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READING + INTERACTIVE ILLUSTRATIONS

Leading Organizational Change

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This reading contains links to online interactive illustrations and video, denoted by the icons above. To access these exercises, you will need a broadband Internet connection. Verify that your browser meets the minimum technical requirements by visiting http://hbsp.harvard.edu/tech-specs.

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1 INTRODUCTION

It is not necessary to change. Survival is not mandatory. —W. Edwards Deming

The world around us is constantly changing. Perhaps this explains why a recent survey of global executives found that they devote an average of six months per year to managing change initiatives within their organizations.[1] And yet, studies find that more than 70% of change initiatives fail.[2] If change is such an important aspect of organizational life, shouldn't we be getting better at it over time?[3] What makes change so difficult?

This reading provides frameworks for guiding leaders through the organizational change process. The Essential Reading helps students and managers learn when to initiate change for their organizations, how to design and implement that change, and how to measure its success. The Supplemental Reading offers real-world examples of corporate change initiatives and presents a tool for understanding and dealing with key stakeholders in a change effort.

2 ESSENTIAL READING

Given the rate of competitive and technological change in today's markets, change initiatives have become ubiquitous in organizations. And although many change initiatives are led by senior managers, they are often led by individuals operating at other levels of the organization, including mid-level managers, team leaders, and even frontline employees. Some change teams include members from multiple organizational levels and positions; others are more concentrated. Regardless of where change initiatives originate, individuals working at all organizational levels have the responsibility of understanding, influencing, and contributing to their success. This Essential Reading provides frameworks to equip you for these critical responsibilities.

We start with three key assumptions. First, organizations are systems, and if you alter one component, you will undoubtedly affect others. Second, change is both a process and an outcome, and how the process is managed will affect the outcome. Third, there is no single correct formula for managing successful change. Rather, leaders must address the many elements involved in navigating change as it unfolds within specific organizations.

The Essential Reading outlines key choices that leaders must make when managing a change and the common traps that can cause a change effort to fail. It is organized into four sections, each building on the last to provide a roadmap for change that is tailored to the organization and the situation effectively:

1. *Diagnosis:* Why is change needed?
2. *Design:* What sort of change is called for?
3. *Delivery:* How can change best be implemented? Who will most likely be affected? What skills and support do leaders need as they manage the process?
4. *Evaluation:* How can the impact of the change be assessed and measured?

The Essential Reading closes with a brief discussion of how new practices such as crowdsourcing, open innovation, and social media campaigns are speeding up change and altering change processes in many industries.

2.1 Diagnosing the Need for Change

2.1.1 Why Is Change Needed?

Whether it occurs when a leader first takes over or because of some other significant development, leaders often find themselves facing the prospect of initiating change. To determine why change is indeed warranted and perhaps even necessary, leaders can consider a useful assessment for diagnosing whether their company, unit, or team faces a performance gap or an opportunity gap.[4] Performance gaps require change that improves current organizational routines and practices, while opportunity gaps require change that creates new routines and practices for the future.

Performance Gaps. ***Performance gaps*** arise from a difference between expected and actual performance. To gauge whether actual performance falls short of expected performance (based on strategy, objectives, and vision), leaders must accurately assess the organization's performance in its current state. Performance gaps are often exposed when leaders realize that their organization is not as efficient as their competitors are, or a specific business unit is not as efficient as other business units are. As a diagnostic tool, leaders should evaluate the organization's: (1) ability to perform and produce output; (2) capacity to foster individual learning and satis-

faction; and (3) potential to adapt.[5] Closing a performance gap requires an effective leader to formulate and execute a plan.

Opportunity Gaps. The impetus for change can also arise when leaders look outside their organization or current operations and anticipate what they need to do to remain competitive in the future. ***Opportunity gaps*** are defined as potential future problems or missed value-creating opportunities the organization will face if it does not act today. Opportunity gaps arise in two ways:

1. From evolving shifts in customer preferences and demands, competitor offerings, labor and capital market constraints, public expectations, regulations, or technologies that promise new routes for generating value and threaten existing ones.[6]

2. From successful organizations assuming that their track records and capabilities will sustain them indefinitely.[7] The leader may need to characterize the necessary change as an opportunity in order to generate the urgency for moving away from existing behaviors, competencies, and practices that appear to those inside the organization to be working well.

2.2 Designing the Change Process

2.2.1 What Sort of Change Is Called For?

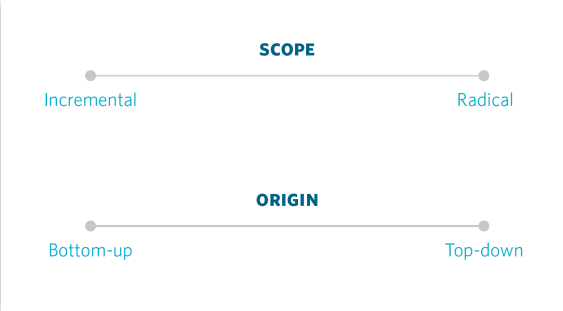
Leaders are architects and engineers—they are called upon to both design and build organizational change.[a] As such, they must make a series of choices to design a change that fits both the type of gap the organization faces and the set of challenges that the change effort will encounter. Together, those decisions reveal the ***SORT*** of change that will be required—based on **S**cope, **O**rigin, **R**ollout, and **T**iming, which are four critical elements of change design and implementation.

The first two fundamental design decisions are about the scope and origin of change (see **Exhibit 1**). These choices call upon leaders to assess what is needed, how far the organization can be pushed, and from where the initiative is emerging. Placing

[a] Note that the design of a *change initiative* is distinct from the field of *organizational design*, which focuses on topics such as organizational structure, reporting relationships, task interdependencies, and organizational hierarchy. There is extensive scholarly work on organizational design, but it is outside the scope of this reading.

hash marks on each of the continua in the exhibit will help leaders think through how they want to position a change initiative.

EXHIBIT 1 Design Decisions: Scope and Origin



Scope of Change: Radical vs. Incremental. Decisions about ***scope*** are largely about the intended impact of the change on the organization's core practices, norms, identity, and member behaviors. Tushman and Nadler's congruence model of strategy implementation proposes that successful organizations align their structures, systems, culture, critical tasks, core competencies, and assessment measures.[8] *Radical change* is intended to affect nearly all of these aspects of the organization. Radical change also forces leaders and members to reconsider the taken-for-granted assumptions they adhere to effortlessly—sometimes without even thinking—every day. The basic notion underlying radical change is that the current architecture is unsustainable and needs to be fundamentally retooled.

Conversely, *incremental change* is intended to make small adjustments to the existing organizational systems, processes, and routines. It produces small, but often critical, adjustments to the existing organization. Unlike radical change, incremental change targets specific components of the organization with the goal of making modifications. The notion underlying incremental change is that the current system is not entirely broken, but could benefit from fine-tuning.

The scope of change rarely plays out as purely radical or incremental, but as a blend of both, with leaders placing a greater emphasis on one or the other. Questions to consider when making decisions about scope are

1. How broad and how deep does the change need to be?
2. How expansive does the change need to be across each facet of the organization?

Origin of Change: Top-down vs. Bottom-up. The ***origin*** of change refers to whether the leader plans the change or it emerges from business units more organically. Is the decision to change a senior-level one? Or has an opportunity or performance gap become evident within a lower-level group or in a specific area of the organization? The answers will guide decisions about whether change should be orchestrated primarily from the top down or allowed to percolate from the bottom up.

Leaders typically plan *top-down change,* with clear directives, goals, communication plans, and assessment models. Top-down change requires ***buy-in*** from the management team, which then disseminates throughout the organization. Alternatively, *bottom-up change* emerges from within the organization and can look quite different across multiple business units depending on how it gets started.

Top-down and bottom-up change each have strengths and weaknesses. Top-down change often provides greater certainty and control, but can stifle innovation or buy-in from those below.[9] Bottom-up change can lead to greater diversity of ideas and buy-in, but can be more difficult to coordinate and implement reliably across the organization.[10] Questions to consider when analyzing the origin of change are

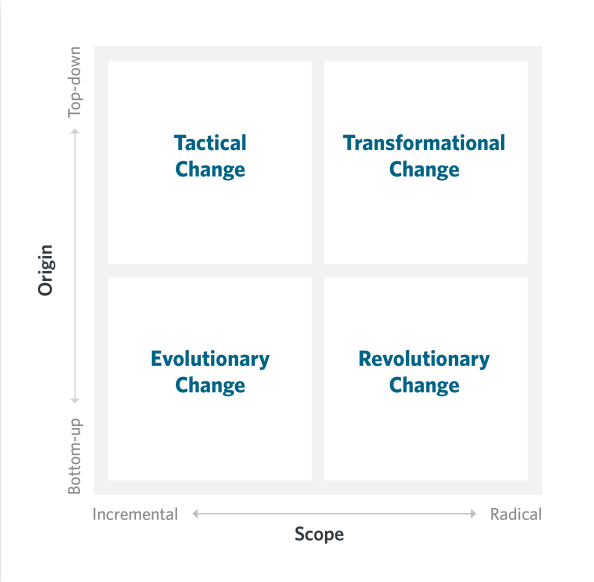
1. Where are the best ideas about the desired change likely to be generated?
2. How clear and predetermined is the path forward?
3. How consistent should the resulting behaviors and practices be?

Leaders should consider each of these dimensions as continua, rather than as a set of separate trade-offs. For instance, rarely is the origin of change strictly top-down *or* bottom-up, but rather it is usually a combination of both.

