WHY IT IS IMPORTANT

‘Nothing is permanent except change’. Although these words were written around 2500 years ago by the Ancient Greek philosopher Heraclitus, they are as true today as they were then, especially in the world of business. For example, in a few years time you may well have goods delivered to your home by a drone such as the one shown on the opposite page. Already some pizza businesses are exploring drones as a method of home delivery. Australia was the first country in the world to enact regulations governing the use of drones for peaceful domestic use. Today’s futuristic dreaming soon becomes tomorrow’s reality. Businesses that embrace change will profit; businesses that resist change will be left behind.

WHAT YOU WILL LEARN

KEY KNOWLEDGE

Use each of the points below from the Business Management study design as a heading in your summary notes.

- The possible impact of change on the internal environment of large-scale organisations, including the functional areas of operations and human resources
- The role of leadership in change management
- The process of effective change management in the context of a significant issue
- Ethical and socially responsible management of change
- The concept of organisational change
- The dynamic nature of the internal and external (operating and macro) environments as sources of change
- Driving and restraining forces for change in large-scale organisations, including management, employees, time, competitors, low productivity, organisational inertia, legislation, cost
- A range of strategies for effective change management, including low-risk practices and high-risk practices
- Key principles of the Kotter theory of change management

KEY SKILLS

These are the skills you need to demonstrate. Can you demonstrate these skills?

- accurately use relevant management terms
- research related aspects of change management using print and online sources
- analyse business literature, information and data
- use management theory to evaluate different strategies to manage change
- apply change management knowledge and concepts to practical and/or simulated representations
- analyse and evaluate effective change management in the context of the selected significant issue.
Qantas has found itself in a difficult competitive situation in recent years, and has had to undergo massive restructuring of its business to minimise financial losses. In 2014, the company flagged the likelihood of 5000 job cuts as part of a $2 billion cost-cutting drive.
7.1 The concept of organisational change

**KEY CONCEPT** Organisations must constantly change in order to survive in today’s volatile business environment.

What is organisational change?

There is every indication that the pace of change confronting Australian organisations will intensify during this decade. *Change* is any alteration in the internal or external environments; for example, change in consumer tastes or change in employee expectations. It could also be a change to the way things are perceived, or a new way of dealing with problems. In response to these changes, many organisations have undergone organisational change: the adoption of a new idea or behaviour resulting in a difference in the form or operation of an organisation over time. The organisation may have modified its corporate culture, implemented new organisational structures, recruited employees with new skills or developed different work practices.

**DID YOU KNOW?**

People always ask, ‘Is the change over? Can we stop now?’ You’ve got to tell them, ‘No, it’s just begun.’

Jack Welch, former CEO of General Electric Company

Fear of the unknown is a major barrier to change.

Steve Polosak: change management

One of the most challenging aspects of my role as an Information Technology (IT) manager for a large organisation is to initiate and implement change. For bad or worse, change keeps coming in business and in life. Change is not made without some inconvenience. Therein lies the challenge.

Previously, organisations faced one change at a time, and when it was over, people could rest a while until the next change came along. In today’s business environment, the problem is that most organisations have a number of major change projects occurring simultaneously.

A manager will ignore these changes at his or her own, and the organisation’s peril. Well-managed changes can become the foundation of future growth and success. For example, the organisation recently decided to implement a new data transfer system that would alter employee work practices. To create an environment that would accept the change, I began by explaining the four ‘Ws’ to the affected employees — *What* the change is, *Why* the change is needed, *Whom* the change will affect, and *When* and how the change will take place. Fear of the unknown is a major barrier to change.

Then, I involved employees in the change process. It is only natural for employees to go along with changes that they have helped bring about. From my experience, people will resist poorly implemented changes or changes that are suddenly imposed on them without any warning.

The changes did cause some initial resistance. However, six month later, productivity has improved by 18 per cent and the majority of employees adapted so well that morale has improved.
Managing change

All organisations face change. Some changes are forced on an organisation, while others are carefully planned. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine an organisation’s competitive advantage and survival. Successful managers are the ones who anticipate and adjust to changing circumstances rather than ones that get swept along passively or, worse, get caught unprepared. Such people are proactive rather than reactive.

To be constructive, changes must occur at a pace that allows organisations to absorb and integrate them into their operations. Also, all changes should be evaluated thoroughly to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and ultimately, unmet objectives.

Change entails risk and requires sound leadership skills and responsive management structures. The long-term survival of any organisation depends on the ability of its managers to scan the environment, predict future trends and exploit change. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge.

The prevailing attitude in organisations today can be summed up as follows: ‘There is only one constant in life and that is change’. Like ripples on water, change spreads through all aspects of an organisation’s environment.

TEST your understanding

1. What does the term ‘organisational change’ mean?
2. Explain the meaning of the phrase: ‘There is only one constant in life and that is change’.
3. Explain the difference between proactive and reactive management.
4. What is the consequence of poorly managed changes?
5. Read the case study on page 246 and then answer the following questions.
   (a) Why can change be difficult to manage?
   (b) What advantages can be gained by implementing well-managed change?
   (c) Outline what Steve Polosak did to create an environment that would accept change.

APPLY your understanding

6. Plasmould Industries Limited produces a range of rigid and soft plastic cases for CDs, video games and DVDs. Competition from a variety of sources means that the organisation is subject to frequent ‘squeezing’ of prices and profit margins. As well, with the increase in downloads of music and movies via personal computers, demand for plastic cases may decrease.
   (a) Predict the likely impact on Plasmould Industries of such changes.
   (b) What threats and opportunities may arise from these changes?
   (c) In small groups, establish a management ‘think-tank’. Brainstorm ways management could respond to these changes. Pool your ideas with those of the rest of the class and discuss the difficulties associated with organisational change.
7.2 The dynamic nature of the internal and external (operating) environments as a source of change

Key Concept Source of change refers to where the change comes from, which includes changes from both the internal and external (operating) environments.

Forces for change

It is said that if you stop moving, you die. The same applies to organisations. They must keep changing and adapting to the never-ending pressure for change. But how do organisations know when they should change? What indications should an organisation look for? Although there are no clear-cut answers to these questions, the 'indications' that signal the need for change are found by examining the forces for change in both the internal and external environments.

