

Organizational Change: *Managing the Human Side*



*Based on findings from the American Productivity & Quality Center's
1997 Organizational Change consortium benchmarking study*



AMERICAN PRODUCTIVITY
& QUALITY CENTER



Triggers of Change

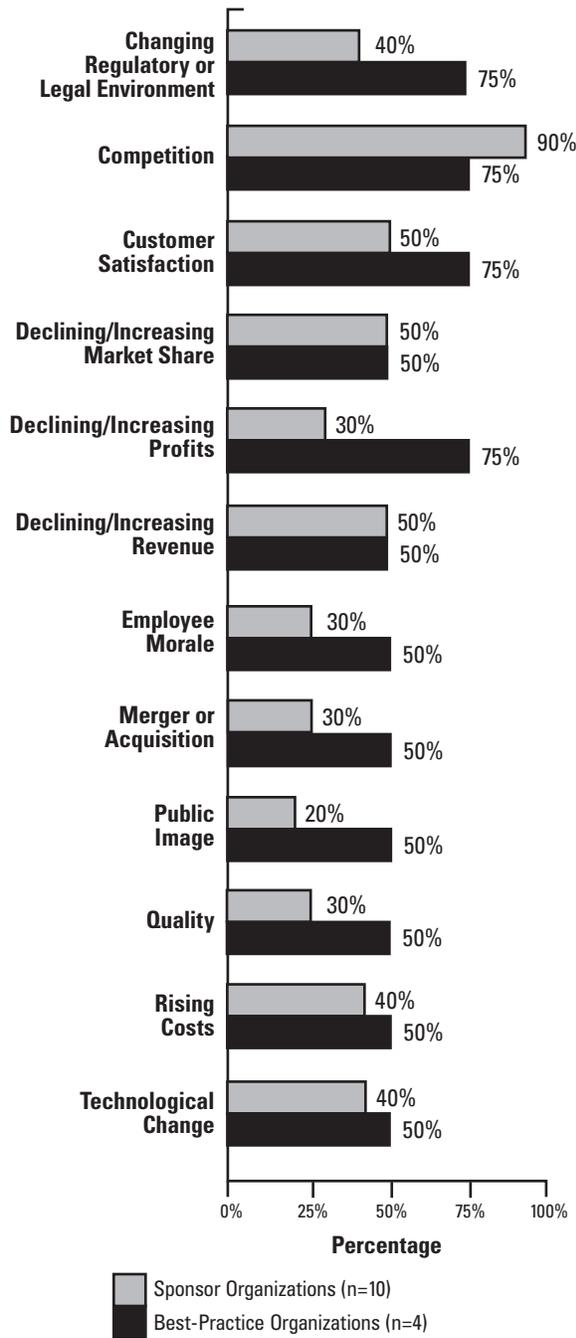


Figure 1

Today’s organizations are facing both external and internal forces that make change inevitable (Figure 1). External forces such as new work force demographics; changing expectations about quality, productivity, and customer satisfaction; and new technologies are dramatically affecting the operating environment in organizations worldwide. Internally, financial constraints, the requirement to do more with less, cross-functional teams, mergers and acquisitions, and empowered workers all affect organizations’ abilities to compete in the global marketplace.

Outsourcing, globalization, automation, downsizing, best practices, re-engineering, repositioning, and other terms all mean change to your work force. No matter how this change is defined, the challenge to the organization is inevitable: balancing the demands and expectations among the stakeholders—including customers, employees, management, and shareholders. Without balance, an organization risks an anxious work force that may yield diminishing productivity. How an organization decides to motivate, communicate, and integrate change into the work force will determine the magnitude of its success.

The American Productivity & Quality Center joined with ICF Kaiser and 10 sponsoring organizations in 1997 to examine how “best-practice” organizations handle such change issues. Arizona Public Service; Harris Corporation–Farinon Division; The Rover Group; and Sears, Roebuck and Co. served as the best-practice organizations for the Organizational Change: Managing the Human Side consortium benchmarking study. The findings from that study are shared here, in this white paper.

KEY ELEMENTS OF SUCCESSFUL ORGANIZATIONAL CHANGE

As the study team analyzed the data from the participants, five concepts emerged as popular, if not universal, elements of a successful organizational change process.