2.2.2 Types of Change

When designing a change initiative, leaders should anticipate how their decisions related to the scope and origin of change will interact. Whereas scope focuses on the intended effect of the change, the origin identifies where the change will emerge. **Exhibit 2** outlines four typical types of change that result from the various design choices.[11] At the beginning of a change initiative, leaders often do not have a clear sense of the type of change they will be managing. Taking some time up front to determine the type of change will prove useful later when developing an appropriate implementation plan.

EXHIBIT 2 Types of Change Based on Scope and Origin Design Decisions



- *Tactical Change:* When change is top-down and incremental, it is defined as ***tactical***. Tactical change is designed to address a specific issue within the organization and to achieve a particular goal. This type of change implies a shift in behaviors or routines that can be targeted and quickly implemented with few or no repercussions outside the business unit. Tactical changes rarely result in organization-wide change, and are often implemented when the leader is confident there will be little resistance or few larger repercussions.

- *Evolutionary Change:* When change is bottom-up and incremental, it is defined as ***evolutionary***. Under these conditions, leaders rely on ideas to emerge from individuals and subunits within the organization. The leader's role, in turn, is to provide resources, remove barriers, and offer guidance. Such changes are gradual, and may not always be appropriate to roll out across the entire organization because they may be applicable only to a specific business unit. Evolutionary change can be an important way for an organization to learn and test new ideas without upending the entire system.

- *Revolutionary Change:* When change is bottom-up and radical, it is defined as ***revolutionary***. This type of change impacts the core beliefs and behaviors, as well as the norms and structures that guide the organization.[12] Revolutionary change emerges from within the organization, and often starts with a movement or idea from those within the rank-and-file or a single business unit. If the change has merit, it will gain traction and reach across the entire organization.[13] Group members are often highly committed to the change

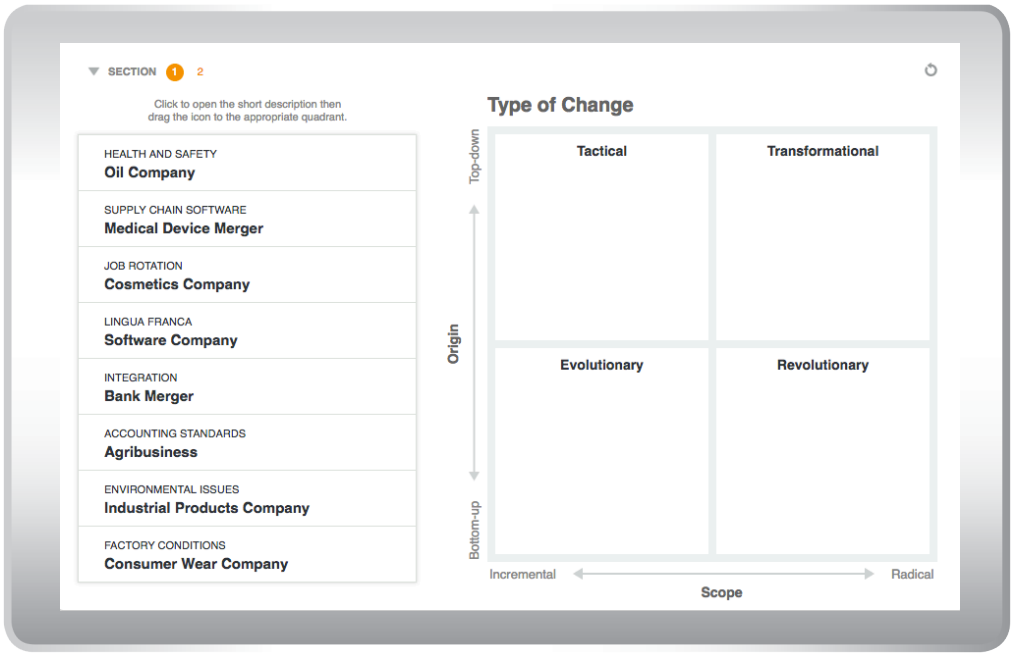
because they helped spur and shape it. However, in organizations (and in countries), revolutions can occasionally lead to chaos and collateral damage, especially if the leader or others disagree with the direction.

- *Transformational Change:* When change is top-down and radical it is defined as ***transformational***. Transformational change starts with the leaders' goals in mind. The intended impact of a transformational change is significant. Leaders regularly devote a great deal of resources to managing transformational changes because such initiatives are often directly tied to the leader's strategic goals. After such a change, rarely does the organization go back to the old way of doing things. Since transformational change is driven from the top down, it is especially important for the leaders to consider how to solicit buy-in and acceptance at all levels.

Supplemental Reading 3.1 offers real-world examples of each type of change, and **Interactive Illustration 1** further explores the types of organizational change, as well as their associated risks and rewards.

INTERACTIVE ILLUSTRATION 1 Scope and Origin of Organizational Change

Scan this QR code, click the image, or use this link to access the interactive illustration: bit.ly/hbsp2DW8lNe



Each type of change is associated with a unique set of assumptions and philosophies about how the change should emerge, as well as implications for implementing change. The next set of decisions must align the change's scope and origin

with its *delivery,* in terms of rollout and timing. We now turn to the task of building an appropriate change implementation strategy.

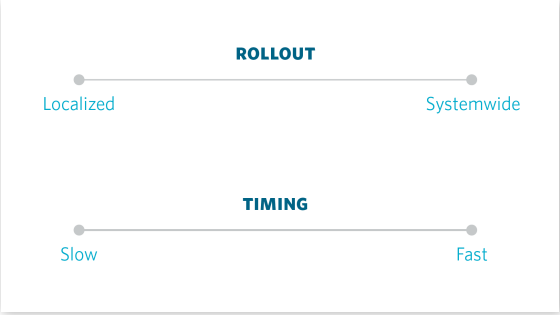
2.3 Delivering Change

After deciding on the type of change most appropriate for addressing a performance or opportunity gap, leaders must consider how to implement it. The leaders of a transformational change effort, for instance, will need to consider if it is possible to pilot the change in one business unit before rolling it out across the entire organization. If so, should the change occur in short bursts or over an extended period of time? And how much change is possible before members experience fatigue? To answer such questions, the following section outlines the components of delivering change.

2.3.1 Choosing the Best Approach to Implementation

Like the set of design choices about the type of change, leaders also have choices about its delivery and implementation. We will introduce two decisions related to implementation here: ***rollout*** and ***timing*** (see **Exhibit 3**). Placing hash marks on each of the continua below helps leaders think through how they want to execute a change initiative.

EXHIBIT 3 Implementation Decisions: Rollout and Timing



Rollout of Change: Systemwide vs. Localized. Rollout refers to the decision about where to implement change across the organization. *Systemwide* changes are rolled out across multiple units or subunits simultaneously. A systemwide rollout can be very effective if the leader needs the change to start immediately. It can send a strong signal to the organization that it is both critical and necessary to all aspects of the

business. Since this type of change is implemented across the whole organization or all of its components at once, it can require significant resources and coordination. One of the risks of systemwide change is that there are fewer opportunities for the leaders to learn and evaluate before implementing the change in other areas.

Localized change is rolled out in a successive process. This approach involves implementing the change in specific units of the organization, one by one, until it reaches all areas, or altering components of an organization in serial fashion (e.g., first changing the compensation system, then the hiring process, and finally the organizational structure). The benefit of this type of rollout strategy is that leaders can devote more resources and attention to each segment of the organization when implementing change.

Questions to consider when making decisions about rollout are

1. Can the change be rolled out in each unit separately, or is cross-unit collaboration necessary?
2. Does the organization have the resources to coordinate a rollout across multiple units?
3. How will the change affect productivity during implementation and while the business unit attempts to adapt?

While leaders may attempt to roll out change by placing a primary focus on systemwide or localized change, many efforts include combinations of both, with each employed to a greater or lesser extent.

Timing of Change: Fast vs. Slow. A leader's decision about the *timing* of change determines the pace of the implementation effort. A *fast* change effort is implemented quickly, with the goal of enacting it rapidly and then returning to the "new normal." Fast change is often most effective following a jolt that threatens the organization's taken-for-granted routines.[14] For example, the organization may need to react immediately to a competitor releasing a new product or technology, a regulatory change that the government issues, or an unforeseen crisis such as a natural disaster or a product recall.

Fast changes are typically implemented within a finite period of time. The goal of fast change is to enact change and then return to a new normal that leads the organization to adopt an updated *status quo*. It is often conceptualized as a process that begins with the leader: (1) unfreezing the existing organizational routines; (2) enacting and implementing the change; and (3) refreezing the organization around a

new set of organizational standards, practices, and norms. Change leaders must manage the timing of each stage in this process.[15]

A slow change effort, on the other hand, is implemented over an extended period or may go on indefinitely. Slower-paced change efforts often provide more opportunities for evaluation and learning, but can lose momentum if they extend too long or are not supported by formal processes. Toyota, for example, is known for its slow and continuous change efforts. Rather than periodically unfreezing their assembly lines to retool manufacturing processes rapidly, factory workers meet with management on a daily basis to discuss ways to improve the organization's production systems slowly and steadily.[16]

Questions to consider when making decisions about the timing of change are

1. How long will it take to roll out the change?
2. Has an unexpected event triggered the need for an immediate change?
3. What are the benefits of having more time to implement the change?