Internal environment as a source of change

Poor financial performance

Poor financial performance is a powerful driving force for change. For example, when Wesfarmers Limited took over the poorly performing Coles in 2007, it immediately implemented a five-year recovery process. It updated the image of Coles supermarkets, rebuilt the supply chain and improved the freshness of its produce. As a means of keeping costs low, Coles has recently introduced self-service checkouts in its supermarkets. Keeping costs under control is essential in turning around financial performance.

Crisis

All organisations sometimes face a crisis. For example, a product sold by the organisation may be found to be unsafe or dangerous. Responding to such unplanned changes will require responsive decision making from management in order to reduce the disruption to the organisation.

Innovation

Many large-scale organisations conduct ongoing research to improve their products and their production processes. For example, the 1990s saw advances in both LCD and plasma screen technology that allowed for the commercial development of flat screen television sets. Companies such as Panasonic, Samsung, Sony and Toshiba have each sought to develop improvements in the technology, with high definition and 3D products becoming more popular. The development of innovative products within a business can create a need for change in everything from operations to marketing.

Corporate culture

Changing corporate culture can be a difficult task given that an organisation’s culture is usually formed over years, through the interaction of employees within the organisation. If corporate culture impedes success, it must be changed. Recognising what culture is required in order to achieve success is crucial if change is to occur.

Policies

Internal change comes about as new policies are developed and implemented. For example David Jones, in response to a claim of sexual harassment by one of its employees against the company’s CEO, reviewed and strengthened its complaints handling policies and procedures, and ensured that its existing systems were adequate.

Did you know?

Many larger companies are beginning to favour flatter management structures, and this has led to eliminating middle management to allow for streamlined communications between workers and top management.

DID YOU KNOW?

In 2013, Volkswagen faced a crisis when safety issues were raised in relation to some of its Golf models. This lead to a need for change within the company.
Operating environment as a source of change

Customers
To ensure its future profitability, an organisation needs to be very responsive to changes in customer tastes and preferences so it can constantly satisfy the customers’ needs.

Competitors
Organisations need to monitor the activities of their competition and determine what effect they may be having in the marketplace. Knowledge of such changes enables an organisation to make modifications to its existing business activities and to plan new ones.

Suppliers
Organisations should constantly be on the lookout for new or backup suppliers, even when their needs are being met by their present suppliers. This makes them less vulnerable to supply difficulties.

Interest groups
Some groups seek to directly influence the behaviour of organisations. Trade unions, for example, can bring about change in an organisation, especially in regard to wages and working conditions. Consumer and conservation action groups may attempt to modify an organisation’s behaviour with regard to its products, marketing techniques and operational procedures.

TEST your understanding
1 Distinguish between internal and external organisational environments.
2 Briefly outline how each of the following can be a driving force for change:
   (a) poor financial performance
   (b) innovation.
3 Why is a positive corporate culture important, especially when new work methods are being introduced?
4 What are the likely consequences for an organisation when there is a change in consumer tastes?
5 Determine whether the following statements are true or false.
   A Organisations need to be responsive to changes in customer tastes.
   B Competitors’ actions do not need to be monitored.
   C It is wise for an organisation to have new or backup suppliers.
   D Interest group actions can influence an organisation’s marketing or operational methods.

APPLY your understanding
6 In pairs, write a human resource management policy that is designed to improve morale, teamwork and productivity. Use the following headings as guidelines for your policy:
   • recruitment, induction and training
   • performance management and improvement.
7 Prime Engineering, a large manufacturing organisation, surveys clients each year about 50 different performance criteria. Managers and work teams that improve their customer-satisfaction scores are rewarded with a bonus.
   (a) Identify the advantages of this strategy to both Prime Engineering and its customers.
   (b) Do you consider the reward of a bonus as an effective driving force for change? Give reasons for your answer.
7.3 The dynamic nature of the external (macro) environment as a source of change

**KEY CONCEPT** Every aspect of the external (macro) environment can result in changes to an organisation's activities.

### The macro environment

The factors that make up the macro environment are continually undergoing change and an organisation must keep ‘in tune’ with changes and adapt its processes accordingly.

### Macro environment as a source of change

#### Economic forces

The Australian economy experiences a cycle of 'booms' and 'busts'. After a period of prosperity, business activity gradually slows down until a recession or depression is reached. Eventually, business picks up again until prosperity is restored. This completes the cycle.

#### Political and legal forces

Whenever new laws are passed, organisations must comply with the new legislative requirements. For example, organisations had to alter their unfair dismissal practices in response to the new industrial relations laws implemented by the Rudd Government in 2009.

#### Technological forces

An organisation that wants to be locally, nationally or globally competitive must adopt the appropriate technology. If it is slow to exploit technology, an organisation is likely to fail, because its competitors will strive to capture greater market share and develop a sustainable competitive advantage.

#### Global forces

Australian organisations operate on the world market. This process has been strengthened by globalisation — a trend that sees people, goods, money and ideas moving around the world faster and more cheaply than previously.

#### Geographic forces

Australia’s geographic location within the Asia-Pacific region has created challenging opportunities for Australian organisations to expand. Exporting to these...
markets requires organisations to develop strategies to manage overseas transportation, currency fluctuations and a diversified customer base.

**Social forces**

Organisations are constantly confronted by changes in society’s attitudes and values. For example, organisations are coming under more pressure to implement ecologically sustainable practices. Additionally, there is increasing pressure for the introduction of an **emissions trading scheme** aimed at reducing Australia’s greenhouse gas emissions. This will put climate change firmly on the agenda of all organisations.

**Sustainable development**

Economic growth must be accomplished sustainably; that is, using methods of production that conserve the Earth’s resources for future generations. Economic growth should not occur at the expense of polluting and degrading the natural environment. There needs to be a balance between economic concerns and environmental concerns — in other words, sustainable development.

Consequently, organisations are being asked to take responsibility for the protection of the natural environment. The social conscience of responsible managers (and, increasingly, government legislation) has led them to adopt policies of conservation, recycling and restoration. The principle of ecological sustainability requires organisations to evaluate the full environmental effects of their operations.

