UNIT 12 CHANGE: PROCESS AND MANAGEMENT*

Structure

12.0 OBJECTIVES

After reading this Unit, you shall be able to:

- Understand what change is, and what are the factors stimulating change;
- Understand why changes get resisted;
- Figure out how to manage change; and
- Understand the methods suggested by Lewin and Kotter for implementing change.

12.1 INTRODUCTION

Change is the process of adjustment through which individuals, groups and organisations move from status quo to a better state in response to internal and external factors. Organisational change refers to the process, as well as the effect, of changing an organisation's strategies, structure, processes, operational methods, technologies and culture as a result of external or internal pressures. Change is important to managers and organisations, as organisations that are hesitant to embrace change are unlikely to survive in a competitive environment.

12.2 FORCES STIMULATING CHANGE

Economic Scenario: Changes in the macro economy often forces organisations to change. For example when the economy is in a slump, organisations have

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to become lean. They have to cut down the extra layers of flab to remain in business. Many organisations change the traditional hierarchical model of organisational structures to flat ones at such junctures.

The inflation levels in the economy and the interest rate scenario also affect businesses considerably. High level of nonperforming assets (NPA) in a country's banking sector can squeeze credit availability to corporates as banks become hesitant to lend and cause organisations to respond by changing their funding structure and strategies. Layoffs, salary-cuts and freezing of wage hikes are common during the recessions.

In today's globalised world, it is not only the recession of the home country that can affect an organisation, but a recession anywhere in the world can impact organisations everywhere. Thus, it is not only the national economy but also the world economy that can cause changes in an organisation. The recession that followed the sub-prime mortgage crisis in the USA, affected organisations worldwide and caused them to change to adapt to the changing circumstances.

Consumer Demand: Demand is not a controllable factor. In the modern times, it has become almost impossible to understand the psyche of the consumer. They literally want the moon, and organisations are obliging. They know that they have to deliver the impossible, and that to satisfy their customers they have to change. Customers cannot be taken for granted anymore. As Mahatma Gandhi observed, "Customer is the king" and hence the organisations have to change in order to serve the king better.

Technology: Newer technologies are emerging almost every other day and are causing organisations to change their products, processes, distribution systems, borrowing methods and people. Many products have become obsolete (eg. pagers, video and audio cassettes, polaroid camera, floppy disks etc), processes have been automated, the internet has opened up new channels of distribution and possibilities of peer-to-peer (P2P) online lending, and last but not the least, jobs are changing. Many jobs are getting automated and are causing large scale downsizing of workforce. Artificial Intelligence (AI) is the new buzzword and the enormity of changes that will happen when the AI technology matures will be beyond even our wildest imagination.

Competition: Competition was always a driving force behind organisational change, but of late competition among businesses have become more intense. When a competitor enters the market, you do not have an option but to change. The dramatic entry of 'Reliance Jio' in the Indian tele-communications market has re-drawn the industry beyond recognition. Its rivals were forced to change their pricing strategies straightaway, without which they could have been wiped off the market, even though they were giants in their own right! It is worth remembering at this point what happened to Orkut when Facebook surfaced. Today Facebook and Google may appear invincible, but they will remain invincible only as long as they constantly prepare themselves to ward off the threats from competitors who will be getting ready in some part of the world to take them on.

Change in Workforce: The demographics and the expectations of the workforce have changed over the years. Collective bargaining is becoming a thing of the past in many countries in many industries. Trade unions are losing their relevance. However, HR matters are not getting any easier. Today's worker is individualistic, and it is not easy to satisfy and motivate him. He is looking much beyond the salary that he is being paid. He wants recognition and meaningful work and wants to explore newer avenues. Organisations need to be on their toes and introduce changes, if required, to keep pace with the changing aspirations of employees.

Changes in Regulations: Organisations have no option but to change with the changes in rules and regulations of a country. The changes in regulations can be related to a wide variety of matters like labour laws, environmental issues, tax provisions, emission standards, antitrust laws, privacy etc. For example, the historic Supreme Court verdict on Aadhaar related matters has dealt a blow to the business model of private companies who were doing online-authentication using Aadhaar. Although the implications of the verdict are not yet clear, such companies will do well to consider changing their business model if required.

A dynamic management welcomes change initiatives from all sources – internal or external, and lower, middle or higher levels. Managers should respond positively to changes warranted by external forces and even encourage their staff to suggest ideas for organisational transformation.

