

FACTFILE: GCE PROFESSIONAL BUSINESS SERVICES

UNIT A2 2: MANAGING CHANGE



Learning Outcomes

Student should be able to:

- demonstrate understanding of the reasons for change in the business environment, including:
 - organic growth
 - mergers and takeovers;
 - economic recession;
 - technological change;
 - new owners or leaders;
 - customer tastes; and
 - poor performance.
- demonstrate understanding of the use of change management models, including:
 - Kurt Lewin's unfreeze–change–refreeze model;
 - Kotter's 8-step process for leading change;
 - Galbraith's Star Model.
- analyse the importance of leadership in managing change.



Performance Management

Change is usually a constant process within a business, due to external forces that affect the internal workings of the business. As external factors impact upon the business, leaders, managers and staff adjust their behaviours and work practices to cope with the external changes. It is useful to note that each business is unique and external factors will exert different forces on different businesses. The response of each business to changes will depend significantly on these factors: location of the business; the structure of the business and the resources possessed by the business.



Figure 1. shows the external environment consisting of political, economic, sociocultural, and technological factors as well as competitors. A change in one or more of these external factors (External forces of change) may impact upon a business. Internal forces of change include people (for example, leaders and managers), structure, processes and reward.

Organic growth

Organic growth occurs when an organisation increases “its own assets or output through the reinvestment of its cash flows in existing business” (Wanjiru and George, 2015, p.184). Organic growth may arise when a business invests in existing high-growth products and services (possibly employ more staff) which results in increased output and income. Figure 1. shows how organic growth can affect the business’s structure which could mean that additional outlets (increased output and additional income) are opened (new locations with new employees) to service customer demand. Under Armour is a company that has experienced organic growth (Forbes, 2016) and the company underlines this approach in their Annual Report (2017, p.1) where it states:

“We plan to continue to grow our business over the long term through increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution, growth in our direct to consumer sales channel and expansion in international markets. Our digital strategy is focused on supporting these long-term objectives, emphasising connecting and engaging with our consumers through multiple digital touch points, including through our Connected Fitness business.”

Organic growth may cause the business to engage in recruitment, selection and onboarding activities. Work processes and working practices may have to be adjusted to cater for the growth in output. Negotiations with employees / trade unions may occur to reach agreement on changes to terms and conditions of employment and working practices. New premises may need to be acquired. The structure and management systems within the business may need to be modified to facilitate organic growth.

Mergers and takeovers

A business may decide to takeover or merge with a competitor or possibly a complimentary business with the possible expectation that the value of the combined businesses will increase or an additional degree of competitive advantage will occur. A merger or takeover will result in a new organisational structure. Examples of takeovers include: Facebook’s purchase of WhatsApp in 2014; Microsoft buying LinkedIn in 2016; Sports Direct acquiring House of Fraser in 2018, Coca-Cola securing Costa Coffee from Whitbread (Wood and Sweney, 2018). Within Northern Ireland, mergers occurred with further education colleges in 2007 and councils in 2015. PSA, the owner of Citroen and Peugeot merged with Vauxhall and Opel in 2017 (Yeomans, 2017).

The change impact of a merger or takeover will probably affect the strategy (rationalisation and growth), structure, systems, staff, skills, style and superordinate goals (culture) of the new business entity. The new business structure (post-merger / acquisition) may result in employees exiting the business as duplicate departments such as marketing, finance, and human resources are merged into separate departments resulting in reduced headcount. There may also be implications for manufacturing plants where production capacity and productivity factors may be used to determine the longer-term viability of the plant. If plants are to be closed then negotiations by management with employees, trade unions and other stakeholders (government and local council) will need to take place.

Economic recession

The Office for National Statistics (ONS) in 2009 stated that the British economy was in a recession based upon a fall in gross domestic product (GDP) over the previous two quarters (ESRC, 2010). Rising unemployment during 2009 and 2010 was a symptom of this recession and had a two-fold impact on certain businesses. Firstly, the demand for certain goods and services fell as their customer incomes were adversely affected. Secondly, some businesses had to shed labour (redundancies) or introduce shorter-time working which resulted in these affected employees having their income reduced. In the car manufacturing sector Jaguar Land Rover and Honda reduced the size of their workforce and introduced short-time working. In the retail sector from 2009, perceived lower-priced supermarkets and discount chains prospered as consumers sought value for money. Budget airlines experienced an increase in passenger numbers whereas perceived higher priced airlines had reduced numbers flying business-class (Wood, 2010). The change

implications for these businesses included: redundancy negotiations; restructuring; recruitment; product / service development; revised marketing strategy.