Kmart, for example, has put in place an environment strategy with the aim of reducing its energy and water consumption, increasing the amount of waste recycled and sourcing sustainable products. Along with Coles, Bunnings, Officeworks and Target — all part of Wesfarmers Ltd, which is a company that places a high priority on environmental sustainability — Kmart has implemented a National Packaging Covenant Action Plan to reduce the amount of packaging and introduce recycling services at its stores.

In addition to evaluating internal operations, large-scale organisations have to respond to growing consumer expectations for products to be ‘clean, green and safe’. For example, Visy, the packaging, paper and recycling company, has recently increased the recycled content in the production of its PET soft drink bottles. By producing new and better products in an ecologically sustainable manner, the business’s focus coincides with stakeholder expectations.

An **emissions trading scheme** regulates the buying and selling of permits to emit greenhouse gases. A permit allows emissions up to a prescribed cap or limit. Large emitters either choose to buy extra permits or invest in technologies that control emissions. If limits are exceeded, penalties are imposed.

---

**TEST your understanding**

1 Copy and complete the following table.

<table>
<thead>
<tr>
<th>Example of force</th>
<th>Type of force</th>
<th>Impact on organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>New laws passed to protect young workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computerisation of sales data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer spending declines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New export market identified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of the natural environment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 What is the likely impact of a recession on retail organisations?

3 Why is technology so crucial in terms of organisational success and failure?

4 What has been the impact of globalisation?

5 (a) What is the aim of an emissions trading scheme?

   (b) What is the likely impact of an emissions trading scheme on an organisation’s operations function?

6 Read the case study above, and then answer the following questions.

   (a) Define the term ‘sustainable development’.

   (b) Demonstrate ways an organisation can show that it is acting in an ecologically sustainable manner.

**APPLY your understanding**

7 Discuss the advantages and disadvantages of accelerating technology on an organisation’s operations.

8 ‘An organisation must always be aware of the changing nature of consumer tastes, fashion and culture.’ What does this mean?
7.4 Driving and restraining forces for change in large-scale organisations

**KEY CONCEPT** At the same time as managers are undertaking change for the best of reasons, there will be restraining forces working against the change, creating resistance.

**Driving and restraining forces**

Psychologist Kurt Lewin developed a useful model for understanding the change process. Known as **force-field analysis**, the model describes how you can determine which forces drive and which resist a proposed change.

**Driving forces** are those forces that initiate, encourage and support the change. The main driving forces for organisational change are changes in the internal and external environments, as outlined in sections 7.2 and 7.3. **Restraining forces** are those that work against the change, creating resistance. The current conditions, or status quo, result from these two forces ‘pulling’ in opposite directions. Managers who are trying to implement a change must conduct a force-field analysis to identify and balance the driving and restraining forces. For example, when MicroForte Technologies introduced changes to its operations in response to increasing competition from cheap imports, some employees were initially reluctant to adopt the teamwork approach and four employees resigned as a consequence. They found it difficult to accept the higher level of accountability and responsibility the restructure called for. However, other employees responded positively and were instrumental in driving the change process. They liked the autonomy they were given and enjoyed the supportive nature of work teams.

At any time, two types of forces pull in opposite directions, leading to an equilibrium that represents current conditions. To change the status quo to the desired condition, it is necessary to increase the driving forces, decrease the restraining forces, or both.

**Reaction to change**

Like individuals, organisations often become accustomed to doing certain things and doing those things in certain ways. Like individuals, organisations also find it difficult to cope with change. Therefore, both organisations and their employees may resist change vigorously, especially when the pace of change is very rapid, or if it is coming from the external environment. Consider, for example, where you sit during your Business Management class and other lessons; you and other students probably sit in the same seats each time. Imagine that all your classrooms have been rearranged overnight without your knowledge. The next morning, you and your classmates may react with a mixture of annoyance, irritation, frustration, anger and delight. You may be angry or upset at not being consulted or involved in the rearrangement process. You may feel you have no control over what you regard as your working conditions and organisational structure. Many of your friends may view the change as a threat to the status quo.
Restraining forces impede change

Not everyone is going to embrace change. Let us look at some of the restraining forces in more detail.

Management

Some managers may make hasty decisions which are poorly timed and unclear. Other managers may be indecisive and put off making a decision, creating uncertainty. Either one of those situations may eventually cause employees to lose confidence in the decision-making abilities of management.

Changes that threaten to eliminate jobs usually face strong resistance. For example, most organisational restructuring involves the elimination of some middle management positions. Consequently, middle managers may resist restructuring. For example, the packaging company Amcor was forced to cut some management positions when it combined the organisation’s Australasia office with their global headquarters in the Melbourne suburb of Hawthorn.

Employees

Any change to an organisation and its operating procedures will eventually impact on the level and type of staffing. Many human resource management consultants argue that staffing considerations are one of the most entrenched reasons for employees to resist change.

Employees may also resist change because they are worried that they cannot adapt to the new procedures, which threaten established work routines. This is made worse if training is not provided.

No matter how technically or administratively perfect a proposed change may be, staffing issues may make or break it.

Time

In some circumstances, not enough time is allowed for people to think about the change, accept it, and implement it. In other situations, the timing is poor. An organisation may invest years and millions of dollars in a change, only to find the external environment has changed so much that the plan devised for success is no longer applicable.

Competitors

When a competitor dominates the marketplace, other organisations may be reluctant to initiate major changes because they fear it will be a waste of time and resources. They prefer instead to be content with their existing market share and operational procedures. They perceive the barriers to change and competition are too high.
Low productivity

When a change is implemented it will usually cause some disruption to the existing operating systems and work patterns. For example, whenever employees are promoted or reassigned, cultural and group dynamics are disrupted. The introduction of a major change, such as a merger or acquisition, may result in a complete breakdown of the existing corporate culture. This can create a feeling of mistrust and suspicion among the employees. As a result, productivity may decrease, even if only in the short term. The fear of a reduction in productivity is why some organisations are hesitant to embrace change.

Change can have a major impact on people. The loss of security, feelings of lack of control, fear of the unknown, and uncertainty about the future can lead rapidly to low morale and in turn low productivity. The situation is made even worse if there is poor leadership and management during times of change.

