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Research Report

Igniting Change in Business: Leading & Managing Transformational Change

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Title

Igniting Change in Business: Leading & Managing Transformational Change

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Abstract

Organizational growth and survival depend on how they adapt to changing business environment, which requires continually evaluating their business model. Therefore, to compete in a rapidly changing business environment organizational change is absolutely necessary. Organizations have been defined as technical (i.e. organizational structure, framework and reporting channel, etc.) and – socio (culture, values, and beliefs) systems. Leading and managing change require leaders to master both aspects of organization systems.

This paper explores how leaders and managers are engaged in organizational change. The study highlights barriers to change and suggested what practical measures can be carried out to bring about change.

The research combined theoretical views and real-world examples, with a strong conclusion that shows how bringing change into organizations, is critical to the business world to survive and grow.

Key Words: (Change Management, Transformational Change, Leading Change, Barriers to Change)

1. Transformational Change is an Imperative

Organizations are operating in increasingly dynamic, complex environments and facing unprecedented disruption. Innovation in technologies, new markets, and skilled labor pools have put once-powerful business models on the chopping block. With each passing day business landscape has become less predictable and change management is being perceived as essential factor and critical driver of organizational competitive advantage (Gilley, McMillan, & Gilley, 2009).

Change is a continuous process, there is nothing new with change it has been with us for a long time. Since 2000s organizational change management (i.e. change in strategy, business model and people) have become permanent features of business landscape (Aguirre & Alpern, 2014)

(Tosey, Paul, & Robinson, 2002) define change management as “*Process of result of becoming different*”. (Barney, 1991) suggests that effective management of human resources within an organization becoming increasingly important for gaining competitive advantages and change involve paradigm shifts e.g. in the 1990s IBM underwent a transformational change when it changes its culture from individualistic to teamwork, through innovation and creativity to bring about customer-focused solutions.

However, history tells us organizational change management initiatives fail at an alarming rate because most initiatives fail to consider how changes affect people in an organization (Gilbert, 2009). According to (McKinsey & Company, 2016), 70 % of organizational transformation initiatives failed and one of the key reasons was lack of employee engagement. 75% of the change initiatives did not achieve their intended objectives in term value and timing (BCG, 2014)

2. Barriers to Organizational Change

However, managing, implementing and adopting change is difficult. In the 21st century, effective management of people is continuing challenge for the executives (Kotter, 2012). According to (PWC, 2008) report 75% of organizational change programs fail not because executives didn't effectively address process, infrastructure or other issues, but because they didn't create the essential groundswell of support among employees. There are a number of reasons both internally and externally contribute to the failure of change management.

2.1. Employee Resistance

Internally employee resistance is one of the primary causes for the failure of change initiatives (Waldersee & Griffiths, 1996). Employees' reactions to the organizational change are influenced by a number of factors these include poor communication, cultural differences, fear, emotions and cognitions, and employees' participation in decision making (Hede & Bovey, 2001).

One of the most common reasons for resistance to change is fear of unknown (Rick, 2011). The psychological reactions to change (figure 1) starts from self-esteem and change over the course of time depending on coping strategies employed by the organization. In context of organization, employees only take active steps towards change if they genuinely believe that change will help them to move forward in a new direction.

