

Change Leadership Today

By Patricia A. McLagan

Challenges

abound, but you have the power to make change work for you and your organization.

Change

is an increasingly important focus of attention in today's organizations. Globalization, advances in information and workplace technology, and increasing sophistication of the social sciences are some of the reasons for the big interest.

This is part 1 of a four-part series on change.

Leaders and others express their interest in many ways, asking such questions as

- How can we manage all of this change?
- How can we successfully implement our increasingly aggressive strategies?
- How can we accelerate improvements and innovation?
- How can we spread learning faster?
- How can we overcome resistance to new strategies and ways of doing things?
- How can we accelerate the development and introduction of new products and services?
- How can we do more with less?"

Those questions express a desire to manage change. But the complexity of our world makes such control impossible. We can and do, however, influence change. Our actions matter and shape outcomes; there's no doubt about that. But too often, our actions work against success or we pursue goals that aren't in the long-term best interests of the organizations and purposes we serve.

Is it possible to do better?



hanks to recent change research and insights from the social and physical sciences, we know that we can be more successful with planned change. We also know it's possible to design our

organizations to be more adaptive over the long haul. But that requires special thought, action, and investment. The larger question: Are leaders willing to do and fund the work necessary to successfully implement and sustain the changes that ensure excellence for all stakeholders? The payoffs are huge, but behavior changes are necessary to realize them.

In this series on change, I'll review where we as training professionals are relative to making change work for us. I'll summarize insights from the world's research on change leadership and talk about specific implications for action by leaders and everyone with a stake in organizational success.

A changing view of change

Change is inherent in life and nature. Yet, we have only recently begun to study change in our institutions with the intent of influencing its impact. Organization development, the discipline of focusing on organizational change, is still an emerging science despite how long the term has been around. Fads and trial-and-error seem to dominate our efforts to deal with the important and pervasive phenomenon of OD.

We're probably more aware of organizational change now than in the past because many of our benchmarks show an accelerating rate of change. Take organizational longevity. An organization listed by Standard&Poor's in 1920 could expect to still be listed 65 years later. Today, a company will be on the list an average of 10 years. A young person entering the workforce today can expect to have an average of 12 different jobs by the time he or she is 40 years old.

The scope of change is also broadening. Many deliberate changes go across organizational boundaries and affect more people. That is, changes are now more often systemic. The largest global study to date of organizational changes occurring during the 1990s in more than 2000 organizations in Europe, Japan, the United States, and the United Kingdom found

- 82 percent had implemented far-reaching information systems
- 74 percent created horizontal sharing of services and information
- 65 percent implemented flexible human resource practices across the organization, redistributed work by outsourcing, and created alliances
- 62 percent decentralized operational decisions
- 50 percent took out or added layers of management
- 42 percent adopted project structures
- 41 percent decentralized strategic decisions.

Add to that the global focus of the past years on reengineering and downsizing—all changes with ripple effects not only across organizations, but also on customers and firms doing business with them.

Externally, the world is struggling to adapt to globalization, radical changes in communications and workplace technology, and pressures from multiple stakeholder groups. New theories about how the universe works are bleeding into our views of organizations and markets—chaotic and open systems

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that aren't amenable to the kinds of control we've tried to impose in the past. The ability to spread ideas quickly pressures us for more innovation and accelerated innovation.

High failure rates, a lot of concern

It's clear that our management and adaptive mechanisms haven't kept up with the challenges of change. Yes, that has always been true, but the price we pay is increasingly unbearable. I have no doubt that the global economic and social crises, including incidences of corporate malfeasance, are calls to take the challenge of change seriously.

The success rates of deliberate change aren't high; 67 percent of total quality management initiatives end with no results after two years. Downsized companies do far worse after three years than those that choose to retain their workforces—on average 4.7 percent return on assets versus 34.3 percent return. Of 250,000 manufacturing organizations studied by the U.S. Bureau of Economic Research, those that downsized were less likely than others to see productivity gains.

An extensive and global study of radical innovation by Clayton Christensen (author of *The Innovator's Dilemma*) found that although many major changes originate in established organizations, they're rarely developed and commercialized within

those organizations. Established organizations couldn't breed and nurture the necessary support for radical changes such as personal computers and cellular phones.

Several studies have validated that when major changes do occur in institutions, they're frequently led by mavericks who buck the system and put their own careers at risk. Even executives in these institutions admit that their cultures don't reward change leadership and that key change leaders aren't usually on their list of people thought promotable into management.

A study by Foster and Kaplan in 2001 surveyed 1000 U.S. and European companies in 15 industries. The conclusion: "Hundreds of managers from scores of U.S. and European companies [are] satisfied with their operating prowess... [but] dissatisfied with their ability to implement change."

What's wrong?

We often go into change with high hopes that we will solve tough problems and achieve better results—and that we'll attract more money, customers, clients, and recognition. But more often than not, those hopes are dashed. We—and everybody else in the organization—emerge from such disappointments scarred, more risk-averse, and cynical.