Organisational inertia

Organisational inertia refers to management's inactivity or lack of response when faced with proposed changes. Some managers resist change because it requires moving outside and away from their 'comfort zones'. Many employees and managers of the typical organisation desire a safe and predictable status quo. Such an attitude is summed up in the phrase, 'But we don't do things that way here'.

Uncertainty about the future is a powerful emotion that can inhibit employees from embracing change. This is made worse if employees do not understand the reason for the change, or if they distrust the people, usually management, behind the change.

Legislation

The past 20 years have seen significant changes in the legal framework within which Australian organisations must work. Legislation must be complied with, and it can act as a restraining force. This occurs when the legislation places restrictions on certain operational practices and procedures. For example, a mining company wanting to exploit a new mineral resource will have to do so within the limitations of current environmental protection legislation.

Cost

A major reason for resistance to change is the financial cost of its implementation. Even given sufficient finances, an organisation contemplating change must weigh up the costs and benefits of the change. Well-informed, calculated decisions to proceed will minimise the risk and enhance the long-term viability of the change.
The main financial costs of change include:

1. **Purchasing new equipment.** The purchase cost of new technology, buildings or equipment can be considerable. David Jones, for example, recently upgraded its network of stores and spent $275 million to increase its floor space by over 20 per cent.

2. **Redundancy payments.** Employees who lose their jobs as a result of the changes are entitled to financial compensation in the form of a redundancy payment.

3. **Retraining the workforce.** As new technology is introduced, employees must be retrained. MicroForte Technologies, for example, allocates 7 per cent of its yearly budget to staff retraining.

4. **Reorganising plant layout.** When new equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity.

**TEST your understanding**

1. Distinguish between ‘driving’ and ‘restraining’ forces.

2. Explain force-field analysis.

3. Complete the sentences below by choosing the correct term from the following list:
   - cost
   - turbulent
   - resistance
   - strategies
   - common
   - effectively
   - analysing
   - security
   - routines
   - managers
   - inertia

   When change is too rapid, or when managers and employees feel they have no control over it, then ________ to the change is to be expected.

   Resistance to change is ________ among employees and organisations. The resistance needs to be managed _________. Managers can fail to achieve change by not ________ the situation properly. Employees may resist change because of the ________ of the unknown; possible threat to job status or ________; disruption to established work _________. Organisational ________ and financial ________ are two main restraining forces. Rapid, complex and ________ change is now commonplace in most Australian organisations. ________ for overcoming resistance need to be developed by ________.

4. Prepare a brief report outlining the main financial costs responsible for some organisations resisting change.

5. What types of resistance to change have you observed recently? How could they have been overcome?

6. Briefly explain how the following can be a restraining force:
   - lack of time
   - poor timing.

7. Provide an example of ‘organisational inertia’.

8. When the new chief executive officer for Bradley Southport Limited attempted to make some major changes, she encountered resistance among some senior level managers. Explain why these managers might have resisted the changes.

**APPLY your understanding**

9. Assume you are the human resource manager for a large financial organisation. You have been asked by the board of directors to prepare a report on the three main reasons why staff may resist the proposed change. Present your findings as either a written or an oral report.

10. Conduct a force-field analysis for changing the commencement time for your school from 9 am to 7 am.

11. Based on the information from this section, explain why there was so much resistance among bank tellers when they were first required to use computers to process customer transactions.

12. Describe how you would feel if your classroom was radically changed overnight without your knowledge.

13. Evaluate the accuracy of the following quotes concerning change:
   a. ‘Change for change’s sake is not progress.’
   b. ‘Change is life. Life is change.’
   c. ‘Change what you can change. Accept what you cannot change.’

14. Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following:
   a. Reflect on the reasons you liked or disliked the change. Share your thoughts with other class members.
   b. List the reasons that were common among the group.
   c. What does this tell you about the best strategy that a manager could use to help overcome resistance to change?

15. Which restraining force for change do you think is:
   a. the most common
   b. the most difficult for management to deal with?

Give reasons for your answers.
The Kotter theory of change management

Management researcher John Kotter developed an eight-step model of the change management process.

Kotter’s eight-step model

1. **Create urgency**
   - Examine the current market opportunities and threats and analyse the organisation’s competitive position. This will highlight impending crises or potential opportunities. People are more willing to embrace change when they see it as a response to an existing or future problem or possibility.

2. **Form a powerful coalition**
   - Establish a team of people to act as facilitators. They should have the relevant authority, recognition and respect within the organisation.

3. **Create a vision for change**
   - Provide employees with a clear, shared sense of direction that will allow them to achieve a common objective. Without a vision, there can be no cooperation and commitment, which makes adopting change almost impossible.

4. **Communicate the vision**
   - Share the vision with people who will be affected by the change. Use a wide variety of communication channels to make sure the message is transmitted to as great an audience as possible. Regardless of the form of communication used, the groundwork must be laid and the advantages of the change explained before people will go along with the change. Communicating the vision builds cohesion between employees and helps dispel fear of the unknown (a common cause for resistance to change).

5. **Remove obstacles**
   - Recognise that personal involvement through participation tends to defuse both rational and irrational fears about change. People who have the opportunity to be actively involved in the change process generally develop a sense of ownership. Training and development may be necessary if new skills and competencies are required.

6. **Create short-term wins**
   - Recognise that most employees want to feel that their contributions have been worth the effort and are recognised and appreciated. Recognition and reward should be given throughout the change process to encourage further risk taking and reinforce the positive aspects of embracing change.
7 Build on the change

As the change process proceeds, assemble the benefits attained into the organisation’s operating procedures and systems. Modify existing policies and procedures that no longer match the changed systems. Once this is accomplished, the new structure becomes a solid base upon which more change may be made — the process of continuous improvement.

8 Anchor the change in corporate culture

As the final stage in the change process, make a clear statement to show the connections between the new procedures and the success of the organisation. This closes the loop of the change process and provides a positive experience from which further changes can be initiated.

**TEST your understanding**

1 Complete the following table, which provides a summary of Kotter’s eight-step model. The first entry has been completed for you.

