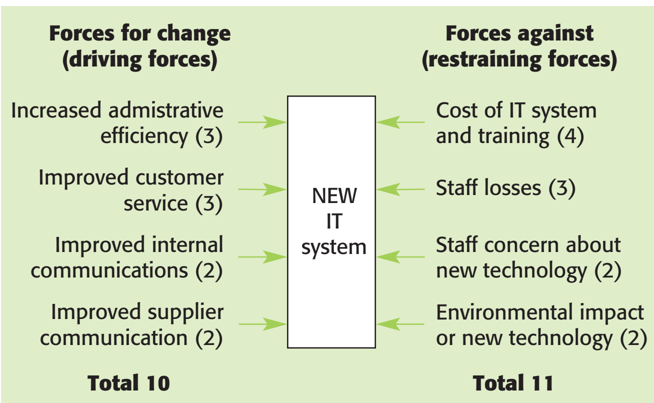


***Figure 8.1** Force-field analysis of an IT-controlled machinery proposal*

The numerical scores indicate whether the forces are weak (e.g. 1) or strong (e.g. 5).

Once the analysis has been carried out, the process can help management improve the probability of success of this major change. For example, by training staff (which might increase cost by +1) their concern about new technology could be reduced (reducing staff concern by –2).

Using Lewin's model

- The force-field diagram helps managers weigh up the importance of these two types of forces.
- It helps identify the people most likely to be affected by the change.
- It encourages an examination of how to strengthen the forces supporting the decision and reduce the forces opposed to it.
- The use of a leadership style that reduces opposition and resistance to change is highlighted as being more effective than forcing through unpopular changes in an autocratic manner.

PROJECT CHAMPIONS

A project champion may be appointed by senior management to help drive a programme of change though a business.

KEY TERM

project champion a person assigned to support and drive a project forward. Their role is to explain the benefits of change and assist and support the team putting change into practice

They will be appointed from within the organisation and will be either a middle or senior manager as they must have sufficient influence within the organisation to smooth the path of the project team investigating and planning the change. The project champion will represent the project at board level or other meetings of senior managers and will try to ensure sufficient resources are put in place to

ACTIVITY 8.3

Read the case study below and then answer the questions that follow.

Project champion, Compass Group

Jane Moger is human resources (HR) director at the restaurant business, Compass Group. She has acted as project champion for the implementation of an e-recruitment system within the organisation. 'Being a project champion in HR gives you an opportunity to get involved in complex, long-term and high value-added activities. Project champions get a new project off the ground and give the team momentum to see the change through,' she said.

Source: www.personneltoday.com

6 marks, 12 minutes

A business is planning to adopt a new IT system that will allow many staff to work from home several days a week. Some senior managers are against this as it will 'reduce control over workers'. The IT manager in charge of implementing the strategy decides to appoint a project champion to smooth the change. Explain what are likely to be the key qualities of this project champion. [6]

enable its implementation, but they will not necessarily be involved in day-to-day planning.

PROJECT GROUPS OR TEAMS

Problem solving through team building is a structured way to make a breakthrough in a difficult change situation. It uses the power of a team.

KEY TERM

project groups created by an organisation to address a problem that requires input from different specialists

When a difficult problem arises during implementation of a major change in a business's strategy or structure, a project group may be set up to analyse it and recommend solutions. Project groups work with the manager responsible for introducing the change. A team meeting of experts should involve a rigorous exchange of views leading to the development of an appropriate action. The responsibility for carrying out the plan lies with the original manager, but he or she will be better equipped to solve the problem that was preventing change from being implemented effectively.

PROMOTING CHANGE

Promoting change is an important function of management. Acceptance of change – both by the workforce and other stakeholders – is more likely to lead to a positive outcome rather than imposing change on unwilling groups, which could increase resistance to change and ultimately lead to failure. According to John Kotter, a leading writer on organisational change, the best way to promote change is to follow an eight-stage process:

1 Establish a sense of urgency.
2 Create an effective project team to lead the change.
3 Develop a vision and a strategy for change.
4 Communicate this change vision.
5 Empower people to take action.
6 Generate short-term gains from change that benefit as many people as possible.
7 Consolidate these gains and produce even more change.
8 Build change into the culture of the organisation so that it becomes a natural process.