Implementation Approaches: Tools, Tactics, and Tradeoffs

Once leaders have considered the rollout and timing, they must also evaluate the relationships and possible interactions between these implementation decisions. The rollout and timing decisions that leaders make will ultimately affect the extent to which the change stretches and extends the organization's existing operations and how much stress the effort will place on individuals. Typically, two implementation approaches emerge:

- *Focus on Piloting and Experimentation:* If the change is primarily localized and slow, more opportunities for piloting and experimentation will exist. Under this approach, the timing of change is prolonged over an extended period, and the rollout is focused on one specific business unit or organizational practice. Leaders can test ideas in a targeted fashion, gather data and feedback from members, and then make adjustments before implementing the change across additional business units over time.

- *Focus on Assimilation and Integration:* If the change is more systemwide and fast, it will be assimilated and integrated throughout the organization with greater consistency and speed. Under this approach, change is implemented rapidly and simultaneously throughout the organization. Such change is more

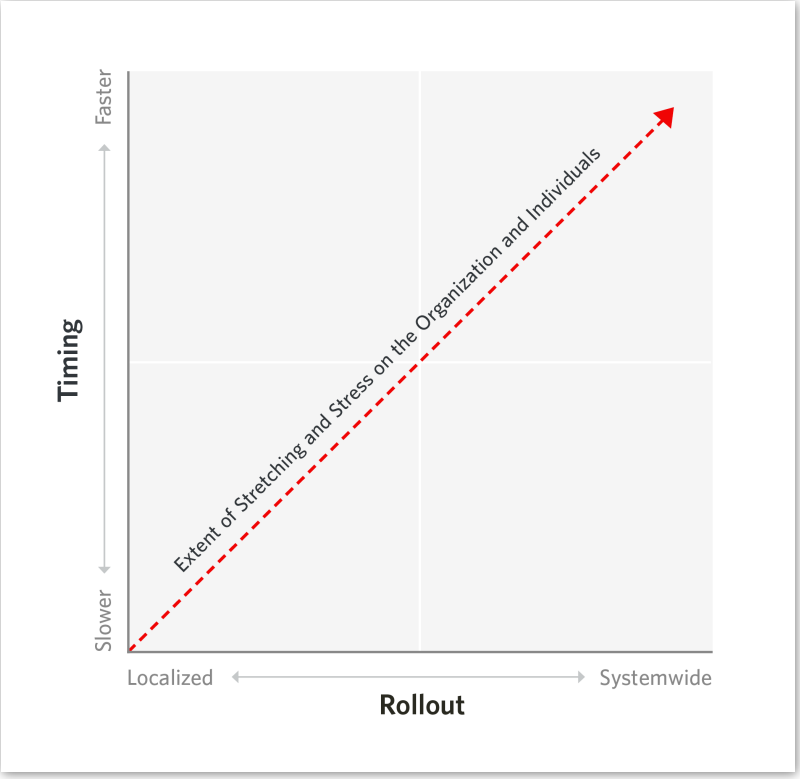
likely to have an immediate effect on the core systems, structures, and culture of the organization because it occurs all at once. After the changes are implemented, the organization will likely return to a state of equilibrium where incremental changes become the norm.[17] The downside of this approach is that leaders sacrifice some ability to learn from past successes or failures before implementing the change in other units.

The Trade-off Between Stretching and Stress

Change leaders often face tension in balancing the need to pilot and experiment with the need to assimilate and integrate the change within the organization. Deciding how much to focus on one over the other depends on how much stretching and stress the leaders believe the organization or individuals can endure. Because most organizations can only handle so much change at once, such decisions also depend on how leaders prioritize the importance of the change effort relative to others currently underway in the organization.

The dotted line that runs through the middle of **Exhibit 4** illustrates this trade-off between stretching and stress in designing a change initiative. Leaders must consider how much the change will effectively ***stretch*** the existing organizational norms, behaviors, and routines in the necessary direction, while in turn balancing how much ***stress*** they can impose on the individuals and groups experiencing the change.

EXHIBIT 4
Implementation Approaches Based on Rollout and Timing Decisions

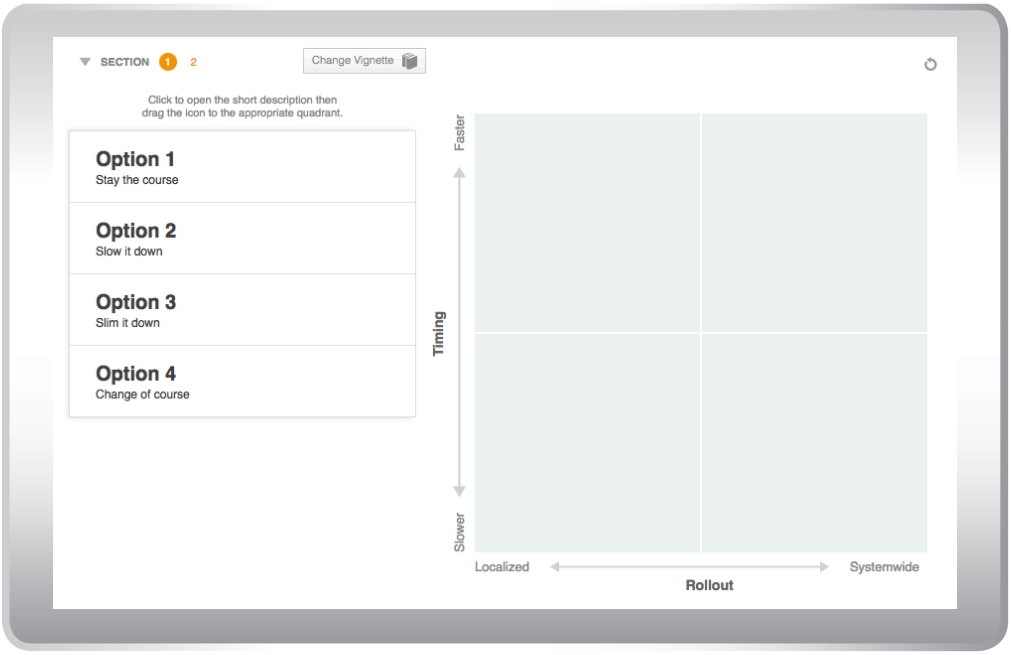


On one extreme, a slow and localized change will induce less stress on the organization as a whole. Such change is implemented in isolated pockets over an extended period of time. The risk of adopting this type of implementation approach, however, is that it may take too long to roll out, and it may not evolve in the manner that the leader originally intended. Alternatively, if leaders choose a fast and systemwide implementation strategy, the change will permeate more rapidly. However, the downside of this approach is that it can place significant pressure on the organization to adapt immediately. Without some intermediary breaks to refocus and evaluate, individuals may experience fatigue and stress (discussed in more detail in the following sections).[18] This discomfort may generate resistance.

Thus, leaders typically choose an implementation strategy that combines elements of both the piloting and assimilation approaches. Finding the right balance depends on the type of change the leaders hope to guide (e.g., tactical, evolutionary, revolutionary, transformational), how they prioritize the change effort relative to other changes, and the tactics they plan to employ. **Interactive Illustration 2** explores further implementation approaches, as well as their associated risks and rewards.

INTERACTIVE ILLUSTRATION 2 Rollout and Timing of Change Initiatives

Scan this QR code, click the image, or use this link to access the interactive illustration: bit.ly/hbsp2IV9Wqd



Implementation Tactics: What Actions Can I Take to Roll Out a Change?

Implementation tactics are the leader's tools for managing the rollout of change. Tactics help define *what* the leader must do. Knowing *when* to use a specific tactic over another is just as important as knowing *how*. Two important streams of research can help leaders choose the best tactics and ***sequencing*** for the change effort.

Bold Strokes and Long Marches. Leaders must determine how they will approach the various components of a change initiative. Rosabeth Moss Kanter, Barry Stein, and Todd Jick outline two ways[19] in which leaders can do so:

- ***Bold strokes*** send a signal from the top to the rest of the organization. They command attention. Leaders often frame bold strokes as big strategic decisions or major economic initiatives. Examples include buying another company, firing a subset of employees, or allocating critical resources to developing a new product or technology.

- ***Long marches*** are sustained programs or packages of change that significantly alter the organization's structure or culture. They constitute a sequence of interventions layered on top of one another. Long marches create durable conditions to support changes in behavior and help employees see how a

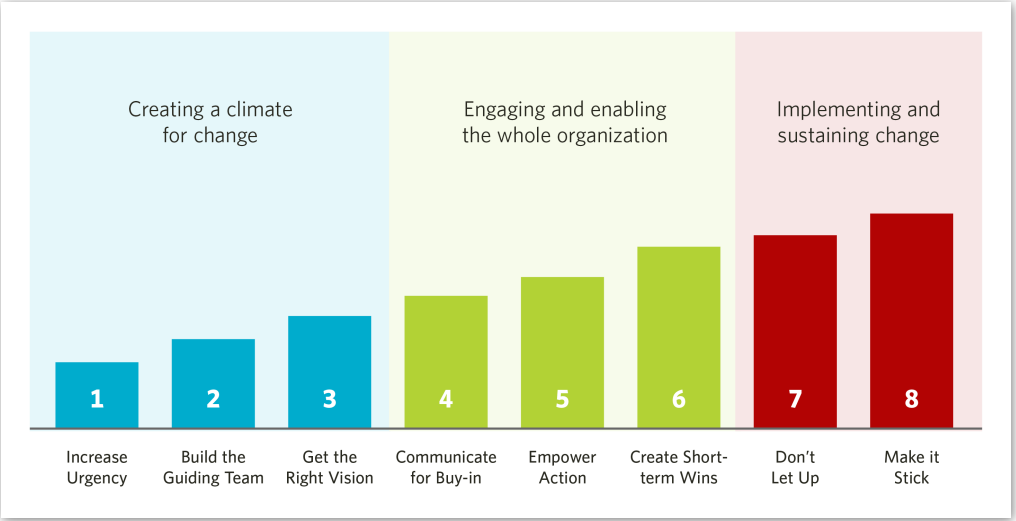
change will eventually become the new taken-for-granted way of doing things. Culture change, for example, cannot be mandated, and therefore leaders often communicate how a package of programs will introduce and reinforce new routines and behaviors over time.