Technological change

The impact of technological change will be dependent on the nature of business, the scale and scope of the technology and where and how the technology is to be employed. Technology may be introduced to replace jobs previously undertaken by people or technology can be combined with work processes which results in increased employee productivity, better customer service, and reduced costs. Technology changes may cause businesses to: revise their business model regarding product / service delivery; recruit new staff (technology experts); train / retrain employees in relation to revised working practices using the new technology; update their security protocols to mitigate data breaches. Examples of technology being employed include; supermarkets having self-checkout systems where customers can process their own purchases; banks can offer on-line banking services. Business models that utilise technology will probably affect: employees; the structure of the business; training of staff; the recruitment of staff (including technological support).

New owners or leaders

New owners or leaders may decide that the business needs to move in a new direction. The new leader may articulate their vision and formulate a business strategy that will enable the business to avail of its competitive advantage. A new structure and systems may be created to utilise the strengths of the business such as the skills of employees and the uniqueness of the product / service portfolio. When Alan Mulally was appointed as CEO at Ford Motor Company he introduced changes (see Leadership fact file) to improve the performance of the business.

Customer tastes

Customer tastes change for a variety of reasons including ageing and being health conscious. As customers get older, for example, their preferences for the clothes they wear may change. The stores where they purchased clothes as a teenager may be different to the store they visit in their thirties and beyond. The stores that cater for these different age groups may have to adjust their product range over time to cater for a new type of clientele to ensure that income streams are maintained. People who are health conscious may change their diet and buy different foods or engage in exercise and attend a gym. Food manufacturers need to adjust their product range (less sugar, salt and fat) and gyms need to offer products and services (spin and pilates classes) that meet the needs of a health-conscious customer.

Poor performance

Poor performance may exist in relation to: the overall business; functions within the business; employees within departments. A business can be a poor performer in relation to competitors or there may be a decline in business performance over time. If a business wants to remain competitive then it will need to address poor performance. Poor performance may be caused by: the production of outdated products / services; the use of inferior or faulty components; outdated use of technology and or working practices; ineffective management; employees with inappropriate competences; disengaged employees.

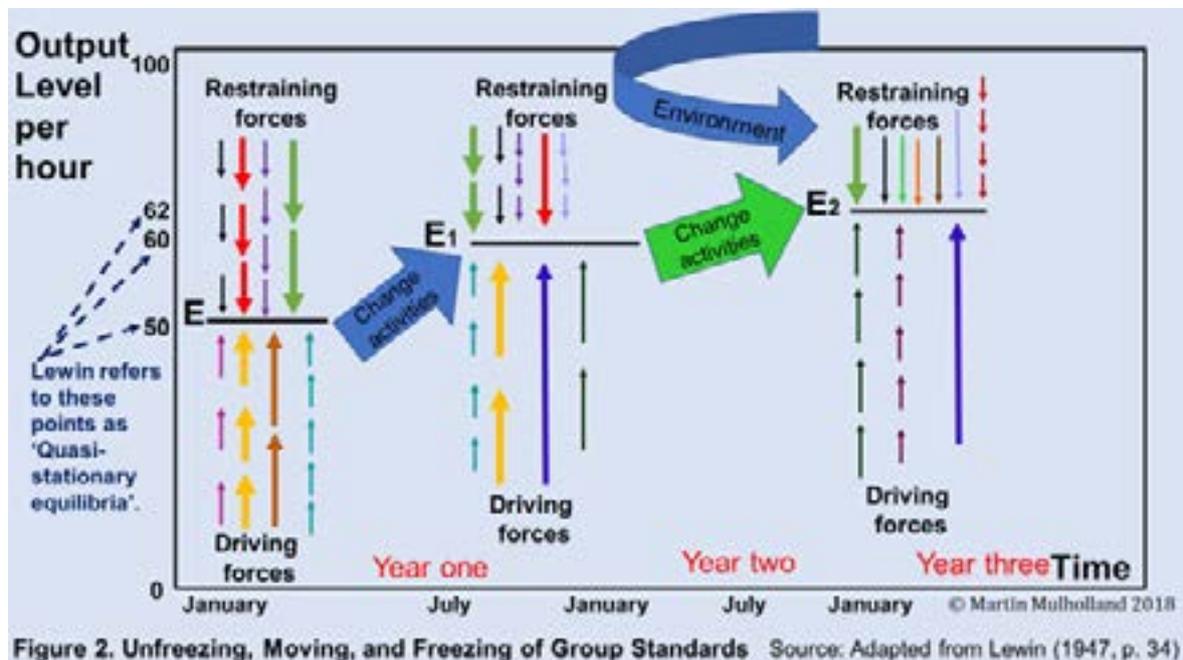
For example, a business may experience a fall in demand for its products / services, due to the poor quality of the product, which results in sales falling and a decline in income. The cause of the poor quality is due to the production machinery being in a poor state and being used well beyond its lifecycle. The poor performance may be addressed by the purchase of new equipment but this remedial action may in turn necessitate the need for further changes within the business. It may be the case that this machinery is much more efficient and produces more products per hour. Consequently, fewer employees may be needed to operate the new equipment. Negotiations with affected stakeholders (employees / trade unions) may occur to manage the change in employee numbers and revise their terms and conditions of employment. Training may also be needed for production employees who will be operating the new machinery. Management information systems may be revised to take account of purchasing, supplies, scheduling, output, wastage, productivity, quality, and wages and salaries.