<table>
<thead>
<tr>
<th>Step descriptor</th>
<th>Summary of main points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Create urgency.</td>
<td>• Examine the market opportunities and threats.</td>
</tr>
<tr>
<td>2 Form a powerful coalition</td>
<td></td>
</tr>
<tr>
<td>3 Create a vision for change.</td>
<td></td>
</tr>
<tr>
<td>4 Communicate the vision.</td>
<td></td>
</tr>
<tr>
<td>5 Remove obstacles.</td>
<td></td>
</tr>
<tr>
<td>6 Create short-term wins.</td>
<td></td>
</tr>
<tr>
<td>7 Build on the change.</td>
<td></td>
</tr>
<tr>
<td>8 Anchor the change in corporate culture.</td>
<td></td>
</tr>
</tbody>
</table>

2 How does an understanding of this model assist a manager who wants to introduce changes into the organisation?

3 Develop a list of key words or letters to enable you to remember Kotter’s eight steps. For example: Necessity guides vision, communication empowers rewards, improves institutionalisation.

**APPLY your understanding**

4 Suppose recent changes to the occupational health and safety legislation require your organisation to implement new safety procedures. You know that some of your employees are going to regard some of these changes as ridiculous. What can you do to get the employees to accept the changes?

5 Assume you have been appointed managing director of an engineering business that is facing increased competition from products made overseas and, therefore, needs to improve productivity. Devise a plan for overcoming employee resistance to the changes that are necessary to increase production.
Managing change effectively — low-risk strategies

Organisations often fail to manage change well. Their record tends to be poor because, in the upheaval of a restructuring process, employees — the most crucial group of all — are often neglected. As well, existing communication channels often break down in the highly emotional climate that surrounds a change program. Low-risk strategies to achieve successful change rely on communication, employee involvement in the change process, training, support and negotiation.

A great deal of research has been conducted on the most appropriate methods to reduce resistance to change. The majority of this research indicates that the environment created by the manager or supervisor can greatly affect employee acceptance, regardless of where or how a change originates. The figure below outlines several strategies for creating a positive, low-risk environment for change.

Communication

The greater the sharing of information during the change process, the greater the level of trust between management and employees. Maintaining open lines of communication assists in the sharing of information at all levels of the organisation. As communication is a two-way process, leaders and managers also need to ensure that they provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change.

Support

Organisational change may result in some positions being terminated, so those likely to have their employment terminated need to be given appropriate support. This could involve the provision of assistance to find new employment. This sort of support is not only essential for the employee leaving the organisation, but is also
important for maintaining the morale of other staff. If employees see their friends being treated poorly, they will be less supportive of the change process.

**Training**

If change is to be successful, employees taking on different roles and duties need to be thoroughly trained to take on their new duties. Good training programs inspire confidence in staff that they will not be left behind in the process of change.

**Negotiation**

It is important that all stakeholders feel they can have input into those decisions that have a direct effect on them. Top-down direction can lead to mistrust and lack of confidence in the process. Encouraging negotiation processes can empower employees and enhance their support for the direction of change.

**Participation and teamwork**

Giving everyone the opportunity to participate in functional teams, working together on clearly specified tasks, allows everyone to ‘buy in’ to the process. The organisation should also identify individuals who can act as supportive change agents. Such people fulfil a crucial role in helping to establish a positive and supportive culture. Change agents may include members of the management team, employees of the business or outside consultants.

---

**What is a team?**

In 1972, a group of rugby players, their friends and families left on a flight for Chile from Uruguay. The plane crashed into the snow-covered mountainside, killing 13 of the 45 passengers on board the aircraft. The outside world thought that all 45 people on board had disappeared.

Without any provisions, some of those left alive resorted to devouring the dead. Those who refused to eat the human flesh died of starvation. After 70 days in the mountains, 16 survivors were rescued and taken home. In the most gruesome manner, a group of people banded together as a team with a singular goal of survival.

What makes a team when there is no sense of threat? Teams will form around a common goal that provides them, individually and collectively, with a challenge that they take responsibility for and that can give them increased self-esteem. For example, assume your goal is to increase repeat business from 10 per cent of turnover to 15 per cent of turnover in six months, as you know the selling cost to repeat customers is one-tenth the selling cost to new customers, and the margin on repeat customers is 25 per cent higher, because they require fewer discounts. To have a higher probability of success, this clear simple goal needs to connect with all staff so that they are motivated to achieve it.

The goals should tell a story of the increased customer satisfaction that drives increased repeat sales, the easier selling process with repeat customers, the reduced need to deal with customer complaints, the increased security of employment, the increased ability for the organisation to grow and employ more people, the increased opportunities for promotion and more responsibility in a growing organisation, and the increased ability of the organisation to contribute to the local community and indirectly help the families who have people working in the company.

Explained this way, each single contribution to delivering the goal is seen as doing much more than reaching a corporate goal. Contributing as a team has a multiplier effect. The whole becomes clearly more than the sum of the parts.


---

**DID YOU KNOW?**

‘Employees who are not informed about why changes are necessary will ultimately resist such changes’, says Hannah Russell, a change management consultant. ‘When they do not get the information they need, they turn to the rumour mill with all its inaccuracies.’

---

A **change agent** is a person or group of people who act as catalysts, assuming responsibility for managing the change process.

---

Teamwork encourages a supportive environment which lowers resistance to change.

“A team will form around a common goal.”

---

The management of change • **CHAPTER 7** 259
Managing change effectively — high-risk strategies

The range of tactics examined so far relies on communication, involvement, support and negotiation — low-risk tactics. At the other end of the spectrum are some high-risk tactics. They are considered high risk because their failure may generate negative outcomes. These tactics run the risk, for example, of generating ill feeling between employees and employers, which can permanently damage working relationships. Ultimately, any gains made may be outweighed by the instability within the organisation.

Manipulation

If an organisation wishes to introduce new technology, it may inform its staff of the exciting new training and promotional opportunities that the change will provide. However, it may withhold the fact that the new technology will result in a number of forced redundancies. This is an example of manipulation. Manipulation involves exerting undue influence over an employee that may be deceptive in order to get them to behave a certain way. While some people regard manipulation as skilful or artful, others argue that it is deceptive and devious and therefore an unethical practice.