As separate tools for implementing change, bold strokes and long marches are useful ways to consider the actions a leader might take. For instance, a bold stroke can help set a new strategy or vision, and it might be followed by a series of long march decisions that align the strategy with a new set of intended behaviors across the entire organization.

Implementation Steps and Sequencing. In another key body of work, John Kotter outlines eight steps that leaders can take to implement change.[20] This model is summarized in **Exhibit 5**.

1. *Establish a Sense of Urgency:* Identify and communicate performance or opportunity gaps.
2. *Form a Powerful Guiding Coalition:* Assemble a group powerful enough to lead the change effort. Encourage the group to work as a team.
3. *Create a Vision:* Create a vision powerful enough to help direct the change effort.
4. *Communicate a Vision:* Use every vehicle possible to communicate the new vision.
5. *Empower Others to Act on the Vision:* Get rid of obstacles by changing systems or structures that seriously undermine the vision.
6. *Plan for and Create Short-term Wins:* Plan for visible performance improvements and recognize employees involved in the improvements.
7. *Consolidate Improvements and Produce Still More Change:* Use increased credibility to change the systems, structures, and policies that don't fit. Hire, promote, or develop employees who can implement the vision. Reinvigorate the process with new projects, themes, and change agents.
8. *Institutionalize the New Approaches:* Articulate the connections between the new behaviors and corporate success. Develop the means to ensure leadership development and succession.

EXHIBIT 5 Kotter Change Model



Since its introduction, empirical studies have confirmed the importance of all eight steps in Kotter's model, although the sequencing of the steps has not been tested in its entirety.[21] In fact, no change proceeds in a purely linear fashion.[22] Implementing change involves success and failure, trial and error, and learning and making adjustments. Because organizations are systems, altering one part inevitably affects others, sometimes in unpredictable ways that require previously unplanned responses. As leaders balance concerns about the goals of the change with concerns about its effects on individuals, modifications in pacing and sequencing the implementation may become necessary.[23]

The sidebar "Ford Motors: Managing a Major Corporate Turnaround," describes how a new CEO from outside the company managed to engineer and implement a sweeping change initiative to save the organization.

Ford Motors: Managing a Major Corporate Turnaround

In *American Icon: Alan Mulally and the Fight to Save Ford Motor Company*, author Bryce G. Hoffman describes what he calls "one of the most amazing turnarounds in history." The book tells the compelling story of Alan Mulally's move from Boeing Commercial Airplanes—where he resolved several potentially disastrous issues for the country's flagship aircraft manufacturer—to Ford, where he became president and CEO in early September 2006. His predecessor, William Ford, who had recognized the need for new leadership, stayed on as chairman to work with Mulally as he navigated through the challenges of an entrenched corporate culture in desperate need of change.

Bill Ford was the great-grandson of the company founder, the legendary Henry Ford. More than a hundred years since its establishment, the company was still largely family-controlled. Decades of sleepy complacency and insular politicking among decentralized fiefdoms had blinded Ford to the risks of disruption from the emerging foreign competitors. Ford's two American counterparts, GM and Chrysler, were similarly unprepared for the onslaught. Fortunately, Bill Ford and Alan Mulally got a small head start on GM and Chrysler—but together the "Big Three" auto makers were in dire straits in a critical national industry that many observers considered to be on deathwatch.

The world had changed around the American automakers, but few had noticed or paid attention to the performance gap that now yawned between them and their foreign rivals. The Japanese car companies—with Toyota and Honda leading the way—were beginning to surpass the Americans in every way. Quality, fuel economy, design, and low-cost production were the new imperatives. The Big Three were far behind on all of them. Many customers were simply no longer interested in the US-made vehicles, and unsold inventory was starting to clog the dealers' showrooms and parking lots.

What sort of change was needed and how should it be implemented? Even before he accepted the job, Mulally began absorbing every bit of information he could find about the company, the industry, and the competition. By the time he arrived in Dearborn, he had already sketched out a vision, a plan, and a process for using data and communication to turn the company around. Relentlessly, he continued the quest for hard data that he would use to diagnose, design, and drive change.

Mulally had come from outside Ford, and he wanted to retain the wisdom of the long-time senior executives. But he needed them to start working as a team, rather than protecting their separate silos. He designed a data-driven

(continued)

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process to foster that transition. Mulally instituted weekly business plan review (BPR) meetings, where each executive was expected to share the goals and progress in his or her area and learn about the others. Mulally personally modeled the kind of openness he was after, and congratulated the first executives who took the risk of doing the same. His positive attitude and people skills helped build trust with key members within the organization and beyond.

When critical issues arose, the team held BPR meetings more often, but never less than every Thursday. When the executives got comfortable with the format, they began to have regular BPR meetings with their own staffs—and the practice eventually cascaded throughout the organization. As a result, people at all levels learned more about each other's jobs and the company's worldwide operations. Over time, the openness around data helped to dismantle the former fiefdoms. The new vision took shape: "One Ford. One Team. One Plan. One Goal."

There were many wrenching adjustments along the way. Tens of thousands lost their jobs as the company focused on designing and building the vehicles that customers wanted and eliminating those that were no longer selling. The powerful UAW—the United Auto Workers union—needed somehow to be brought into the solution. The company had to build trust in those relationships, just as it had among the executives.

The company took unprecedented measures to shore up its financial position ahead of the looming market corrections. For the first time ever, the board needed to accept that nearly all assets would now be encumbered as security, even as the corporate bonds hovered below investment grade. But with the financing in place, Ford was able to go ahead with the restructuring. When GM and Chrysler required federal bailouts in 2009, Ford did not. Its transformation was already on fairly firm footing, albeit in a very wobbly global economy.

By the time Mulally retired in 2014, Ford had reemerged as one of the most efficient, successful, and admired producers of quality vehicles worldwide. The question remained as to whether the changes would be sustainable under Mulally's successors—and whether the new processes and attitudes would continue to serve well in the future. But with a strong, cooperative team in place, the odds looked good to most observers.

Source: Bryce G. Hoffman, *American Icon: Alan Mulally and the Fight to Save Ford Motor Company* (New York: Crown Business, 2012).

2.3.2 Creating Buy-in and Getting Others On Board

Why do some individuals embrace and support a change effort, while others choose to resist or reject it? In every change initiative, leaders will encounter various degrees of enthusiasm and resistance among the people and parts of the organization that are most affected. These attitudes may vary throughout the process, and at each step, the leaders must be able to recognize and respond to keep the process on track.

Resistance usually stems from perceptions of excess stretching and stress on the organization or on specific people or units, as illustrated in Exhibit 4 in Section 2.3.1. When individuals or organizational units express opposition, creating buy-in becomes the most important—and often the most difficult—aspect of implementing the change initiative.

Assessment of Readiness. Leaders have to think carefully about *who* to engage, *when* and *how* to engage them, and *how much* effort to expend on each group.[24] Leaders must also be highly attuned to the ways in which they can foster buy-in. To do so, they need to have an eye on four measures of readiness and commitment:[25]

- *Discrepancy:* Do individuals in the organization believe that there is a significant gap between the current state of the organization and what it should be and that the change is needed?
- *Appropriateness:* Do organization members believe that a specific change designed to address a discrepancy is the correct one for the situation?
- *Efficacy:* Do members of the organization believe that they personally, and the organization as a whole, can successfully implement a change?
- *Principal Support:* Do individuals in the organization believe that their leaders are committed to the change's success and that it is not going to be another passing fad or "program of the month"?

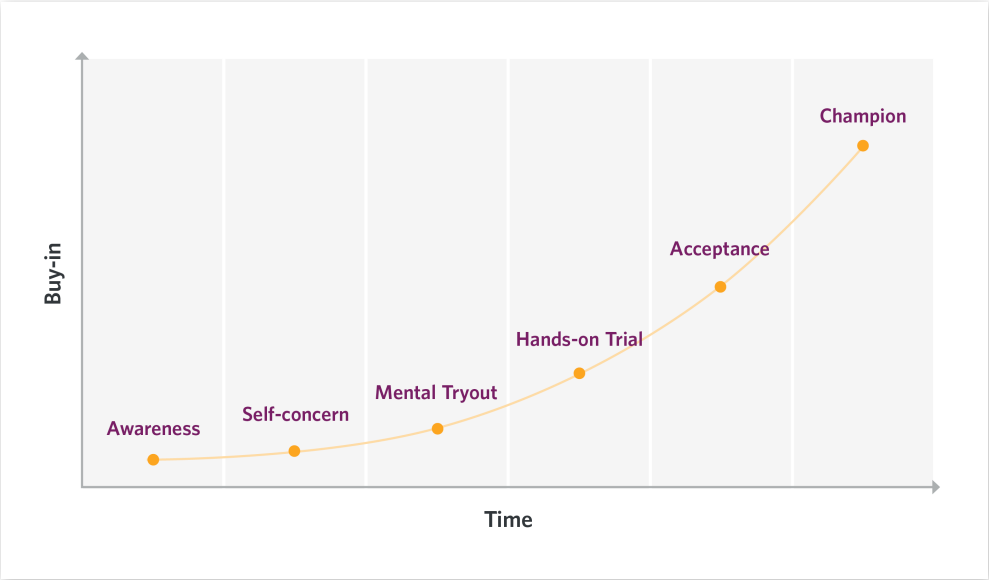
Mobilizing Buy-in. Leaders can use a series of steps to foster readiness and commitment among organization members through the typical stages of buy-in. In general, giving individuals opportunities to shape the change effort increases the odds of acceptance; the more opportunities individuals have to participate in a change effort, the more likely they will buy in.[26] **Video 1** provides an example of how a leader of a major change effort created early buy-in in a hospital.