1. COMMITTED AND ACTIVE PARTICIPATION OF LEADERSHIP

Because change is almost always resisted, it needs a champion. And the more powerful and visible the champion, the more likely the change will be successful. The leader of the organization—most often the CEO—is perhaps the most effective communicator of the importance and necessity of change to the work force. In fact, all best-practice organizations indicated that their CEOs plan and manage organizational change, thus serving as the change agents.

It usually is not enough for the CEO to develop and articulate a vision for the organization. For that vision to be implemented effectively, the CEO must plan and manage the process of change as well. That signals the importance of change throughout the organization and facilitates the congruence between the vision and the change process.

Of course, large organizations do not have just one leader; leaders are found in a variety of functions and levels, ranging from the CEO to department directors to specially created teams. Since leaders must understand their roles in managing and motivating change, education and development of these leaders becomes essential. All best-practice organizations indicated that formal education and training is an important element of the education programs designed to change their cultures (*Figure 2, page 4*).

For example, The Rover Group trained all 3,000 of its managers to ensure they understood the leadership role expected of them. A program of 250 four-day courses, each opened and closed by an executive, was completed in less than three years. At Arizona Public Service, 1,000 leaders attended 17 separate one-week “Focus” sessions to develop an understanding of the corporate strategic plan and sensitivity to cost management.

Important Elements of the Education Program Designed to Change Culture

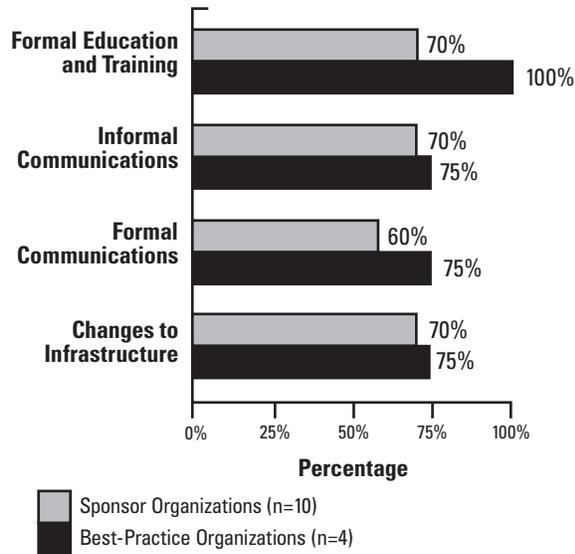


Figure 2

Education alone, however, is not enough. Organizations that successfully implement significant change reinforce and reward desirable behaviors of leaders and managers with appropriate changes to corporate infrastructure such as performance appraisal, performance management, and compensation systems. Managers and leaders who cannot or will not contribute positively to the change process are encouraged to leave the organization.

2. CULTURE CHANGE

Though culture may have various connotations among different people, the participants in this study understood it to mean the collection of attitudes and behaviors embodied in an organization’s work force. To make organizational change effective, lasting, and ultimately transformational, a fundamental culture change usually is necessary.

Culture change facilitates other change by making

the work force more comfortable with and receptive to organizational change. Done well, culture change helps transform the organization and makes change a constant presence rather than a looming threat.

A successful program to change an organization’s culture includes at least these elements:

- formal education and training,
- formal and informal communication,
- changes to the corporate infrastructure (especially to the human resources systems), and
- financial incentives.

Arizona Public Service employees identified 20 characteristics of the desired corporate culture, and the organization annually surveys employees to assess how close the current values and culture are to the ideal those 20 characteristics describe. Continual improvement is fostered through strong leadership and communication.

The Rover Group relies on special programs such as Total Quality Management, the New Deal (new terms and conditions of employment), and Rover Tomorrow to change organizational culture. Rover Tomorrow was developed to communicate the strategic vision, underline the competitive threats, and provide a framework to encourage participation in and commitment to the introduction of the New Deal.

3. ENERGETIC INVOLVEMENT OF AN EMPOWERED AND EDUCATED WORK FORCE

Organizational change cannot be effective and sustainable without the active participation and commitment of the organization's work force. For virtually all of the study participants, that has several implications.