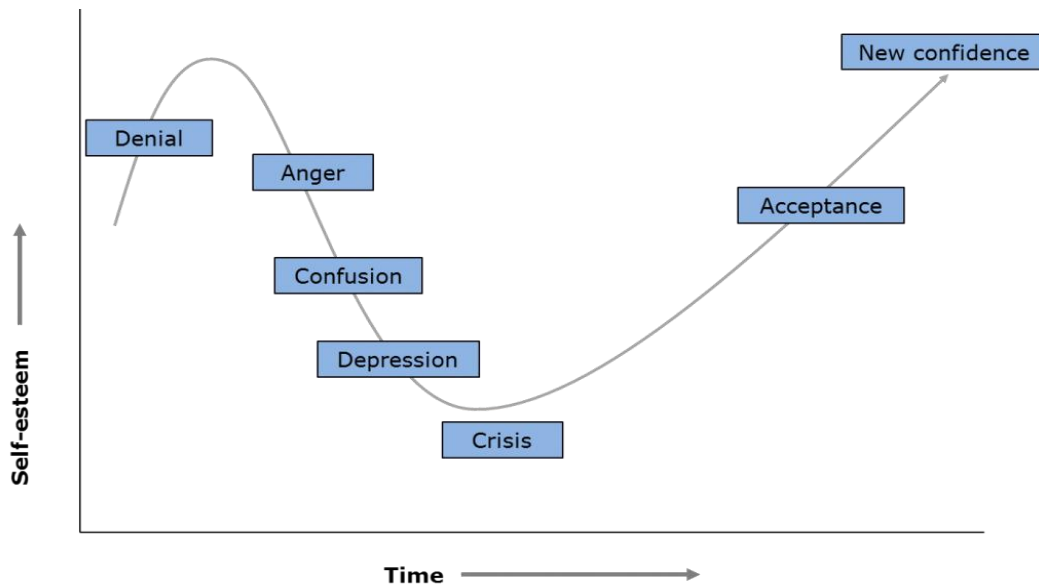


Figure: psychological reactions to change (Adopted from Rick, 2011).

2.2. Lack of Communication from Management

Another important factor why organizational change initiatives fail is because of poor or lack of communication from management. When the case for change is not adequately articulated within the organization i.e. what the change is and why change is needed it cannot be fully embraced. A study conducted by (Watson, 2013) shows 60% of the employees don't know about change process in their organization.

2.3. Challenge of Organization Culture Change

All change management requires cultural change as well. According to (Witzel, 2015) seeds of failure stem from inside an organization's culture and its values. Organizational cultural change has been one of the most daunting challenges for leadership. As culture comprise of an interconnecting set of goals, values, attitudes, assumptions, processes and communication practices (Denning, 2011). Culture in the context of the organization is defined as set of values, beliefs, rules, and norms. A powerful culture can help organizations to implement change management, at the same time organizational culture is capable of dampening or significantly

altering the intended impact of even well thought out changes in an organization (Schwartz & Davis, 1981).

The management literature suggests that an organization culture is usually influenced by the beliefs of the founders and early managers and it persist even longer after that managers are gone e.g. Lehman Brothers founded in 1850 and its high minded client and value creation culture persist for a very long time till the death of Bobbie Lehman (1969) last founding family member (Witzel, 2015). Since culture is very complex social phenomenon and has multiple dimensions therefore it is one of the most difficult leadership challenge. A clear vision from leadership result in strengthening the change process and help the employee to persuasion.

According to (HAY GROUP, 2007) report 90% mergers & acquisitions failed because of corporate cultures e.g. In 2001, Compaq and Hewlett Packard merger failed because of poor cultural fit which resulted in \$12billion loss of market capitalization. Compaq culture was based on sale driven rapid decision making whereas HP engineering culture was based on consensus (Jacobsen, 2012). On the other hand, we have a successful example of cultural change, in the early 1990s when IBM was in deep trouble then newly appointed CEO Louis Gerstner said “*At IBM culture is everything*” and he changed an organization strategy to use processes and culture to regain the advantage.

2.4. Ethical Aspects of Change

Businesses are major contributor to our society in term of producing products, services, and acting as an engine for economic development. However, this contribution raises significant ethical issues and businesses malpractices inflict enormous harm on individuals, environment, and communities. (Crane & Matten, 2010).

Change management results in a variety of ethical issues related to the target of change approaches to change, and the manager's responsibilities. The failure of many organizations can be traced back to the leadership failure to actively promote ethical practices and ideas. We have seen in the past when leadership made decisions without the consciousness of the operative culture force they resulted in undesirable and unanticipated consequences.

According to (Fisher & Lovell, 2009) the modern concepts of ethical organizations include ethical management and leadership, Corporate social responsibility, corporate governance, employee ownership, and globalization (addressing negative effects). A survey conducted by (GoodCorporation, 2007) of 1,000 UK employees working in private and public sector shows that one in three employees did not consider their employers to be fair.

Managers play important role in shaping the lives of employees within and outside of their organization. They use their power to direct and organized people to perform a particular task. In doing so they bear a special responsibility to their employees to make sure they don't use their power in dominating or threatening manner and behave not only in a well-organized and effective but also in an ethical way. Unethical behavior leads to an increase in dysfunctional personality that can be damaging for the organization (Hicks & McCracken, 2008).

3. What Can Be Done: Practical measures for bringing about Change

3.1. People Centric Approach

Now the question arises how an organization can implement transformational change systems? How an organization can manage their employee effectively? What are the steps executives should take to ensure that employees are satisfied with their jobs and are giving their best to the organization? In reality, the answers to these questions are very complex. The reason being that,

human unlike other resources are very complex and different creatures, each has unique behavior, performance skills, attitude, and culture.

There is no mystic formula that guarantees effective management of people but there are some ways that can be used for managing people effectively. According to (Armstrong, 2011) human resource management requires a complete understanding of factors (motivation, satisfaction, communication, work balance, strong leadership) that characterize behaviors of individuals in an organization and then finding methods to improve those factors.