VIDEO 1 The Challenges of Change

Scan this QR code, click the image, or use this link to access the video: bit.ly/hbsp2uoAvkh

In order to build commitment for change, the leaders must help individuals progress through six stages of acceptance and adoption (see **Exhibit 6**).

EXHIBIT 6 Creating Buy-in and Acceptance for Change[b]



1. *Awareness:* The first thing leaders must do is determine who should be aware of the change. For some groups, knowing that a change is underway may be enough. ***Stakeholder analysis***—a process of identifying individuals or groups who are most likely to support or resist the proposed change—provides useful information about which groups require more or less attention (see Supplemental Reading 3.2).

2. *Self-concern:* The second stage asks individuals to associate some self-concern with the change. Leaders should help others understand how the change matters to them personally.

3. *Mental Tryout:* The third stage gives individuals an opportunity to imagine what the change might be like before it happens. This is a low-risk way of helping people experience what lies ahead without having to change their existing behaviors.

[b] Developed by author from multiple sources: The Price Waterhouse Change Integration Team, *Better Change: Best Practices for Transforming Your Organization* (Burr Ridge, Ill.: Irwin, 1995); James Ray and Stanley Sword, "Reengineering and Human Performance," *Performance and Instruction* (August 1993): 29–35; Diane Dormant and Kathy Byers, "Facilitating Educational Change. Training Workshop: Initiating Change through Inservice Education: A Topical Instructional Modules Series" (Bloomington, Ind.: National Inservice Network, 1981), sponsored by the Office of Special Education and Rehabilitative Services (ED), Washington, DC, Division of Personnel Preparation.

4 *Hands-on Trial:* The fourth stage asks individuals to experience the change in a low-risk environment. Leaders can create pilots for people to experience the change for a short period of time, and without significant time or resource commitments.

5 *Acceptance:* The fifth stage marks an individual's acceptance of the change. The individual has weighed the costs and benefits and has decided to adopt the new practice, technology, or behavior. For some, however, this stage marks a decision to reject the change.

6 *Champion:* Finally, certain individuals who accept the change may ultimately become champions of the idea for others. At this stage, individuals have not only bought in, but are eager to communicate the benefits to others. See **Video 2** for suggestions of how to encourage early adopters to spread change.

VIDEO 2 Using "Social Proof" to Change Behavior

Scan this QR code, click the image, or use this link to access the video: bit.ly/hbsp2utt7o0

Leaders typically have limited resources and time to fully engage all stakeholders in a change effort at the same level of intensity. While all stakeholders should be aware of the change, leaders may have to decide whether only some people need to progress through each of the stages. Individuals may jump between stages 2, 3, and 4 several times before they finally reach a point of acceptance. Finally, leaders should not assume that all individuals who accept a change will become champions.

Sources of Resistance. While attempting to create buy-in and build coalitions to facilitate the change process, leaders often encounter those who resist the change. ***Resistance*** can arise because individuals disagree with the means and ends of the change or have negative feelings about its perceived consequences.[27] Common causes of resistance include a disruption to routines, concerns about one's future competence, increased workloads, loss of control, and excess uncertainty.[28] The benefits and costs of change can be distributed unequally, with some employees more negatively affected than others, and thus, more likely to exhibit resistance.[29]

Those who resist change may speak out against it, obstruct its progress, withhold participation, delay action, or otherwise actively work to undermine its success. They may also unconsciously reduce effort or direct energy elsewhere because of fear or anxiety. Such behavior can slow the implementation process by reducing the level of compliance with new processes and policies.[30] It can also cause others to question the value of the change and weaken their commitment to it.

While resistance poses a challenge to implementing change, it often offers valuable feedback about weaknesses in the plan or important factors that have been overlooked. For this reason, it can help clarify aims and create strategies for engaging change recipients.[31] Involving individuals by inviting their participation to shape—and even guide—the change is an effective means of dealing with resistance.[32]

Use of Self. During each stage of buy-in, the leader's "use of self" will affect the outcome. In fact, some experts believe the use of self is among the most effective tools available to change leaders. Rosabeth Moss Kanter proposes that leaders successfully utilize this tool by mastering three skills that form the "MEs" of leadership: *messages espoused, models exemplified, and mechanisms established.*[33]

- ***Messages Espoused:*** Especially during the early stages of buy-in (e.g., awareness and self-concern), leaders must have the ability to *articulate* standards, values, and visions. Messages can incite individuals to action when appropriate, or they can calm and soothe people to prevent them from panicking. Pep talks are empty without evidence, so positive expectations should be based on specific facts that justify optimism. In strong cultures, leaders' messages are internalized and echo throughout the system. Messages provide practical information, inspiration, and a feeling of inclusion. They provide a common vocabulary and a starting point for discussion. Leaders should rely on various forms of persuasion, including ethos (an appeal to character or values), logos (an appeal to logic), and pathos (an appeal to emotion).[34]

- ***Models Exemplified:*** As individuals move beyond the awareness stage to the mental try-out and hands-on trial stages, it is important that they see their leaders as role models, leading through the power of personal example. Leaders must exemplify the kinds of accountable, collaborative behavior they seek in others. During change, modeling future behaviors is even more powerful because the leader serves as a *de facto* template of the future desired state. Effective leaders learn to reinforce their messages through actions. When leaders visibly tackle new challenges outside their comfort zone, it can serve as model for others to jump on board and experiment as well.[35]

- ***Mechanisms Established:*** Finally, as individuals approach the stage where they must decide whether to accept the change, formal processes to support the change need to be in place. Therefore, leaders must have the ability to analyze and establish new processes, routines, and structures. They must embed desired behaviors in the culture, not just through person-to-person and generation-to-generation transfers of norms, but also through the formal mechanisms that ensure that the behaviors become part of team and organizational routines.

> Successful leaders build their own capacity to know which formal mechanisms in the organization are most likely to influence behavioral change. For instance, a savvy change leader is attuned to the formal and informal channels that facilitate information flows through the organization, understand how incentives are distributed and which are most valued, and recognize if certain policies are more likely to be adhered to than others.

To enlist buy-in, leaders need to develop all three ME skills. Most excel in one or two, but rarely master all three without coaching and support. Effective leaders are able to ask others to help them truthfully evaluate their ability to deliver key messages, role model important behaviors, and stay in tune with the organization's formal mechanisms. And as others in the organization move through the stages of buy-in, leaders need to avoid a natural tendency to isolate themselves from the rest of the organization.[36] Successful change leaders surround themselves with colleagues who can keep them abreast of how the change is rolling out, but also warn them when things get off track.[37]

Exhibit 7 provides examples of how a leader's messages, modeling, and mechanisms can combat typical resistance behaviors and help others buy into and adopt a change.

EXHIBIT 7 Leadership Skills Needed During the Stages of Buy-in[38 c]

Stage of Buy-in	Typical Resistance Behaviors	Messages Espoused	Models Exemplified	Mechanisms Established
1 Awareness	Questioning, skepticism, refusal to acknowledge the change effort.	Issue reports, hold town-hall meetings, post information to the company website, write blogs, post daily reflections on the company intranet, or use social media.	Model behaviors of the desired state early in the process.	Devote resources to the change effort. Develop a group of senior team supporters.
2 Self-concern	Speaking out against the initiative, denying the need for change.	Engage frontline managers and employees from the organization to explain how a change will have a specific impact on those in their respective business units.	Allow others to see the leader attempting to adopt the change. Be willing to show vulnerability.	Establish forums in which participants can discuss the goals and reasons for change and invite participation in decision making.
3 Mental Tryout	Directing energy elsewhere, claiming that the change effort is "not my problem."	Share success stories from both inside and outside the organization.	Bring in outsiders to help others explore what the change might be like.	Maintain communication systems to persuade and reassure resisters.
4 Hands-on Trial	Withholding participation, delaying action, subconsciously reducing effort.	Reward participation in early efforts.	Provide opportunities for others to see the leader attempting to adopt the change.	Create pilots so people experience the change for a short period of time, and without significant investment.
5 Acceptance	Working actively to undermine progress, obstructing change activities.	Find ways to have honest conversations with individuals about why they have or have not adopted the change.	Acknowledge that some resisters may not be able to change. Reward those who participate actively.	Create policies and procedures to give people who do not accept a way out (e.g., provide the option to leave gracefully or transfer to another unit). Create formal incentives to promote behavioral changes required to enact the change (e.g., monetary rewards or promotions).
6 Champion	Sporadic questioning of some aspects of change, requests for measurable results or modifications.	Publicly acknowledge and congratulate individuals who have successfully adopted the change. Share their stories with others.	Continue to champion the change. Create opportunities for others to share their experiences, provide feedback, and engage those less familiar with the change.	Maintain formal mechanisms for continuous discussion and improvement.