Kurt Lewin's unfreeze – move – freeze model

Lewin (1947, p.34) views changing as 'Three Steps: Unfreezing, Moving, and Freezing of Group Standards'.

Figure 2. Illustrates how Lewin's model can be used to identify and evaluate the actors and factors that affect a particular work situation and how change can then be initiated and embedded over time. The vertical axis relates to the area / factor where change is to occur, in this instance, output level per hour. The horizontal axis relates to time and shows a three-year time span. In January of Year One driving forces are exerting pressure to raise the level of output beyond 50 units per hour. These forces are countered by restraining forces which are trying to keep output levels at 50 units per hour. The forces are depicted by arrows and are colour coded, in this instance, to signify that different groups are exerting forces. The thickness of the arrows, again for illustrative purposes in this diagram, signifies the level of force (influence) that each group exerts. Lewin (1947, p.14) notes that each group (force) needs to be analysed in the context of its own setting (environment) and in relation to 'structure, sub groups, members, barriers, and channels of communication'. The interactions between and among groups can then be assessed.

Lewin (1947, p.16) states that 'Quasi-stationary processes are not perfectly constant but show fluctuations around an average level'. Figure 2. contains three average level points, E, E1 and E2 at different time periods. Quasi-stationary equilibria will occur when there is a difference between the restraining and driving forces. Depending on the forces at play there may be fluctuations above and below the average level point over a period of time.



As we move from Year One to Year Two in Figure 2, there is a change in the average level point from E to E1. This change may occur when a leader is tasked with bringing about an increase in output (E to E1). The leader can use Lewin's model to identify and analyse restraining and driving forces and then design an action plan which enables him or her to possibly decrease restraining forces and increase driving forces.

Lewin's model can be used to:

- identify the groups and individuals who can influence the change process within a business;
- understand the environment of each influencing group / individual;
- develop an understanding of the motivations of influencing groups and individuals;
- assess the force that each influencing group or individual may exert;
- design a change programme that takes account of driving and resisting forces; and
- implement a change programme that unfreezes, moves, and freezes group / individual standards.

The effectiveness of Lewin's Model is dependent on:

- the business environment;
- the capability of the person(s) [change agent] using the model;
- the aims and objectives (SMART) of the change programme;
- the scale of the change programme;

- the time available to implement the change programme;
- the power possessed by the change agent(s);
- the culture of the business;
- the groups and individuals exerting restraining and driving forces; and
- the environment of each group and individual.

Advantages

1. The model is easy to understand as it consists of three elements: unfreezing; moving; freezing.
2. The model provides a visual overview of the change process.
3. The model can be applied to most businesses.
4. The model facilitates an analysis of the environment where change is to occur.
5. The model infers the leadership style employed is democratic as each driving and restraining force is consulted.
6. The model helps the change agent to develop a change programme and a communication plan that connects with groups which exert driving and restraining forces.
7. The model highlights the need to underpin new behaviours and work practices at the freezing stage.