A favourable climate for change makes an organisation increasingly competitive and strong. One should not wait for a crisis to introduce technological, structural or behavioural changes, in fact, change should be integral to organisational dynamics. Change-oriented personnel and change-centric practices can help raise the vitality of an organisation. Even customers should be invited to suggest organisational changes in various forms. Awareness sessions for customers and training sessions for the personnel can render crucial help in giving vitality to the change process.

12.3 RESISTANCE TO CHANGE

Paul R. Lawrence wrote in a 1969 issue of Harvard Business Review that one of the most baffling and problems which business executives face is employee resistance to change. The resistance can take many forms, and it may be covert or overt. According to Robins and Judge, even when employees are shown data from which it is crystal clear that they have to change, they try to seek out data that suggests that they are fine the way they are and that they need not change.

Overt resistances that gets manifested as soon as a change is introduced might appear very irritating to the introducer of the change, but the fact is that it is comparatively easier to deal with such resistances. Direct resistances to a change (or a proposed change) can be in the form of voicing of complaints and announcing a strike immediately after a change is introduced or proposed etc. In such cases, it becomes immediately evident that someone (the parties who are resisting the change) has become aggrieved due to the introduction of the change. The organisation often does not get this benefit in the case of covert attempts to resist the change, as they are very subtle. Such resistances may be in the form of loss of interest in doing the job, reduced motivation, low levels of Organisational Citizenship Behaviour, decrease in commitment to the organisation, increase in absenteeism citing flimsy reasons, intentions to quit, badmouthing about the organisation to outsiders etc. These behaviours can go unnoticed for long (and often forever) thereby silently killing the organisation. They act like slow poison.

Reducing 'in-role' performance as a mark of protest against a change is difficult, as it is likely that the employees will get punished for the behaviour, in one form or the other. Hence they tend to reduce their extra-role behaviour (those behaviors which are not part of the formal job requirements). Extra-role behaviours are not (and often cannot be) prescribed in advance for a given job, but they are required for the smooth functioning of any social system, including an organisation. Examples of such behaviours are helping co-workers with a work-related issue, conserving the resources of the organisation, going that 'extra mile' for the organisation etc. Reducing such behaviour (often subconsciously and without malicious intent) as a response to change will go unpunished, but will certainly cause harm to the organisation.

Another case is that of deferred reactions to a change. Here the frustrations build up over a period of time in response to a series of changes (that are connected or not) and are vented out one fine day quite unexpectedly. In such cases the organisation might not be able to see the connection between the reaction and the root cause.

Managers should be intelligent enough to identify sources of resistance to change. When no open resistance is visible, one should look for hidden resistance and address it rationally. The management should find allies who can counter the critics of the change planned. Initially, if pilot schemes are undertaken, necessary modifications in the change plan can be introduced in the initial stages. The change programme should be an outcome of a collaborative effort. This will reduce the chances and intensity of resistance.

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1. Define Change. What are the factors that stimulate change in an organisation?

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2. What is 'resistance to change'?

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12.4 SOURCES OF RESISTANCE TO CHANGE

One of the main reasons behind employees' resistance to change is the fear of job loss. Many changes, especially those involving technological advances and/ or process reengineering, have the potential to save costs for the organisation by reducing manpower requirements. However, there are two sides to every coin. What is good for the organisation need not be so for the employees.

Even in cases where the management is not considering lay-offs, employees might feel threatened if they feel that they do not have the necessary skills and expertise to perform the new tasks (the tasks that became necessary, in place of the old tasks, due to the change). This will be all the more so, in organisations where pay (full, or atleast a part of it) is linked to performance.

Many employees, especially the high performing ones, would have built up considerable expertise in job related matters as a result of years of hard work and experience. It is understandable that they would not like it when their competitive advantage (over others who do not have the expertise) evaporates into thin air all of a sudden. For example, the most sought after professionals in the banking industry were accountants a few decades back. However, with the advent of computerisation and the consequent automation (or let's say semi-automation) of financial accounting, accountants have become somewhat redundant in the branch banking. General ledgers, balance sheets, profit and loss statements etc are now available at the click of a button. It is not that accounting skills have become completely unnecessary in the banking sector. Banks do need accounting experts at the corporate level for a variety of purposes. However, a majority of bank employees are deployed at the branch level, and at that level, banks now need more operational level people and sales persons rather than intellectuals. These days, it is a given, and everyone has to come to terms with it. But it was not so in the eighties. There was stiff resistance to computerisation from trade unions in the banking, insurance and the telecom sectors. So much so that one of the trade unions even observed 1984 as anti-computerisation year.