[c] Developed by author from multiple sources: C. Bareil, A. Savoie, and S. Meunier, "Patterns of Discomfort with Organizational Change," *Journal of Change Management* 7 (2007): 13–24; Dan S. Cohen and John Kotter, *The Heart of Change Field Guide: Tools and Tactics for Leading Change in Your Organization* (Boston: Harvard Business School Publishing, 2005); S. Oreg, J. Bartunek, G. Lee, and B. Do, "An Affect-Based Model of Recipients' Responses to Organizational Change Events," *Academy of Management Review* (June 2016) online, accessed March 2017; S. Oreg, M. Vakola, and A. Armenakis, "Change Recipients' Reactions to Organizational Change: A 60-Year Review of Quantitative Studies," *The Journal of Applied Behavioral Science* 47 (December 2011): 461–524; A. E. Rafferty, N. L. Jimmieson, and A. A. Armenakis, "Change Readiness a Multilevel Review," *Journal of Management* 39 (January 2013): 110–135.

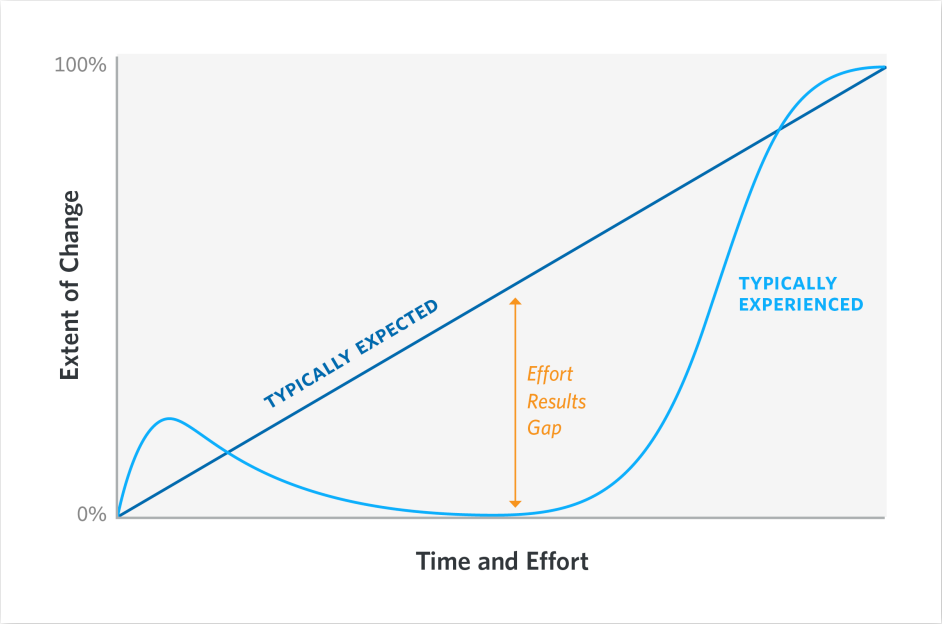
2.3.3 Overcoming Obstacles

Given the challenges associated with creating buy-in, missteps and obstacles can impede the change's progress. It is the leader's responsibility to manage expectations and to avoid the two most common mistakes:

- *Declaring Victory or Admitting Defeat Too Soon:* It is sometimes possible to interpret a quick win as "mission accomplished." Leaders need to be careful not to declare victory or celebrate success too soon. Alternatively, the inverse is also possible. If the organization faces a substantial setback, leaders must not fall into the trap of assuming the effort is doomed to fail.

- *Ignoring Change Fatigue:* Although change offers new possibilities, fatigue can also set in over time. The relationship between the time and effort invested in managing change and the extent of the change does not follow a linear slope. See **Exhibit 8**.

EXHIBIT 8 Evaluating and Assessing Change: Change Adoption Lags Effort



After the initial excitement that often follows the kick-off of a change initiative wears off, it is common for organizational members to experience some change fatigue.[39] This period is usually marked by performance decline and increased levels of resistance.[40] Individuals struggle to reprioritize their previous relationships, resources, behaviors, and ways of thinking.[41] It is the role of the leader to help close the effort/results gap. Leaders are called on to enlist middle management support,

check their vision, examine their progress and promises, create small wins, seek new relationships, and search for innovative ideas across different groups.[42]

2.4 Evaluating Change

The critical last step in designing and implementing change is to establish a feedback loop in which to determine the process's effectiveness and to make appropriate adjustments that increase the odds of success.

2.4.1 Assessing and Measuring the Impact of Change

Measuring the impact of change can be an elusive task, especially because it is often difficult to determine a specific start and end to a change, to design appropriate metrics for each stage of the process, or to define the change's long-term effect. Although one change effort may appear complete, rarely does change itself ever end. In fact, as we noted at the beginning of this reading, global executives report that they devote an average of six months per year to change and transformation initiatives.

It is impossible to measure all aspects of any change initiative, but deciding which metrics to follow can make or break the process. Leaders who carefully select a handful of critical indicators to track progress will increase the likelihood that change will achieve their intended goals. These metrics should be tied to the specific performance or opportunity gap the change was intended to address. Leaders should focus on two aspects of measurement:

1. *The Proximity to the Desired "Hard" or "Soft" Outcomes:* Some change initiatives have "hard" goals in which profitability or shareholder value is the sole objective and others have "soft" goals in which changing the corporate culture or increasing organizational and individual learning is the immediate objective; many have both hard and soft goals.[43] Leaders need to be explicit about whether they are seeking hard and/or soft outcomes—and how the balance between them might change over the course of a change initiative. Finally, they must identify and update their outcome measures regularly to reflect these goals.[44]

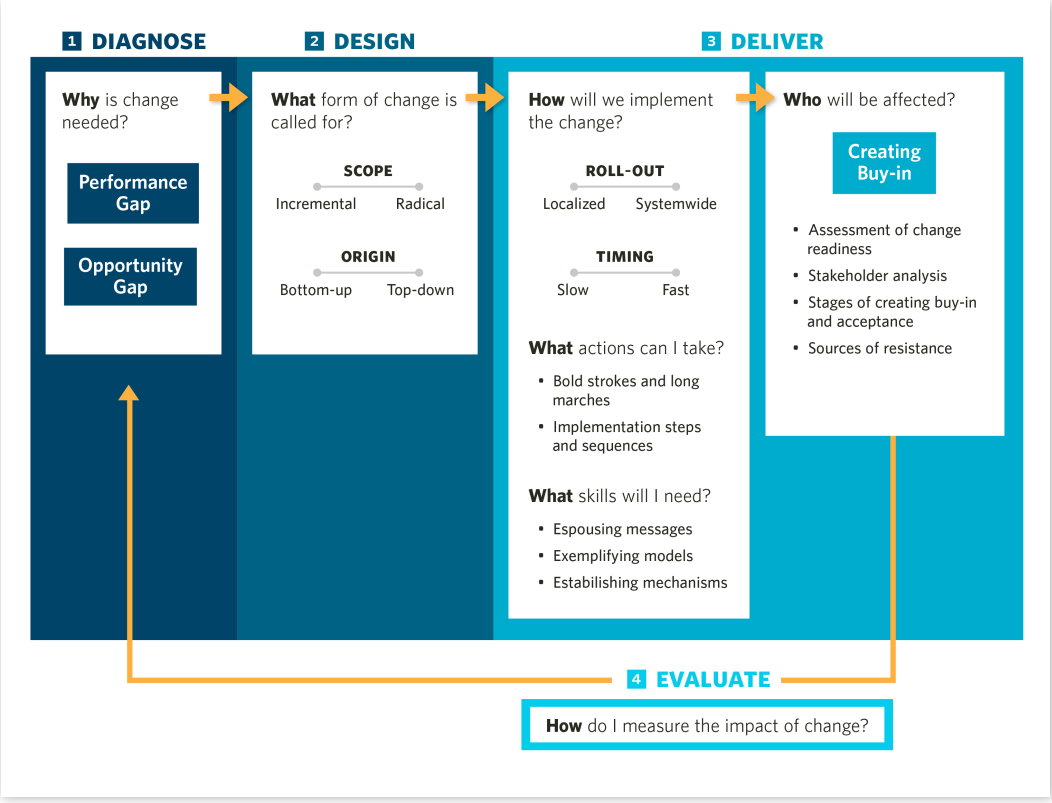
2. *Progress Toward Achieving Buy-in Among Individuals in the Organization:* To track the level of readiness and ongoing buy-in for a change initiative, leaders should seek feedback on whether employees believe the change is needed; that the specific change proposed will work; that the organization is capable of

successfully making the change; that formal leaders support the change; and the personal benefits or costs that individuals perceive the change will have.[45]

Evaluation should occur throughout the process, not just at the beginning and end. Evaluating each measure can be done in a variety of ways, including drawing upon existing performance measurement systems, employee surveys, focus groups, or interviews. While some measures may only provide partial clarity about the success of the change effort, the act of measurement can also provide a signal to employees that their voices matter. Finally, successful change leaders create processes that promote significant feedback and foster opportunities for continuous learning.

Exhibit 9 summarizes the full four-step process of leading and managing change. Whether you are the leader of a change initiative, a member of a change team or coalition, or an employee of an organizational unit that is subject to an externally directed change, you can use this model to understand, influence, and contribute to the change effort. If you thoughtfully consider each step and each element of the process, you will be well equipped to participate effectively in moving your organization in the direction it needs to go.