Manipulate at your own peril!

At some point we have all used manipulation to get our own way. However, ‘getting what we want’ using this method is loaded with dangers. This is because manipulated people often feel tricked, and that eventually results in them displaying greater resistance to any change.

A mistake some managers make is thinking they are motivating people when in reality they are manipulating them. Motivation is based on being truthful with people. Manipulation is often untruthful, and involves saying whatever needs to be said to get the result that is required, regardless of future consequences. This is a serious error. According to author and motivational speaker Zig Ziglar, ‘Manipulation self-destructs the individual doing the manipulating. Word gets out on manipulators and people grow less and less likely to respond in a positive manner to their manipulation.’

Many managers who use manipulative techniques do so because they lack the skills to deal with disagreement.

Cooptation

Cooptation involves the selection of an influential person among the potential resistors to be involved in the development and implementation of the change process.
Threats may cause the recipients to submit, but become more resentful, which escalates the resistance.

Threat
A manager who will not or cannot invest the time and effort required for the other tactics may resort to the use of power to force change resistors to conform. This tactic usually involves some type of direct or indirect threat. Threats may involve loss of promotion, transfer, overtime or ultimately, termination. An organisation that faces competition from imported products, for example, may advise its staff of the need to change work practices and accept a reduction in entitlements in order to lower the costs of production — or alternatively, four staff positions will have to be terminated. For example, in 2006, Qantas flight engineers were given an ultimatum by senior management that job losses would occur if current work practices and manning levels were not changed. This threat ultimately resulted in prolonged industrial action, causing disruption to the organisation through numerous flight delays.

The danger with this tactic is that people may appear to be compliant on the surface but are resentful underneath. This can lead to an increase in resistance, possibly culminating in industrial sabotage, grievance complaints, compensation claims for stress and harassment, and industrial disputes. While the threat tactic may be used in some situations that require a speedy response, constantly relying on it as a ‘quick fix’ may obstruct future changes.
7.7 Effective change management in the context of a significant issue

**KEY CONCEPT** Managers must develop strategies which deal with specific issues as they arise.

### Application of effective change management

Due to the dynamic business environment, organisations must implement strategies to effectively manage the changes caused by a number of specific issues. Such issues include the increasing emphasis on corporate social responsibility and business ethics; globalisation; mergers and acquisitions; technological development; the need for legislative compliance; and privatisation.

#### Corporate social responsibility

During the past 20 years there has been growing pressure on organisations to improve their **corporate social responsibility (CSR)**. The heart of CSR is adopting a **triple bottom line** approach and monitoring changes against this standard.

**Ecological sustainability** is an area of significant CSR that organisations must manage skilfully. The Earth is a fragile system that we need to take care of, so it can maintain itself. The health of the natural environment has a direct impact on society's quality of life. Consequently, an organisation needs to balance economic and environmental concerns. In other words, to undertake **sustainable development**.

Organisations are being asked to take increasing responsibility for the protection of the environment.

#### Change management strategies

Some examples of change management strategies to meet CSR expectations include the following.

- The social conscience of responsible managers has led them to adopt policies of conservation, recycling and restoration. For example, surfwear manufacturer Billabong has developed its own environmental policy. Billabong will conduct business only with partners who share its commitment to the environment.

- Organisations evaluate the full environmental effects of their operations. This can be done by preparing a **sustainability report** that details how the organisation’s practices and operations affect society and the environment.

- Production processes need to be modified to bring them into line with ecologically sustainable practices.

#### Business ethics

**Business ethics** is not concerned with legal obligations, but with what is morally right or wrong — and all the shades of grey in between. Organisations want to be seen as responsible corporate citizens, conscious of the high ethical standards expected of them by their customers and society at large.
Change management strategies

Some examples of change management strategies to uphold business ethics include the following.
- Managers should encourage standards of honesty and integrity, and expect ethical behaviour from all employees.
- Stakeholders must be dealt with honestly and fairly.
- The organisation should avoid using misleading or deceptive product descriptions.
- Employees should be provided with a safe working environment; their confidential personal information kept secret; and discrimination abolished.
- A **corporate code of conduct** should be implemented as it provides internal stakeholders with ethical standards to uphold.

Globalisation

Globalisation of business has increased the level of international competition within the **global economy**. Consequently, the demands on **global managers** have never been greater than they are today.

Change management strategies

Some examples of change management strategies in response to the impact of globalisation include the following.
- Global managers need to have a good understanding of how globalisation will influence their organisation.
- Global managers must thrive on the unexpected, communicate quickly and effectively, and integrate technology into their work practices.
- In order to compete internationally, organisations may restructure, outsource non-core functions or subcontract production, or relocate production to other countries.
- Fostering cultural diversity should be given a high priority because it brings many benefits including enhanced creativity and easier penetration of new markets by employees who identify with the culture, and an equal employment environment.
- Organisations must find new approaches to staffing and implement effective management practices for a culturally diverse workplace. The most important aspect of this process is to not disregard the effect of the local culture when selecting employees.

**DID YOU KNOW?**

Bartlett Precision Engineering expresses its ethical business philosophy in two core value statements:
- **We value people and conduct ourselves with integrity.**
- **Honesty and fairness is the core of our business practices.**
Mergers and acquisitions

Through mergers and acquisitions, many private sector businesses have grown to become transnational corporations.

Change management strategies

Strategies for dealing effectively with change as a result of a merger or acquisition could include the following:

- When two organisations come together, employees of the newly formed organisation may experience a ‘culture clash’. Many organisations first undertake a type of corporate culture analysis of both organisations before they merge. Gaps are identified between the way both organisations conduct their business, and risk and costs associated with this gap are identified. Policies and practices may have to be rewritten to ensure there is uniformity in the way the newly formed organisation does business. Strong leadership and good communication is required if the ‘marriage’ between the two organisations is to work. A good induction program may also have to be devised for new employees.

- Managers should adopt similar and consistent management styles to help make the newly formed organisation a success.

Technological development

As the use of technology increases, organisations and employees experience dramatic changes to the way they conduct their activities.