And the changes in the banking sector are far from over even now. The concept of 'brick and mortar' bank branches (physical spaces) might itself go for a toss when delivery channels like the internet banking and mobile banking mature and penetrate more into the masses. Moreover, there are chances of robots taking over whatever physical branches that remain. In 2016, 'Lakshmi' a banking robot made its debut in Chennai. Banking robots can not only answer generic questions but also address specific queries relating to account balances etc by connecting to the Core Banking Solutions. They speak, gesture, turn around and engage with customers in a life-like manner. It is still early days, but once the technology matures, humans will start losing banking jobs. It goes without saying that the resistance will be intense, whether or not those who are opposed to the change succeed in stalling the change.

Old habits die hard. People have the tendency to cling to old habits, even when they know that there is nothing to be gained by clinging on to it, and nothing to be lost by changing. This tendency causes resistance to change.

Changes to the Power Structure: Changes in an organisation can lead to redefining the power equations and might lead to resistance, mostly in a covert manner. An example from the banking industry would be the case of growing prominence of the Risk Management function. Approving loan applications was once the exclusive prerogative of the Credit Department. Since granting of loans is the main source of income to a bank, the Credit Department was one of the most 'glamorous' departments in banks. They performed without hindrance and without questions being asked to them. However, during the beginning of this century, Indian banks recognised the need for an independent Risk Management Department to identify, assess and mitigate risks including credit risk. All of a sudden, the Credit Department found the absolute freedom that they used to enjoy being taken away. It became necessary to obtain sign-off of the Risk Management Department before sanctioning credit facilities, especially the big ones. This method was meant as a check and balance for the credit dispensing system. However, it curtailed the operational freedom of the Credit Department. There were inevitable conflicts of interests, as the Credit Department's aim was to increase the lending business, but the Risk Management Department's objective was to maintain the quality of credit portfolio above a certain pre-defined threshold level. To ensure that, the Risk Management Department is allowed to function freely without undue interference. Most banks ensure the segregation of line of reporting of the Heads of the Credit Department and the Risk Management Department. In certain banks, the Risk Management Department Head has direct access even to the Board, so as to help him maintain his independence. All these measures have translated into reduction of power of the Credit Department which understandably is not to their liking.

Even when organisations and employees know that not all is well, they are averse to change, as they can never be completely sure that the change will not make them worse off. Change replaces certainty with uncertainty, and most people are not comfortable with uncertainty. According to 'Narcotics Anonymous', a non-profit society, there is a certain distorted security in familiar pain. It seems safer to embrace what we know than to let go of it for fear of the unknown. Although they made this statement in a very different context, it is true of organisational change as well, and resistance thereto.

12.5 MANAGING CHANGE

Change management denotes the approaches to prepare and support individuals and organisations to implement organisational change. It is a planned and systematic approach to dealing with the transition.

The following aspects will help in successfully implementing a change:

Open Communication: All the stakeholders, especially those affected most by the change, need to know why change has become necessary. Unless the reasons behind the proposed change are communicated to them by the management in a transparent manner, resistance is bound to emerge. In the absence of clear communication from the top, rumour mongers might spread false information, in a bid to stall the change.

Fairness: However hard the management may try to sweeten a deal, the fact remains that most changes are painful. There is precious little an organisation can do about it in certain cases. But the least they can do to reduce resistance is to ensure that the change implementers are being perceived as fair by those affected by the change. For example, if a pay-cut is one of the items in a change-package, it will definitely help to sooth ruffled feelings if the pay-cut is implemented across the board. On the contrary, if only a certain class of employees have to take the hit, while others remain untouched, resistance will be intense.

Participation of Stakeholders: According to Abraham Maslow, the management should assume that "everyone prefers to feel important, needed, useful, successful, proud, respected, rather than unimportant, interchangeable, anonymous, wasted, unused, expendable, disrespected". Management can give this feeling of importance to the employees by making them part of the decision making process. In some cases, this can even improve the quality of the decision. Even if it doesn't, it will help the management, because a person who is part of the decision making process will find it extremely difficult to oppose the change when it is implemented. This is precisely the reason why the management takes trade union leaders into confidence while trying to implement change.