Every individual works in an organization for a purpose and that purpose is based on a number of needs and wants she/he wants to achieve. These needs might be driven by security, power, a sense of prestige, satisfaction, money, and achievements (Herzberg, 1966); (Maslow, 1954): (Alderfer, 1969).



Figure 2: **Needs and expectations of people at work (Adopted from Gunn, 2008)**

Needs and expectations of people are combination of inter related activities (figure 2). Organizations should maintain a balance between these areas to meet expectations of the employees (Gunn, 2008) Therefore, in order to understand the behavior of the employee, managers must realize the needs of employees for doing work.

In today business environment skilled human resources are being considered as the lifeblood of an organization. (Baird & Meshoulam, 1988) proposed that effective management of human resources can greatly affect an organization overall performance e.g. Apple and Google dominate the industry by producing continuous innovation by focusing on great people management. According to (Sullivan, 2013) Google is the only company whose HR function is managed using people analytics. Therefore, continuous innovation cannot happen without an organization makes a strategic shift to focus on people management, as innovation comes from people.

3.1.2. Adoption of motivational strategies.

Effective leadership is about motivating people into action. Without motivation it is hard to achieve desire results. According to (Armstrong, 2011) strong motivational factor makes a difference in doing a job and a great job. An organization cannot achieve its goals without the full support and commitment of employees and motivation mainly contribute individual's degree of commitment (Stoke, 1999).

However, creating a sense of motivation among employees is one of the most challenging tasks. Each individual has different nature and needs (Maslow, 1954). When an individual develops a need, he sets goals to satisfy that need. (Maslow, 1954) hierarchy of needs states that people have a different combination of needs, once an individual achieve one need then he seeks to achieve the next one and so on.

Therefore, for motivating employees it is important for the managers to identify and understand these different levels of needs. (Clark R. E., 2002) suggests that performance of employees can be only increased through implementation and adoption of motivational strategies.

Traditionally financial rewards (high salary, bonuses) have been used as motivation purposes. According to (Parkin, Johnston, Buckland, White, & Brookes, 2004) money is a driving force behind work as it empowers, provides security, and a sense of accomplishment and success. However (Whitley, 2002) argue that money, in the long run, does not improve employee performance and increase productivity. In support of this argument, he pointed out that, not all people are motivated by financial rewards, some people are motivated by a desire to gain knowledge, experience so that they can increase their capabilities for their personal development. These people feel a sense of satisfaction and recognition in their achievements. Getting recognition is a very important non-financial method of motivating people, the employee wanted to be recognized that they are making difference and their efforts are being acknowledged by the senior management (Armstrong, 2011).

Herzberg's theory says that people are influenced by two sets of factors called motivator (to motivate an employee to higher performance) and Hygiene factors (ensure the employee is not dissatisfied).

According to the theory employee's satisfaction comes from the realization of achievements, recognition, responsibility, and career advancement, whereas on the other hand dissatisfaction mainly comes from company policy, managers' behavior, salary and working conditions.

According to (Clark R. , 2003) one of the biggest motivation killers is negative feedback and focusing on employee mistakes and using those mistakes to force employees to work effectively. Negative feedback deteriorates employee self-confidence and result in low performance (Kluger & DeNisi, 1998). This kind of behavior from managers usually lead to disaster in long not only for the organization but also for the employee's personal development.

3.2. Effective Leadership

As radical transformation requires leadership, therefore whenever the focus of change involves people in an organization, there has to be strong leadership. Change is only good when directed towards goals and it should be drawn from goals and it requires leadership.

Though it's vital to involve employees at every stage, however, successful change management initiatives started from the top for example, in 2009 it was Unilever CEO Paul Polman vision that led company to a successful transformation from business-led to purpose-driven organization.

According to (Kotter, 1995) *“Change by definition requires creating a new system and then institutionalizing the new approaches”*. Strong leadership can guide and influence the efforts of employees towards organizational goals. A clear vision from leadership helps everybody in an organization to realize why you are asking them to do something. A successful leader build trust, provide director, purpose, and motivation (Bennis, 1989).