EXHIBIT 9
Leading and Managing Change: Diagnose, Design, Deliver, and Evaluate



2.5 Embracing the Inevitability of Change

Nothing endures but change. —Heraclitus

When scholars first studied the concept of change, the organizations they described were, for the most part, *Fortune* 500 firms or military institutions.[46] They were closed systems led by command-and-control leaders. Today, organizations operate more like open systems, where organizational structures, dependencies, resources, and technologies are interwoven across multiple stakeholders within and outside the firm.[47] Crowdsourcing, open innovation, and social media campaigns prove that we no longer define change by what happens inside the (figurative) four walls of an organization. As a result, leaders are obligated to consider new and creative ways of involving stakeholders, enlisting backers, and building support.

Many leaders emphasize the challenges of managing change in today's faster-moving, global, competitive environment. In many industries, for example, technology cycles often last weeks rather than years. Some compare the task of managing under these conditions to that of rebuilding a car while hurtling down a highway. Kotter argues that today's organizations need both stability *and* a fast, nimble, and creative approach to change.[48] Likewise, O'Reilly and Tushman argue that change leaders must be *ambidextrous,* simultaneously attending to the products and processes attached to the organization's previous success while also preparing for future change.[49] To achieve such dual purposes, companies must build a dual operating system: one system, based on the best traditional structures, for ongoing operations and incremental improvements, and a second, fluid and agile system designed to identify and respond to big opportunities and big threats as (or before) they emerge.[50]

The sidebar "Corning Glass: Organizing for Continuous Change and Innovation" describes how that company set up and funded such a dual system after a near-death experience in the early 2000s.

Corning Glass:
Organizing for Continuous Change and Innovation

Corning Incorporated, the venerable glassmaker with origins that date back to 1851, has repeatedly recovered from severe economic downturns—usually thanks to innovations that originate within the ranks of its employees. Most recently, the company came back from the brink of disaster after the dotcom bust of 2001, which nearly destroyed its multi-billion-dollar optical-fiber communications business.

The technology that saved the day had been invented in the 1960s, but never served its original purpose of being made into prison windows or windshields. Forty years later, a new generation of lab scientists resurrected their forebears' invention and made it into Gorilla Glass, a strong but thin material intended for use in high-tech product surfaces. You may know Gorilla Glass 3 as the touch screen on your iPhone, or your computer display or television screen. Product development using Gorilla Glass helped stanch the billion-dollar hemorrhages in 2001–2002. By the end of the decade, it had revived the company by creating an entirely new business line worth billions in its own right.

When Corning recovered from this near-death experience, management set out to design an organization that could continue to deliver cutting-edge technology, regardless of the inevitable volatility in the markets for its existing product lines. First, the senior team recognized that they needed both a conservative approach to finance and a balance sheet that could withstand the occasional storm.

They then redesigned the R&D function to reinforce and centralize the focus on long-term, basic interdisciplinary research while offering more immediate support to the product divisions, where market-facing product development took place. Early in the transition, they allocated top talent to short-term projects for the product divisions, and regained credibility within the organization for their quick and visible successes. This was a critical step for the new RD&E (research, development, and engineering) organization, which charged 60% of its work to the divisions for innovations that the business managers wanted to bring to market quickly.

The remaining 40% of the RD&E budget—known internally and to outside analysts as "patient money"—went to basic science and long-term research. In this way the company could foresee the possibility of the next Gorilla Glass, the next Willow Glass (strong and flexible glass for wearable apps and for wrapping high-tech screens around curved surfaces), and the next-generation bendable optical fiber, which could bend around corners for new applications such as home network installations.

(continued)

(continued)

Sources: Connie Guglielmo, "Working with Innovators from Thomas Edison to Steve Jobs, Corning Finds a Glass Fix," Forbes, September 4, 2013, http://www.forbes.com/sites/connieguglielmo/2013/09/04/at-cornin-the-glass-is-always-half-full-corning/, accessed December 8, 2016; Stanford Graduate School of Business Case Studies: "Corning Incorporated (A): Reinventing New Business Development" [SM-167A], and "Corning Incorporated (B): Bringing Rigor to Early-Stage Opportunity Identification" [SM-167-B], both prepared by Lyn Denend under the supervision of Professor Robert A. Burgleman. Copyright © 2008 by the Board of Trustees of the Leland Stanford Junior University; M. B. Graham and A. T. Shuldiner, *Corning and the Craft of Innovation* (New York: Oxford University Press, 2001), p. 384.

2.6 Conclusion: Learning from Success and Failure

The world is full of stories about change efforts gone wrong, but you don't have to look too far to find examples of organizations that can tout stories of huge, transformative success. The examples we have presented here, in the Supplemental Reading, and in the list of additional resources offer many such change narratives.

You will undoubtedly encounter change of every type and at every level of your organization, be it a global competitor, a disruptive insurgent, a nonprofit endeavor, or a government entity. However large or small, every change effort holds lessons for leaders to consider: What was the impetus for change? What design and implementation decisions did the change leaders make? Did they take into account the stages of buy-in and use the appropriate leadership skills at each stage? Did they evaluate and learn from the results?

Ultimately, your ability to lead real and substantive change will come not only from familiarity with the frameworks and diagnostic tools presented here. As a leader of change, you must also actively seek opportunities to learn from others' successes and failures, and simultaneously cultivate an ability to improvise.

3 SUPPLEMENTAL READING

3.1 Real-World Examples of Corporate Change Initiatives

We chose the change examples described in the Essential Reading and in the interactive illustrations to help you engage with and understand the concepts presented. This supplemental reading presents four additional real-world change initiatives, each of which falls roughly into one of the categories described in Exhibit 2. They also demonstrate that as change initiatives evolve, the type of change being pursued often changes.

3.1.1 Pre-planned Tactical Change at Amazon: From the World's Largest Bookstore to the Everything Store to Top-tier Provider of Web Services[51]

Early on, founder Jeff Bezos had a long-term plan for Amazon. He wanted to build a large business using the internet technology that was emerging in the 1990s. Very deliberately, he explored various business propositions that would allow him to do so. Book sales seemed most auspicious because books were popular items for purchase, and he could gain a cost advantage over incumbent brick-and-mortar bookstores with their considerable inventory expense. So he moved to Seattle, home of Microsoft and other IT providers, with one of the world's largest book distributors nearby. Bezos took advantage of the large local pool of high-tech workers to help create "The World's Largest Bookstore"—a virtual operation that could position Amazon for early success in online sales.

Through a carefully plotted, sequential strategy, the company then began offering a broader array of products and services, including music, videos, clothing, household goods, and other items so varied that Bezos deemed Amazon "The Everything Store"—the first virtual superstore. Many of the new products came from outside suppliers, with Amazon helping customers find what they were looking for and then connecting them with vendors.

Each of these incremental steps arose from Bezos's original top-down plan. By 2006 the company had expanded even further by creating Amazon Web Services (AWS). The new business unit offered Amazon's secure cloud services, computing power, database storage, and content delivery capabilities to other organizations.

While the impetus for this change arose from within the organization rather than at the top, it received Bezos's blessing and support. Analysts reported AWS would achieve a highly profitable $10 billion in 2016 annual revenue. So although the company was shifting away from top-down tactical change, the succession of new initiatives continued apace.

3.1.2 Thirty Years of Evolutionary Change at Lenovo[52]

When Beijing-based Lenovo bought both IBM's PC division and ThinkPad brand in 2005, many observers thought the $1.75 billion purchase would represent a transformational change for the 20-year-old Chinese upstart. But did it really?

From its 1984 origins as the Chinese Academy of Sciences Computer Technology Research Institute New Technology Development Co. (soon renamed Lianxiang, or Legend), the company has been constantly evolving. As a research-dominated group under the communist regime of Deng Xiaoping, Legend had among its ranks team members with top-level engineering, design, and manufacturing skills, but no experience with market-oriented economies or marketing strategy. None of the founders spoke English or other languages of global business, but they hoped eventually to expand into international markets.

Mary Ma, who joined the company as CFO in 1990, introduced the concept of investor relations, which required an entirely new perspective for managers accustomed to a centrally planned economy. As they strove to serve international partners, the founders needed to learn about transparency, accountability, Western-style financial reporting, and corporate communications. In 1994, with the company's name changed to Lenovo (a combination of *legend* and *novo*, Latin for *new*), Ma shepherded it through an IPO on the Hong Kong exchange. She established governance mechanisms such as audit and compensation committees, international roadshows for institutional investors, and China's first investor relations conference. These systems and activities became embedded in the corporate culture over time.

Meanwhile, the company had begun to augment its product engineering and manufacturing competence with a new focus on brand management. Expanding first through the Chinese countryside, managers at all levels of the company learned to create and market products for specific customer segments, adapting brand strategy to fit local and regional markets. The ThinkPad acquisition created Lenovo's first important opportunity to manage a global brand. With a huge new network of global resources, operations, and competencies, Lenovo became the third largest computer manufacturer in the world. In 2007, Mary Ma stepped back from her executive position to take an advisory role as vice chair.

Continuously learning from the new market challenges, the company retained the ThinkPad brand for several years before relegating it to one of several product groups under the Lenovo name. In 2013, Lenovo became the largest PC company in the world. Its products ranked first in quality, followed by Apple and HP.[53]

In 2014, Lenovo purchased Motorola Mobility for $2.91 billion, making it the third largest competitor in smart phones (after Samsung and Apple). With dual headquarters in Beijing and Morrisville, NC, operations in more than 60 countries, and sales in some 160 countries, Lenovo had become a truly global competitor—all resulting from steady evolutionary change.

To be sure, there were hiccups along the way. But Lenovo managers, wherever they worked, were encouraged to practice Fu Pan, the Chinese concept of "replaying the chess board," to review and evaluate all of their activities. This constant reflection resulted in a bias toward continuous learning and improvement. In fact, the changes at Lenovo were all incremental and evolutionary, each one supported by the cumulative changes that preceded it.