Provide Training and other Incentives: This is one of the methods to ensure employees' support for and commitment to the change. The change might necessitate acquiring of new skills or sharpening of existing skills. Providing training to the employees will help allay their fears of becoming redundant and will equip them to face the changed circumstances. Management can also consider providing incentives to the affected employees as compensation for the hardships faced. Change management teams are usually constrained by limited budgets, and hence they may not be able to dole out liberal doses of incentives, but it will help if all stakeholders are atleast partially compensated in the beginning itself. While talking about the importance of focusing on investing in the general macroeconomic environment, it is often mentioned that "a rising tide lifts all boats" to indicate that improvements in the general economy will benefit all participants in that economy. The same might be true for organisations as well. If the change process succeeds, it is not only the owners and the management that benefit, but the employees as well. However, lower level employees may not be willing to look at such a long horizon, and therein lies the importance of immediate incentive plans.

Manipulating the Facts: This is a somewhat unethical tactic employed by some managements to reduce resistance to change. They either withhold or distort vital information so as to make those affected by the change to falsely believe that the change is very attractive and to make the hardships look less troublesome. Some organisations make empty threats to coerce the employees into accepting a decision. For example, they might tell employees that those who will not cooperate with the change will be laid off, even when they do not have an intention to do so. This amounts to manipulation as they are telling a lie to further their interests.

Brute Force: Occasionally, the management's threats are not empty. They might really mean to lay off non-cooperative employees. Such use of force has its drawbacks, hence it is used only as the last resort, when everything else fails. In such cases, management resorts to the “You are either with us, or against us” concept, implying that those who do not accept the change and cooperate will be treated as adversaries.

12.6 LEWIN’S THREE STEP MODEL TO MANAGE CHANGE

Kurt Lewin, one of the pioneers of organisational and applied psychology, proposed that for a change to be successful, it should follow three steps: Unfreeze, change and refreeze. Unfreezing involves enabling people to let go of the status quo. It is necessary to overcome the forces of resistance and conformity. Unfreezing can be achieved through increasing the driving forces that direct behaviour away from the status quo, decreasing the restraining forces that oppose the movement from the status quo, or a judicial mix of the two strategies.

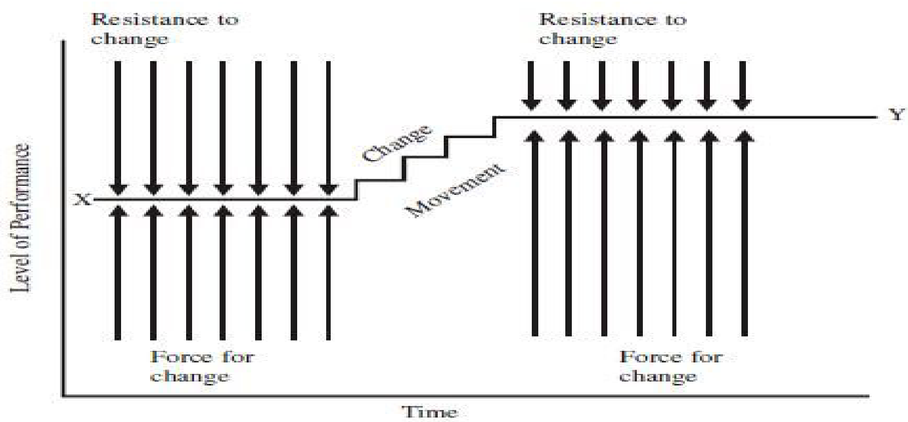
Unfreeze → **Change** → **Refreeze**

The second step is where the actual implementation of the change takes place. The change becomes real and people get exposed to the new reality. The employees learn new behaviours at this stage and start to settle down.

At the final stage of refreezing (some call it freezing), the changes are reinforced so that they become the new status quo, the new normal. If the management prematurely terminates the end-to-end change management process by ignoring the last step, it might find it difficult to sustain the change. Positive reinforcements like extra bonuses, monetary incentives etc are generally used to reinforce the new equilibrium.