First, employees must be granted greater authority and responsibility. For example, process re-engineering can be effective only when conducted by process experts, the employees executing the process. Therefore, employees should be given the responsibility and authority to change the process, held accountable for failure (but not in a way that discourages and inhibits change and innovation), and rewarded for success (which can include trying new approaches that don't all work).

Second, workers must be educated. In this context, education should serve two broad purposes: It should enhance workers' understanding of the organization's business so they comprehend both where and why change is necessary. Next, education should provide workers with the necessary skills to implement change (*Figure 3*). One of the best-practice company representatives aptly noted that giving the work force greater authority and responsibility does workers

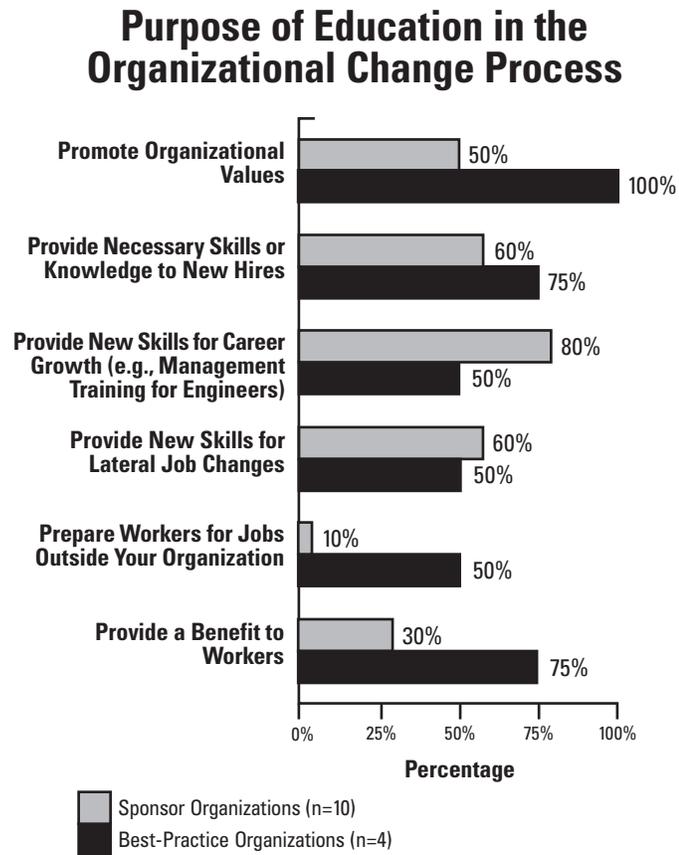


Figure 3

little good if they do not have the tools to implement change. Tools can range from leadership skills for rising managers to technical skills that qualify workers for the new jobs change may create.

For instance, Sears uses an aggressive educational program that includes tools such as “town hall meetings” and “Learning Maps[®]” to inform its 300,000 associates (or employees) about the key factors affecting the company’s performance and profitability—and how associates’ actions affect these factors. Sears University also was established as a tool in the education process. In 1996, 17,000 personnel attended Sears U to study best practices, business knowledge, and leadership skills. The effectiveness of this education is reflected in the vast improvement in Sears’ performance and through documented improvement in associates’ understanding of Sears’ business.

Third, all of the best-practice companies and many of the sponsors frequently and regularly survey employee attitudes and behavior and then widely distribute the results to the work force. This helps ensure work force understanding of the change process and facilitates management’s understanding of the extent to which culture change is happening and what changes still are needed.

4. EFFECTIVE COMMUNICATION AND MEASUREMENT

Communication serves many purposes in an organization undergoing change. First, it is the way the CEO and the organization’s top executive team deliver the vision and strategy to those who must implement them—the work force. Second, as mentioned previously, it is the means to developing understanding, by the work force and management, of the organization’s progress toward change and the work that remains to be done. Third, through its many paths, communication enables not only leaders to send important messages to the work force but also workers to offer help and ask for assistance.

For instance, due to Harris–Farinon’s organizational change efforts, communication has improved between management and the employees working on the factory floor. Management is seen out on the floor more often, and the employees who work there perceive management as being more interested in what they are doing. Providing leadership, managers assist and counsel employees to help them work through difficulties as opposed to simply handing out orders and tasks.