Disadvantages

1. The model does not specify the capabilities and skills that a change agent should possess.
2. The model does not explain how to identify the various driving and restraining forces that affect the proposed change.
3. The model does not deal with the potential conflicting goals that may exist among the change agent, the driving forces and restraining forces.
4. The model does not address the business time pressure to implement change versus the realistic time needed to implement change.
5. The model does not consider how autocratic leadership adopted by the change agent would affect the change programme.

Criticisms of Lewin's model

Four criticisms levelled at Lewin's model are that it is too simplistic and mechanistic, it only can be used for incremental change, it ignores the influence of power and politics in organisations, and fourthly it promotes a management-driven approach.

Simplistic and mechanistic

It is argued that Lewin's model is too simplistic as organisational change is viewed as an on-going process. It is deemed mechanistic for a 'change manager' who must stick to the three stages whereas a 'change manager' needs to be flexible and adjust to environmental changes. However, this criticism of Lewin may well be due to a misunderstanding of Lewin's model as he considered the complexity of social groups where they were in a state of constant change and the degree of change was influenced by the group's environment. Lewin's model can be adapted to suit the specified organisational change and thus provides a degree of flexibility which counters the mechanistic criticism levelled at it.

Only for incremental change

Critics argue that Lewin's model is only applicable to incremental change and is not able to deliver transformational change which may be perceived as large, significant, and speedy. Perhaps there is some merit in this criticism as transformational change is usually associated with strategic and structural change whereas Lewin focused on behavioural change in relation to the individual, group, organisation, and society. For example, there was a belief that Lewin's model was not appropriate for dealing with the rapid external changes that were affecting businesses in the 1970s and 1980. The criticism was that a group-oriented and consensual approach was too slow to meet the rapid and turbulent changes in the external environment. However, Lewin did acknowledge that change could occur rapidly to address a crisis but behavioural changes in these circumstances were rarely successful.

Ignores the influence of power and politics Lewin was criticised for ignoring the influence of power and politics. This is a strange criticism given that Lewin was engaged in research and work that sought to address racism and religious intolerance. Given the sensitivities associated with these two areas of research Lewin would have been familiar with the effect that power and politics played in bringing about change that created religious and political tolerance. Lewin (1947, p.21) also gave due consideration to the nature of power within organisations where he noted 'Strengthening the police or other means of power corresponds to an increase in the 'capacity' to control' (Lewin Promotes a management-driven approach). Lewin is criticised for promoting a management-driven approach as his change model is used by management to implement change. However, implicit within his change process model is the need to identify, understand and engage with the individuals and groups that influence and may be affected by the planned change. Furthermore, Lewin was contacted by community groups and government department to help them bring about change.

Kotter's 8-Step process for leading change



Kotter (1995) maps out 8 Steps (Accelerators) that a leader or manager can follow to bring about change within a business. The 8 steps as noted in Figure 3. consist of: create; build; form; enlist; enable; generate; sustain; institute. The leader or manager begins by communicating the necessity for change and highlights that action is required straight away (urgency). The 2nd step entails building a guiding-coalition (team) that will help to develop and coordinate the change initiative.

Next, develop a vision that shows how the business will be different in the future and how this will be achieved. Fourthly, the leader persuades a large number of staff to buy into and support change. Fifthly, barriers such as ineffective systems, rules and regulations and layers within the organisational structure may be removed to enable change. The next step is to create short-term wins which highlight the value of change and help to keep people motivated regarding the delivery of change. The 7th step involves increasing the rate of change until the vision is achieved. Finally, at step 8, the relationship between new work behaviours and the achieved changes are communicated and underpinned via monitoring and auditing of work practices and processes.

Kotter's model can be used to:

- identify the steps involved in the change process within a business;
- understand who and what is needed at each stage;
- show the value of creating and communicating a vision to inspire and motivate employees to embrace change;
- design a change programme that takes account of short and long-term successes;

- implement a change programme that moves the business to the stated vision; and
- state and embed the required work behaviours at the end of the change process.

The effectiveness of Kotter's model is dependent on:

- the business environment;
- the capability of the person(s) [change agent] using the model;
- the aims and objectives (SMART) of the change programme;
- the scale of the change programme;
- the time available to implement the change programme;
- the power possessed by the change agent(s);
- the culture of the business; and
- reaction of competitors.