Kurt Lewin developed the Force Field Analysis model to propose how the change process works. Although developed several decades back, Lewin’s Force Field Analysis model remains one of the important ways of viewing the change process. On one side of the Force Field Model are the driving forces that push organisations towards a new state. There are several driving forces like information technology, competition and demographics. Along with these external forces, there are internal driving forces also within the organisation, such as competition across divisions of the company and the leader’s need to impose his or her image on the organisation.

The other side of the Lewin’s model represents the restraining forces that try to maintain the status quo. These restraining forces are commonly called “resistance to change” because they try to block the change process. Stability occurs when the driving and restraining forces are roughly in equilibrium; that is, they are of approximately equal strength in opposite directions. Kurt Lewin suggests that efforts to bring about planned change in an organisation should approach change as a multistage process. His model of planned change that is made up of three steps— unfreezing, change, and refreezing— is shown in the following figure:



Source: Cited in Robbins & Judge, 2019.

12.7 KOTTER'S EIGHT STEP PLAN FOR IMPLEMENTING CHANGE

John Kotter(2012) analysed the common mistakes that organisations make while implementing change, and came up with eight steps for implementing change, which are listed below in a simplified form:

1) Establish a sense of urgency;
2) Form a powerful coalition of stakeholders;
3) Create a new vision;
4) Communicate the vision;
5) Empower to act on the vision;
6) Plan for, and create short-term wins;
7) Consolidate improvements; and
8) Reinforce the changes.

In the process of implementing change, honesty should be the only policy. Preparing all the stakeholders as active partners of change would need a systematic plan of training in various facets and forms. All the people in the organisation and even outside should be educated about the proposed changes and the change implementation plan should be formulated systematically and stage-wise.

Further, change-agents should be assigned responsibilities for facilitating the change process. The people responsible for and affected by change should be convinced about the likely positive consequences of change. People should feel that their respective roles are strategically important. Placing suggestion boxes in the organisation can help in obtaining appropriate feedback to the various components and stages of change.

Projects may have to be revised, reoriented or reinforced, depending on the feedback received from various stakeholders. As the organisation moves further, stretching targets can be set. Whenever objectives are revised, they should be communicated clearly to everyone. Further, it should be ensured that every change programme continues to facilitate goal-achievement. Therefore, appraisal of change programmes should be continuous and rigorous.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1. Discuss Change Management.

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2. Explain Lewin's three step model to Change Management.

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12.8 CONCLUSION

Organisations change for a number of different reasons. They often have to change their strategies, structure, culture, technology, HR practices etc. to meet their objectives and to sustain the achievement. Changes in one of these areas will often necessitate changes in the other areas. According to Peter Drucker (1963), "there is nothing quite so useless as doing with great efficiency something that should not be done at all". Many organisations understand this, and they periodically assess and change (if required) what they are doing and how they are doing it. There are driving forces and opposing forces in relation to a change. Changes usually succeed when the driving forces are powerful and the organisation manages to temper down the opposing forces.

12.9 GLOSSARY

Non-performing Asset : A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days.

Artificial Intelligence : Artificial intelligence (AI) is an area of computer science that emphasises the creation of intelligent machines that work and react like humans.

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12.11 ANSWERS TO SELF CHECK EXERCISES

Check Your Progress Exercise 1

1. **Your answer should include the following points:**

- Change is the process of adjustment through which individuals, groups and organisations move from status quo to a better state.
- Economic scenario
- Consumer demand
- Technology
- Competition change in workforce
- Changes in regulations

2. **Your answer should include the following points:**

- The resistance can take many forms, and it may be covert or overt.
- Direct resistances to a change (or a proposed change) can be in the form of voicing of complaints, announcing a strike immediately after change is introduced or proposed etc.

Check Your Progress Exercise 2

1. **Your answer should include the following points:**

- Change management denotes the approaches to prepare and support individuals and organisations to implement organisational change.
- Open communication
- Fairness
- Participation of stakeholders
- Provide training and other incentives
- Manipulating the facts
- Brute force

2. **Your answer should include the following points:**

- The first step of unfreezing can be achieved through increasing the driving forces that direct behavior away from the status quo, decreasing the restraining forces that oppose the movement from the status quo, or a judicial mix of the two strategies.
- The second step is where the actual implementation of the change takes place.
- The final stage of refreezing (some call it freezing), the changes are reinforced so that they become the new status quo, the new normal.