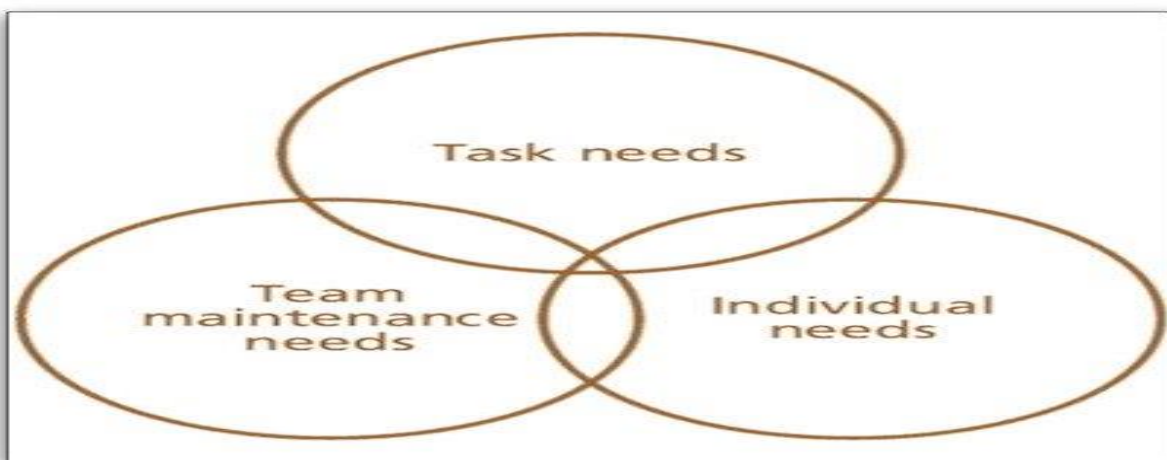


Figure 3: John Adair three cycle model for a successful leader (Source: John Adair, 1973).

According to (Adair, 1973) three circle model task (figure 3), individual and team needs are interdependent and for a successful leader, it is essential to have the ability to handle these three

areas collectively by using specific style depending on organizational culture, nature of the job, and characteristics of the group he/she leads. (Fincham & Rhodes, 2005) suggest that a successful leader is one who can keep these needs fulfilled in a balance way.

Management literature on leadership has focused on two types of leadership transformational (more concerned with the normal flow of operations) and transactional (focus on motivation, collaboration, team building, and employee engagement). Each leadership style has its own implication depending on what type of organization it is. Adopting either of these is vital for the success of the business, employee satisfaction and performance (Bass, 1997). In the reality, it does not matter which leadership style a manager should follow, what matters is that they should be flexible to adapt their style according to the situation. Managers should have the ability to ensure employees understand the reason for the change and motivate them to achieve common goals.

3.3. Effective Communication System

Effective communication is a vital tool that lies at the heart of any successful business. It can result in a closer relationship between managers and employees and help to develop a cohesive group environment that encourages discussion and ideas sharing.

Several problems in an organization result because people fail to communicate with each other ineffective way. In any organization, importance of communication cannot be ignored for effective management of people (Wolff, Thierry, & Drenth, 1998). Secret to success lies is good communication. According to (Miller, 2009) organizations are established by a group of people who work together to achieve both individual and collective goals, therefore in the absence of an effective communication system people cannot coordinate to achieve common goals. Change

management initiatives often fail because they do not take into account the extent to which employees can make or break a change (Aguirre & Alpern, 2014).

A process of change can be much easily implemented if people within an organization are tapped early for their input on issues that will affect their jobs e.g. in 2003 when IBM rolled out new initiative on change management they developed new website called “value Jam” where anyone in the organization can post his comment, suggestion and concerns which resulted in successful transformation (Bjelland & Wood, 2008).

4. Conclusions

To compete in a rapidly changing business environment, organizational change is absolute necessary. With each passing day managing human resources are becoming strategically important because the source of competition such as technology, product etc. have become less relevant as they are easy to imitate.

There is a growing realization among organizations around the world, that skilled human resource and efficient productivity of the workforce is a critical factor between success and failure of the business.

In the past we have seen several organizations failed because of their excessive focus on procedural problems and lack of focus on human resources.

However, in order to implement change successfully leaders must recognize the need for change and communicate it all over the organization. Leaders must also recognize that role of employees is highly important in implementing any transformational change initiative. By and large employees with an organization resist changes because they perceive change will break their

established and familiar environment and threaten their values and self-interest. Therefore, it is vital for the leadership to actively involve those employees who most affected by the change in its implementation. As successful change management requires improving the relationship between people with an organization in achieving a commonly desirable end state.

It is important for the managers to understand the needs as well as factors that motivate employees. High motivation encourages employees to perform better which ultimately increases the productivity of the organization. As both reward and recognition impact employee motivation in different ways therefore distinction should be made between reward and recognition.

Appreciation and reward should be provided when its due and at the same time accountability mechanism should be in place to ensure wrong deeds are penalized.

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