Advantages

1. The model is easy to understand as it consists of eight sequential stages.
2. The model provides a visual overview of the change process.
3. The model can be applied to most businesses.
4. The model facilitates an analysis of the environment (implicit within the creation of a vision) where change is to occur.
5. The model helps the change agent to develop a change programme and a communication plan that connects with groups affected by the change.
6. The model infers the leadership style involves and empowers people affected by the change.
7. The model describes what needs to be done at each stage.

Disadvantages

1. The model does not specify the capabilities and skills that a change agent should possess.
2. The time scale to implement the change programme is not stated.
3. The time involved at each stage is not stipulated.
4. The model does not address the business time pressure to implement change versus the realistic time needed to implement change.
5. The model does not provide detail on how to execute each stage.
6. The model does not show how some of the steps may take place in parallel. For example, at Step 5, actions to remove barriers may continue at Stages six, seven and eight.
7. The model does not specifically address the behavioural aspects of change.

Criticisms of Kotter's model

Criticisms of Kotter's model include: model based upon limited research; a rigid approach; some steps are not relevant in certain contexts; dealing with difficulties during change management; difficulties of studying change management projects.

Limited research

Kotter's change model is based upon limited research and through investigations. The model is based upon his private business and research undertakings with no reference to external sources. There is little research to show how his research and model relates to manufacturing, service and not-for profit businesses. The applicability of the model to differing sizes of businesses lacks supportive evidence. The transferability of the model to different countries and cultures is not underpinned by extensive research. However, the model is cited in many business journals and texts and has been used by businesses to implement change.

Rigid approach

Kotter states that implementation of change should follow the order of the Eight Steps in the model and should not deviate from this numbered sequence. The model also infers that if a Step is missed then the success of the implementation will be adversely affected or possibly fail. It is also argued that the model

does not take account of the organisation's culture which can affect different Steps in the change process. The positive aspect of a rigid approach is that those people involved in the change process can create a structured plan which states what must be done (who, what, where, when, how). This approach also helps with monitoring and review of the change process where progress can be assessed against planned and actual outcomes.

Relevance of Steps in contexts

There may be situations where certain Steps are not needed. For example, a manufacturing business which has decided to replace machinery on a production line, enabling it to produce new types of products, may not want competitors to learn about this impending change. Consequently, Steps One to Four may not be needed or may be adversely affected as the need for secrecy limits the amount of information (communication) that can be circulated to the people affected by the planned change. However, this criticism can also be levelled at other change models and programmes which stipulate or infer the need to communicate change programmes with relevant stakeholders.

Dealing with difficulties during change management

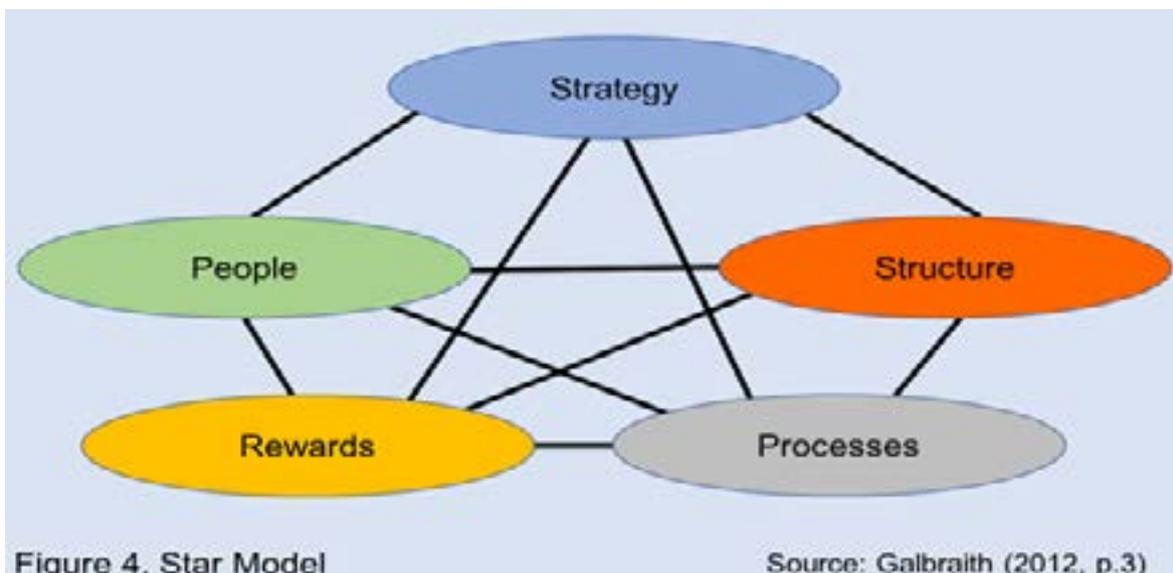
Kotter's model does not offer detail on how to overcome resistance to change or how to instil stakeholders' commitment to change. While there is a lack of detail regarding these two areas, it is difficult to provide off-the-shelf solutions to address the unique set of circumstances and challenges businesses encounter in implementing change. Likewise, the same criticism can be levelled at other change models.