3.1.3 Revolutionary Change at Salesforce.com: From Sluggish Software Development Methodology to Fast-paced Agile Project Management[54]

Founded in 1999, Salesforce pioneered the movement toward software on demand, also known as subscription enterprise software services or cloud computing. Almost immediately, the company began a period of explosive expansion. The number of customers and employees grew by 30 to 40% annually, and revenues rose by over 80% per year. Net income grew even faster than revenues. A 2004 IPO valued Salesforce at more than a billion dollars, and with the 2005 creation of Force.com, the company began offering its development platform so that customers and third-party developers could build their own apps. By 2006, total revenues reached nearly half a billion dollars.

The key success factors for subscription software services included quality, reliability, and the pace of introducing new products. The same factors were also key motivators for the software design and development engineers who were critical to the company's success. But by 2006, in the midst of continued growth, the organization began to falter on all three elements. Perhaps most crucial was the slowdown in releasing new product functionality. From the initial monthly upgrades, the frequency eventually slowed to four releases per year, then two, and finally only one release per year. By mid-2006, more than a year had passed since the last release. The next one had already fallen behind schedule several times.

The typical waterfall process of sequential development was failing to produce timely results. One of the company's founders asked the program and development managers in R&D to introduce the "release train" model that had proven effective at eBay. They named the initiative *Shinkansen*, after the famed Japanese bullet trains, to emphasize the importance of speed. The idea was to schedule regular "release trains" for periodic product introductions. If the developers missed a release train because of delays in their process, they would have to wait for the next train. Trains were to leave on time, whether the intended functionality was ready or not.

This model didn't work as well at Salesforce as it had at eBay. For one thing, Salesforce had capabilities that made parts of the train process unnecessary. More important, the developers strongly resisted having an externally developed process mandated by senior management imposed on them. Instead, they began to explore the methodology known as Agile Software Development.

Two managers approached the founding officer to suggest developing customized, in-house Agile processes for Salesforce. They wanted to pilot the project to see if it could be effective, and then carefully spread the use of Agile to other units. The senior executives liked the idea, but they wanted to skip the pilot: The two managers were charged with introducing Agile development across the board, and as rapidly as possible.

How did these two managers implement the change? They used Agile methods to develop and customize Salesforce's release processes. The result was sweeping change in nearly all activities across the company, led from the middle of the R&D department. (For a description of Agile methodology, please see https://www.mountaingoatsoftware.com/agile/agile-project-management.)

3.1.4 Transformational Change at Boeing: The 787 Dreamliner—from Seattle-based Vertical Integration to Global Virtual Integration[55]

In the mid-1990s, the newly appointed president of the Boeing Corporation assembled a team of top-level executives to consider how to prepare this very successful 20th century organization for competition in the 21st century. The result was the 2016 Strategy, a blueprint for change over the following 20 years.

Boeing's commercial airplane division had already produced three industry game-changing aircrafts during the 20th century:

- The Boeing 247, introduced in 1933, a two-engine, all-metal passenger plane with a range of 745 miles at speeds greater than 200 miles per hour.
- The Boeing 707, delivered commercially in 1960 as the first passenger jetliner, which brought the possibility of jet-age international travel to the public.
- The Boeing 747, rolled out in 1968, a giant aircraft capable of carrying hundreds of passengers and large quantities of freight over extended distances.

The transition to the 21st century would entail a product-based transformation of the entire company. The company would develop and build the product, known as the 787 Dreamliner, in a very different way than the preceding game-changers: it would introduce entirely new management, design, and manufacturing processes across the organization.

Whereas Boeing had previously centralized all these functions in Seattle, the Dreamliner would be produced in components by multiple tiers of suppliers located all over the world. The Dreamliner would not be designed and tested in Seattle with "build to print" specifications for the outsourced components; instead, global partners would be provided with performance specifications and required to build to performance. Rather than designing, building, and testing a prototype aircraft before outsourcing the components, the suppliers would design and build the parts and then ship them to Seattle to be clicked together to assemble the final product.

Developing the 787 this way required massive changes across the Boeing Corporation. Where engineers and production workers had previously worked hand in glove in the same location, those communications would now have to be accomplished remotely. Huge investments in 21st-century telecommunication and management technology would be required in order to coordinate the design and production processes. Nearly everybody involved would need to learn new ways of working. And the 787 would still have to embody the company's two founding principles: Build to Perfection, and Let No Airplane Technology Pass Us By.

The Dreamliner was introduced to the public on July 8, 2007 (7/8/7), but the rollout model was far from capable of flight. The Dreamliner's first flight didn't take place until December 2009; its first commercial delivery was in September 2011. The delays cost over $20 billion and undermined Boeing's corporate credibility. The organization was stretched and strained as never before.

Ultimately (and despite a three-month grounding of all Dreamliners in 2013), the 787 became Boeing's fourth industry game-changer. The extremely high-tech, fuel-

efficient Dreamliner—much smaller than the 747—was capable of carrying passengers efficiently from point to point over extended distances. It could disrupt the deeply entrenched, hub-and-spoke systems where small planes delivered passengers to large, crowded airports so they could join other passengers to fly in big, expensive airplanes to other large airports. And the Boeing Corporation developed—albeit painfully and at great expense—the skills and technologies necessary for global virtual integration in the 21st century.

3.2 Stakeholder Analysis

Careful diagnosis of an organization's stakeholders can shed light on how a leader's decisions about a change will effect internal and external groups.[56] **Exhibit 10** provides a tool to identify stakeholders with varying degrees of *power* and *interests,* and to decide how to deal with each group.

EXHIBIT 10 Stakeholder Map

Source: Developed by author from multiple sources: G. Johnson, R. Whittington, and K. Scholes, *Exploring Strategy*, 9th Ed. (London: Financial Times/Prentice Hall, 2001); A. Mendelow, *Proceedings of the Second International Conference on Information Systems*, Cambridge, MA, 1991.

Change leaders should raise several questions when conducting a stakeholder analysis,[57] including: Who are our stakeholders? Can we articulate the core mission and purpose of each stakeholder? How will the change program affect each one? In what ways, if any, does the change affect the core interests of the stakeholder? How can each help or hurt us?

With possible answers to these questions in mind, we can then plot the stakeholders' positions on the map:

- *Manage Closely* (*High Power, High Interest*): These stakeholders are critical to the change program's success. It will be important to involve them early and seek their feedback throughout the process.

- *Keep Satisfied* (*High Power, Low Interest*): These stakeholders may not have an immediate interest in the change, but it is important to recognize their power so they do not derail the project if their interests change.

- *Keep Informed* (*Low Power, High Interest*): These stakeholders should be adequately informed. Given their high interest, they can be valuable resources to help build support or provide feedback.

- *Monitor* (*Low Power, Low Interest*): These stakeholders do not need immediate attention, but it is still important to monitor their reactions throughout a change. Be careful not to overinvest time or resources in this group.

It is helpful to remember that stakeholders can move between quadrants. Some stakeholders may develop new or different interests, while others may become more or less powerful over time. Measuring the impact of change requires constant assessment (and reassessment) of stakeholder expectations, if only because acceptance does not always proceed in a linear fashion.

Consider the example of the Alan Mulally-led transformation at Ford, as described in "Ford Motors: Managing a Major Corporate Turnaround" in the Essential Reading. Can you identify the various kinds of stakeholders in that change effort and assess how Mulally handled them over time?

4 KEY TERMS

bold strokes Big, strategic initiatives that entail considerable change in an organization, usually directed from senior levels (top-down).

buy-in The degree of a change effort's acceptance by an organization, a unit, or an individual.

evolutionary change Change that takes place incrementally and originates from the lower ranks of the organization (bottom-up).

long marches Sustained programs or packages of change that significantly alter the organization's structure or culture over time, requiring broad participation; in practice, these changes cannot simply be mandated by senior management.

mechanisms established Formal procedures put in place to aid and reinforce a change effort.

messages espoused Communication from the change leaders about the purpose, process, progress, and desired results of a change effort.

models exemplified Behavior by the change leaders that embodies the challenges for and expectations of others in a change effort; activities that demonstrate the required behaviors.

opportunity gap The difference between current performance and potential performance for the company as circumstances change.

organizational stress The degree of discomfort experienced during a change effort.

organizational stretching The extent to which desirable new skills, behaviors, and attitudes are established in a change effort; the effect of the change on existing members and their previously established routine.

origin Source of a change effort, usually top-down or bottom-up.

performance gap The difference between current performance and ideal performance for the company or unit.

resistance Reluctance or refusal to accept a change effort. Resistance can be conscious or subconscious and manifests itself differently at different stages of a change effort.

revolutionary change Systemwide change that originates from within the organization (bottom-up).

rollout The plan for implementing a change effort, on a continuum between localized and systemwide.

scope The extent to which a change effort is intended to alter the organization, on a continuum between incremental and radical.

sequencing The act of deciding which steps to undertake in a change effort and in which order.

SORT An acronym for the key design factors of a change initiative: **S**cope, **O**rigin, **R**ollout, and **T**iming.

stakeholder analysis A process of identifying individuals or groups who are most likely to support or resist a change initiative.

tactical change Localized change that is directed from senior levels of the organization (top-down).

timing The pace of a change effort, on a continuum between slow and fast.

transformational change Systemwide change that is directed from senior levels of the organization (top-down).

5 FOR FURTHER READING

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