Change management strategies

Some examples of change management strategies in response to technological development include the following.

- Before introducing any new technology, analysis of the effects of the new technology must be undertaken. New technology may impact on job design, health and safety, employee motivation, and remuneration of employees. As with any change, the organisation must identify the restraining forces that might impede change.

- Employees will need to acquire new skills. The human resource function will play an important role in training and development for people within the organisation. In some cases, the organisation may need to recruit new employees with the necessary skills.

- Human resources will be required to manage those employees who are made redundant due to the introduction of new technology.

Legislative compliance

In the past 10 to 20 years, significant changes have occurred in the legal framework within which Australian organisations must operate. In addition to the new legislation, there have also been new interpretations of existing laws, which will have a major impact on organisational conduct.

Change management strategies

Some examples of change management strategies to ensure legislative compliance include the following.

- Due to the escalating compliance costs, an accurate method of record keeping must be established.
• Managers do not have to be skilled lawyers, but they should be familiar with the laws that regulate their activities and those of the organisation, especially the Trade Practices Act, the Environmental Protection Act and the Corporations Law.
• Ongoing training must be provided for managers and employees, so that they are fully aware of their legal obligations.

Privatisation
Privatisation has had a major impact on public sector organisations. Privatised organisations change their legal and managerial structure — from government business enterprises to public companies. Consequently, the corporate culture will undergo a radical change: from public sector ideals to the values of marketplace competition, especially returns to the shareholders. Also, there is usually a reduction in the size of the workforce with many employees involuntarily retrenched.

Change management strategies
Some examples of change management strategies in response to privatisation include the following.
• Managers, and especially the human resource unit, will have to create a new corporate culture. This might involve changes to the mission statement, organisational strategies and objectives.
• The human resource unit will be required to employ people who fit in with the new organisational culture and deal with those employees who may be retrenched.
• Changes to employees’ remuneration packages will have to be implemented by the human resource unit.
• Managers in the new organisation will have to adopt management styles that reflect the culture of the new organisation.

TEST your understanding
1 What is meant by the term ‘triple bottom line’?
2 Review the following situations and decide if they are ethical or not. Give reasons for your answer.
   A An accountant showing you the best way to avoid paying income tax.
   B Purchasing products made by exploited workers in Third World countries.
   C Selling goods that you suspect to be faulty.
3 List the benefits to an organisation that gives a high priority to cultural diversity.
4 Why does a merger or acquisition have human resource implications?
5 Explain how technological change can result in social isolation of some employees.
6 List three pieces of legislation managers should be aware of.
7 How do government business enterprises change due to privatisation?

APPLY your understanding
8 In small groups, brainstorm the main advantages to organisations of acting in a socially responsible manner. Are there any possible disadvantages? Share your answer with other groups.

9 If you were being posted to an overseas position as production manager, what training would you request from your employer?
10 Why is technology so crucial in terms of an organisation’s success or failure?
11 Suggest why a privatised organisation will place a great deal of emphasis on shareholder return?
12 Select one of the change management issues referred to in this section, and then complete the following tasks:
   (a) Research additional information about the issue and provide a one-page report.
   (b) Describe the change processes the issue can create. Illustrate your answer with examples from an organisation you are familiar with.
   (c) Predict specific problems the issue will cause for management.
   (d) Outline appropriate tactics, both low-risk and high-risk practices, required to effectively manage the problems identified in (c). Illustrate your answer with examples from an organisation you are familiar with.

To assist you with this activity, use the Business Review Weekly, Age business section and Financial Review weblinks in your eBookPLUS.
7.8 The role of leadership in change management

**KEY CONCEPT** If a manager can display effective leadership skills, then resistance to change will be lessened.

Kotter’s proposed model of effective change management is based on three important elements:
- thorough preparation and planning
- clear communication
- cooperative participation with all stakeholders.

To successfully integrate these elements into a change process requires a manager to exercise their leading role; that is, to show leadership. By leading change, the manager acts as a bridge to support the employees as they cross from existing work practices into new and unfamiliar territory.

To act as a leader, a manager should display empathy and possess good listening skills. These personal characteristics will assist him or her to discover and appreciate any points of resistance to change. How a manager treats his or her employees will largely determine their acceptance of or resistance to change. A manager who acts as a leader and has high expectations of employees’ abilities to initiate and implement a change process will generally be rewarded with people who are willing to embrace the change. There may still be some points of resistance, but this resistance can be productively dealt with, because the employees believe they have the support and trust of their manager.

Employees are generally more prepared to accept the risks involved with change if they feel their manager is concerned about their welfare. Managers who concentrate on the needs of their employees are the most effective, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines; that is, they display the natural characteristics of a manager, not a leader.

A leader who can ‘sell’ the need for change automatically overcomes one of the main resistance points — that of ‘why do we need to change?’
Added to these qualities, a successful leader will need to:
- market and promote the change in a manner that will achieve cooperation and acceptance
- resolve conflicts, which often arise when change is implemented
- keep an open mind, seek out new ideas and freely share information
- cultivate a sense of stability, while at the same time push on with even more change
- show confidence in people, share credit and recognition
- build and communicate a clear vision.

Being an effective leader is not an easy task. There may be temporary setbacks, particularly during periods of negotiation. In the end, leadership may still fail. According to the management researcher Craig Hickman, leadership by itself is not enough. He believes that organisations need the skills of both managers and leaders to competently manage change.

**Mind of a manager, soul of a leader**

Change, both external and internal, also has become a way of corporate life. While the manager naturally desires stability, the leader recognises that crisis can stimulate improvement. Managers try to duplicate the successful efforts of others, but leaders would rather break new ground. Managers fasten, fix, and put things in place as permanent fixtures of the organisation. Leaders continually move about the organisation, unfastening, unfixing, and removing things to make sure that the organisation does not stagnate. When it comes to decision making, managers hammer out compromises, while leaders don’t mind polarising people around extremes to clarify the differences between them. If changes that occur in the external environment often cause a manager’s mind to focus on how to react and respond, they stimulate a leader’s soul to become proactive, anticipating and even creating change. ‘Plan for change,’ argues the manager, ‘Experiment with it,’ insists the leader. In this age of rampant reorganisation and restructuring, the manager’s mind seems to deal with it all very easily. The leader, however, wants to rethink the fundamentals and not be fooled by a reorganisation that may not correct real problems. Managers refine existing structures; leaders promote complete revolution.