EXAM TIP

When discussing effective management of change, focus on the positive benefits of change to the stakeholders most affected by it. It is very easy to be too negative about change.

THEORY OF KNOWLEDGE

Organisations are constantly facing change, whether because of developments in the external environment or new managers taking the organisation in a different direction.

How would a manager know whether change taking place within an organisation was having a positive effect?

OVER TO YOU

REVISION CHECKLIST

1 Explain the difference between incremental and revolutionary business change, using recent examples.
2 Outline **two** likely causes of change for a business making cameras.
3 Why is communication an important part of the change process?
4 Explain the role of a project champion to a team of people who are worried about technological change affecting their work practices.
5 Explain how a project group could help a manager with the task of introducing important changes to the business.
6 a Explain any **two** causes of resistance to change that might occur in your school or college after the head teacher or principal has announced a major reorganisation of the departmental/faculty structure.
  b For each of these causes of resistance, explain how staff might be reassured.
7 Land Rover has been sold to the Indian company Tata. If the new management plan involves opening a Land Rover factory in India making the current models, but keeping the existing Solihull plant in the UK open, how might any resistance to this change among existing UK workers be reduced?

REVISION ACTIVITY

Read the case study below and then answer the questions that follow.

Constant change a feature of modern industry

Britax has undergone many changes in recent years. The business grew out of a diverse group of companies. The Britax name and brand were adopted at the end of the 1990s when the business decided to concentrate its efforts and sold off some of its activities. It now focuses on child safety seats and designing and building aircraft interiors. Sales of child safety seats have been boosted by recent changes in the law, while aircraft interiors are a niche market with four international competitors. Overall, turnover of Britax's aerospace division has grown from £20 million to £150 million in six years despite intense competition and an aircraft building industry that fears a fall in aircraft orders.

Britax has just introduced a complex and expensive computer system to manage its production resource planning. Stock levels have fallen dramatically and productivity has improved. But the change involved changes in many people's work practices and skills. As with all changes of this nature the crucial key to success lies not with the product but with those who have to use it. 'People react in different ways to change,' said the company's business systems manager. 'How people approach change is a critical factor. A big factor in managing this is to build a strong project team. The right people need to be involved from the start. The next step is training and communicating the need for change. We spent a great deal of time and effort in this area and it was well worth it.'

32 marks, 55 minutes

1 Why is almost constant change likely to occur within businesses such as Britax? [6]

2 Outline **two** ways in which Britax reduced resistance to change. [6]

3 Analyse how force-field analysis and project champions could have helped during this change. [10]

4 Evaluate the most important stages in the process of implementing and managing large-scale changes within a business. [10]

HMV BUYS MAMA GROUP IN LIVE MUSIC TAKEOVER DEAL

Entertainment firm HMV is expanding its presence in the live music market by buying venue owner MAMA Group for £46 million. HMV's move comes nearly a year after it took a 9.9% stake in MAMA, which runs 11 concert venues including the Hammersmith Apollo in London. MAMA also owns other interests including an artist management business representing bands such as Franz Ferdinand and the Kaiser Chiefs.

The deal marks the latest stage in a three-year 'transformation plan' unveiled by the company in March 2007 in response to falling sales of CDs and the growth of illegal music downloads. Other moves have included introducing the Pure HMV loyalty card scheme, taking a 50% stake in online music store 7digital and even opening a pilot HMV Curzon-branded, three-screen digital cinema in Wimbledon.

HMV's takeover offer for MAMA is subject to approval from shareholders, who are concerned about HMV moving into the market where it has limited direct experience, along with the prospects of raising the finance to fund the takeover. This contrasts with the enthusiastic view of HMV's management who are keen to explore the prospects of live music as a new market.

The takeover of MAMA Group by HMV represents a significant change in direction for the organisation and it is important this change is managed effectively.

Source: http://news.bbc.co.uk (adapted)

EXAM PRACTICE QUESTION

Read the case study and then answer the questions that follow.

20 marks, 35 minutes

1 Define the term 'change management'. [2]

2 Explain the role a project team might have in changing the direction of HMV. [4]

3 Analyse **two** driving forces and **two** restraining forces which are influencing HMV's 'transformation plan' as it tries to change the direction of the organisation. [8]

4 Using an appropriate business model, analyse how HMV's proposed takeover of the MAMA Group will give it a competitive advantage in the music industry. [6]