Measurement, too, is important to successful change. All of the best-practice organizations measure progress and status; traditional performance and financial measures are used, but “softer” dimensions are measured as well. For example, important stakeholders, including customers and the work force chief, are surveyed often to help define appropriate change, develop understanding of the progress of change, and identify high-leverage areas for change. The results of these measurements typically are shared widely with the work force.

Sears measures progress in three principal areas, each key to one of its three C’s—a compelling place to shop, a compelling place to work, and a compelling place to invest. First, like most major corporations, Sears has paid close attention to financial performance and indicators of that performance. Second, it tracks associate satisfaction, based on questions from the “My Opinion Counts” surveys. Third, it tracks customer satisfaction and retention. These three sets of measures are compiled quarterly and collectively called Sears’ Total Performance Indicators. Results are distributed widely throughout the organization, with current performance being compared with past performance and future goals.

5. ALIGNING HUMAN RESOURCES SYSTEMS WITH THE GOALS AND OBJECTIVES OF CHANGE

A majority of the best-practice companies indicated that their human resources systems and policies have changed significantly as part of the organizational change in performance appraisal, education and training, and compensation. In most organizations, human resources systems—such as those for performance appraisal, compensation, and career development—have developed over the years by accretion and marginal change. As a result, they may not have supported the organization’s goals and objectives before change became necessary. They will almost certainly require change to support the organization’s new vision and strategy, as well as the goals of organizational change.

For example, performance appraisal instruments and the overall performance appraisal system should be changed to encourage culture transformation and those elements that will promote and foster organizational change. Likewise, performance management and compensation systems will require change as well.

The change initiative at Harris–Farinon has had significant impacts on work force roles and career development. Perhaps the biggest change was the elimination of the supervisor position, because of the increased responsibility afforded to the Business Area Teams (BATs). Management jobs changed from being roles of control to roles of leadership, designed to help the BATs run the factory. In addition, the company is designing an advancement route for employees, consisting of three skill-level areas. Since employees know what is required for them to advance, they will be able to decide how far along this path they wish to proceed.

Sears uses several human resources-related tools to inform the work force of its progress in personal goals and career development. These tools include modified performance reviews; incentive compensation systems; 360-degree feedback; goal sharing (gain sharing initiated from within the work force); sharing best practices within the company; and, beginning in 1996, shared services for human resources administration, finance, logistics, legal services, information technology, and facilities and real estate management.

CONCLUSION

Change can be threatening to individuals and organizations. It challenges the usually comfortable status quo and often raises the possibility of job loss or at least change in job quality and status. To overcome the natural inertia this reality produces, significant organizational change often requires an obvious crisis before the work force can be mobilized to embrace change. In fact, all four of the best-practice companies in this study faced and recovered from the brink of organizational disaster, bankruptcy, or outright closure. But many organizations—most of the sponsors, for example—need and want change before disaster looms.

Thus, successful change requires instilling a sense of urgency and importance in the work force without the “help” of a crisis. Doing so requires several of the key factors mentioned previously, notably leadership, communication, and education. Arguably, the most important role of the organization’s leader is to successfully convey to the work force the importance of change. A successful leader will motivate the work force by describing the organization’s vision for its future, how achieving that

vision will ensure a prosperous future (and perhaps forestall a disaster), what change is necessary to realize that future, and how active support and participation by the work force will benefit workers and strengthen and grow the organization. That, in turn, requires successful communication, which can be facilitated and reinforced by work force education. The best-practice companies' experience is proof that this can be done.

METHODOLOGY

The study team, consisting of APQC staff members and Christopher Jehn from ICF Kaiser, conducted the Organizational Change: Managing the Human Side consortium benchmarking study using APQC's four-phase methodology. The four phases are plan, collect, analyze and report, and adapt.

Through secondary research, APQC identified companies with notable processes within the study's scope, as defined by the study team and sponsor company representatives. The sponsor organizations selected the companies that would be invited to participate as the exemplars of best practices. After the best-practice companies agreed to join the study, they shared the details of their experiences through site visits and by filling out a quantitative questionnaire. This same questionnaire was used to gather data from the sponsors for purposes of comparison with the best-practice group.

After the study team members gathered the data and information, they analyzed them and identified key findings and innovative practices that were shared with participants in the form of a final report. That report served as the basis for this white paper.



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