Difficulties of studying change management projects

There are factors that make it difficult to study change management projects. The scale and complexity of change programmes can make it difficult to study and record what occurred during each Step of the model. There may be situations where Steps had to be revisited and changes made to enable Steps further on in the cycle to be completed. Change objectives may be revised due to unexpected business circumstances such as imported equipment and materials rising in price due to an adverse movement in exchange rates. How long after the change programme is completed that the expected benefits will occur? Will changing external environmental factors affect the change programme? The aggregation of these factors makes it difficult to assess how effective an Eight Step change programme has been. The same factors will present difficulties for alternative change management models.

Galbraith's Star Model

Galbraith's Star Model consists of five elements which are; strategy; structure; people; rewards; processes. If change is to be introduced into a business then the change agent needs to take account of these five elements. Figure 4. illustrates the Star model and the lines show that each element is interrelated and



interdependent. If a change occurs in one element then this will affect the other four elements. For example, if the strategy (enter a new market) of a business is changed, then this will affect the structure, people, rewards and processes.

Galbraith's model can be used to:

- identify elements that affect the change management process within a business;
- show the interrelatedness and interdependence of elements that affect the management of change within a business;
- identify who and what is needed in relation to each element and their relationships;
- design a change programme that takes account of the five elements; and
- implement a change programme with objectives, allocation of resources and stated deadlines.

The effectiveness of Galbraith's model is dependent on:

- the business environment.
- the capability of the person(s) [change agent] using the model;
- the aims and objectives (SMART) of the change programme.
- the scale of the change programme.
- the time available to implement the change programme.
- the power possessed by the change agent(s);
- the culture of the business; and
- reaction of competitors.

Advantages

1. The model is easy to understand as it consists of five elements.
2. The model provides a visual depiction of elements affecting a change process.
3. The model can be applied to most businesses.
4. The model facilitates an analysis of the environment (strategy) where change is to occur.
5. The model helps the change agent to develop a change programme and a communication plan that connects with elements affected by the change.
6. The model offers the leadership an opportunity to involve and empower people affected by the change.

Disadvantages

1. The model does not specify the capabilities and skills that a change agent should possess.
2. The time scale to implement the change programme in relation to the five elements is not stated.
3. The model does not address the business time pressure to implement change versus the realistic time needed to implement change.
4. The model does not provide detail on how to execute each stage.
5. The model does not specifically address the behavioural aspects of change.
6. The resources needed for change are not catered for by the model.

Leadership in managing change

The importance of leadership in managing change is, in part, dependent on a number of variables: the context of the business (internal and external factors); the impact of change on the business strategy; the vision; the type and scale of change required; the time and resources available to implement the change; the change strategy / programme; the level of support for change; the degree of resistance to change; the capability of the leader; the capability of employees. The success of the change programme can be measured against the change objectives and the metrics such as annual income and costs, employee productivity, quality levels, profitability, return on investments, market share and market growth rates. The time span used to assess the importance of leadership in managing change will affect the assessment and value attributed to the importance.

While there are numerous factors that can affect the importance of leadership it is still possible to capture within a framework or model where leadership can influence the management of change. Each area of influence provides an opportunity to assess the degree of importance the role that the leader plays in effecting change. By considering and evaluating the leader's role at each stage, it is possible to reach a judgment as to the overall importance of the leader in managing change. However, it should be noted that in many business change cases, a number of years may elapse before the longer-term effects of the change

programme come to fruition or not. This can be further complicated by the fact that three to five years after the change programme, the business environment may have altered dramatically and may look very different from the projected business environment at the start of the change programme.



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A combination of models including Lewin's unfreeze–change–refreeze model, Kotter's 8-step process for leading change, and Galbraith's Star Model could be used to analyse the importance of leadership in managing change.

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