A Sampling of Sources

Druckman, D., Singer, J., and Van Cott, H. (eds.), *Enhancing Organizational Performance*, 1997

Frohman, A., "Igniting Organizational Change From Below: The Power of Personal Initiative," *Organizational Dynamics*, 1997

Morris, J., Cascio, W., and Young, C., "Downsizing After All These Years: Questions and Answers About Who Did It, How Many Did It, and Who Benefited From It," *Organizational Dynamics*, 1999

Passmore, W., and Woodman, R. (eds.), *Research in Organizational Change and Development*, 1999

Pettigrew, A., Massini, S., and Numagami, T., "Innovative Forms of Organizing in Europe and Japan," *European Management Journal*, 2000

Walston, S., Bogue, R., and Schwartz, M., "The Effects of Reengineering: Fad or Competitive Factor," *Journal of Healthcare Management*, 1999

Whittington, R., Pettigrew, A., Peck, S., Fenton, E., and Conyon, M., "Change and Complementarities in the New Competitive Landscape: A European Panel Study, 1992-1996," *Organization Science*, 1999

Some explanations focus on our definition of failure. Perhaps some of what we label *defeat* is actually a necessary step and a learning opportunity in a larger process. Maybe the change we chose wasn't right for the organization but one of many natural-selection experiments that the organization appropriately rejected in its inevitable Darwinian journey of adaptation.

Most changes that could make our organizations stronger and more successful fail because of poor implementation. The world's research suggests several common flaws in our implementation. A few follow.

Rational and technical.

We often take a rational and technical approach to change. We put energy into selecting the change, making sure it's technically sound and offers eco-

nomic advantages to the organization. Then we mistakenly assume that because the change is solid technically, the organization will absorb it. One review of the change literature reveals two reasons for implementation failure: 1) the belief that just introducing a change guarantees that it will be adopted and 2) the failure to continue putting energy into the change until it becomes institutionalized and a way of life. Change is a process that has profound social and human effects. Change is intuitively obvious, but it's rarely acted on by executives harried by other concerns. The costs associated with that negligence are high.

Another reason for failure relates to how organizations position and communicate about change. They assume that everyone in the organization has the same interests and goals. Management communicates about the economics: "It will improve our bottom line by 10 percent." "We'll look better to our funders." "We'll have the fastest technology in town." In the meantime, the people on the line want to know how the change will make things better for their work and their customers. If they can't find an answer to that question, they won't follow, or they'll comply only when there are sanctions for not complying.

Research consistently also tells us that failed change often focuses too narrowly—typically, locally instead of addressing the larger systems and forces affected by or that affect local success. A review by Ray Whittington in 1999 of thousands of organizations in Europe showed that the most successful ones tended to make many mutually supportive changes. The least successful tended to make isolated changes, such as to downsize without making complementary changes in roles, governance structures, or strategies.

The challenge and reasons to hope

The picture related to anticipatory and deliberate change appears grim. Change is happening, to be sure, but it's often too little and too late. That creates huge societal, economic, organizational, and personal dislocations and costs. Some organizations, however, are ahead of the game. They benefit from the radical innovations. Christensen, in his global review of innovation, found in 2000 that 37 percent of the firms that were the leaders of a disruptive change (such as computing by cell phones) exceeded \$100 million in revenues. Only 3 percent of the firms entering an al-

ready established market reached that milestone.

There are success stories, to be sure. For example, a 1999 review of almost 3000 reengineered hospitals found no significant difference between those that reengineered and those that didn't. But a small group of the reengineered hospitals (12 percent) achieved a significant 10 percent cost improvement. Subsequent research found that the small group had implemented changes more successfully.

Watson Wyatt's 2000 survey of 7500 employees indicated a relationship between implementing change well and total shareholder return. The average three-year return was 102 percent for companies that excelled at change implementation. Those that didn't had a significantly less three-year return of 67 percent. Share-price inflation from the recent bull economy undoubtedly largely accounts for both statistics, but the difference is still worth paying attention to. It probably reflects something more substantive and suggests that the way to

improve real performance is to manage change well.

So, the current change leadership picture is bleak, but there are rays of hope. In the next article in this series, we'll look at how to make success with change more likely. We'll draw on the world's research and look at its implications for our actions as deliberate change leaders. TD

Patricia A. McLagan is chairman of McLagan International and the author or co-author of many books and articles on management, change, and organization effectiveness, including the newly released *Change Is Everybody's Business*. She's also publisher of a series of research-to-practice reports, the RITEstuff Reports, and is co-host of an Internet radio show, *The Changing World of Work*; www.thechangingworldofwork.com.

This article was based, in part, on her research reported in "Success With Change: Lessons from the World's Research." The full report is available for purchase at www.mclaganinternational.com.