**TEST your understanding**

1. Identify five desirable skills for a leader to possess.
2. Support or refute the following statement: ‘Motivating, inspiring and empowering employees to embrace change is the mark of a good leader’.
3. Think of someone you regard as a leader. What characteristics do they display to give them this leader status?
4. What do you think of the leader who says, ‘Do what I say, not what I do’?
5. Read the case study above and answer the following questions:
   (a) List the main features of a (i) manager and (ii) leader.
   (b) Do you agree or disagree with Craig Hickman’s belief that organisations need both managers and leaders? Justify your answer.

**APPLY your understanding**

6. In small groups, brainstorm the strategies a leader can take to implement and support people through change. Compare your list with the lists of other groups. As a class, agree on 10 key things a leader should do when introducing change.
7. Set up a class debate to consider the following topic: ‘Leaders are born, not developed’. Share roles so that those not debating are involved either in assisting with research, or in running the debate and keeping notes on the arguments on both sides.
KEY CONCEPT When an organisation responds to the forces of change, the result will be a change to its structure, its human resources and its operations functions.

Major (transformational) and minor (incremental) changes

Some organisations respond to the forces of change in a major way. The result is often a complete restructure of the organisation. Such a change is referred to as **transformational change**. A transformed organisation, after undergoing radical change, will have a different (usually flatter) organisational structure, new work systems and procedures, a changed employee structure, greater use of technology and an altered corporate culture.

Other organisations may respond to forces of change in a smaller way. This may involve only a few employees at a time, undertaking new operational procedures. Such change is referred to as **incremental change**. For example, an employee in an office may change from using a fax to using email when sending information to customers.

Often, an organisation will implement both major and minor changes simultaneously. However, regardless of the extent of the change, recent studies conducted in a wide range of organisations revealed that all employees should be involved in the change process. This is because any change ultimately has an impact on every employee.

Impact of change on organisational structure

Organisations need to continually improve and develop, if they are to survive change. As the organisational environment changes, organisations undergo **structural change**.

In recent years, the main structural changes introduced in Australian organisations have included:

- outsourcing
- flatter organisational structures
- work teams.

The aim of these changes has been to streamline organisational operations (including coordination and control), improve efficiency and empower employees to make their own decisions.

Outsourcing

A trend rapidly gaining support throughout the corporate world and government establishments is **outsourcing**. Many organisations have rearranged their workforces to employ a minimum full-time staff and use as many people from outside the organisation as possible — on a contract, casual or part-time rate. This keeps labour costs to the lowest possible level. Outsourcing may be necessary to help an organisation contain its costs and survive in a global marketplace. It may mean that job losses occur within the organisation and other jobs need to be created. The positive impact is that the organisation may be able to produce its goods, or supply its service, more efficiently than before.
Many Australian companies have outsourced some of their business processes, such as customer service, technology support, help desk, and accounts payable, to places such as the Philippines, India, and China, where labour costs are cheaper.

Flat structures

Flatter management structures have become more common in recent times. As middle-management positions are abolished, greater levels of accountability and responsibility are transferred to frontline staff. Such organisations are characterised by fewer formal reporting controls, sharing of best practice methods, learning focused on the organisation's needs, a supportive learning environment, and a focus on continuous improvement. In the contemporary workplace, organisations are evolving from formal, hierarchical structures with many levels to less formal, looser structures.

Work teams

Coupled closely with the emergence of the flatter organisational structure is the development of work teams. Teamwork allows organisations to be more flexible and responsive. Teams also motivate employees to be more creative, to develop a broader view of goals, and to contribute across the entire organisation. The development of teams is transforming workplace cultures, practices, operations and productivity levels.

Impact of change on corporate culture

For an organisation to survive in the long term, changes within the external or internal environments should be reflected in its culture. If organisational culture fits the external environment, managers and employees have the attitude they need to compete successfully. For decades, Telstra enjoyed a monopoly on telecommunications services within Australia. With the deregulation of the telecommunications industry (which resulted in increased competition), as well as the privatisation of Telstra, managers and employees were forced to adopt a different mindset to compete in the new environment. The existing organisational culture had to change, because it did not fit the real-world requirements. The new external environment required a new way of thinking — a new organisational culture.

Students and teachers face similar challenges whenever the educational authorities modify the external examination requirements or implement new study designs. Such changes will influence the structure of a school, its operations and the organisational culture. Different attitudes, values and mindsets will eventually be adopted within the school to satisfy the new demands.
Impact of change on human resource management

Organisational change will ultimately have a profound impact on employees at all levels within an organisation. Consequently, adjustments to the human resource management function are necessary in order to improve the effectiveness of changes made in other organisational components, such as organisational structure and technology. Some of the main human resource management changes are:

- Recruitment and selection must be altered to reflect the need for individuals who possess the knowledge and skills required to handle the changing circumstances.
- If employees are to be made redundant then appropriate termination procedures must be put in place.
- Training must be offered to existing employees in the areas of teamwork, problem solving, decision making and change management.
- Performance appraisal and reward systems that reinforce the new behaviours must be put in place.
- More autonomous and empowered employees will require changes to the traditional roles and communication methods within the organisation.
- To attract and maintain skilled employees, flexible working arrangements will be needed.
- The bases of power will shift from title, seniority and authority to collaboration and contribution and this must be communicated.
- A clear vision of where the organisation is headed and the benefits to employees will need to be developed and clearly communicated.

Impact of change on operations management

For many organisations, reducing production costs has become the basis for gaining a competitive advantage in the marketplace. In response to changes in the environment, organisations are constantly seeking ways to speed up production time, shorten production development, streamline distribution and serve customers. Some of the main operations management changes are:

- Organisations have refitted and reorganised their factories to take advantage of improvements in technology. They are also pursuing efficiencies in process design and materials management.
- New advances in production technology have been accompanied by changes in the way the production process is organised, including flexible manufacturing.
- Flexible manufacturing allows production plants to be smaller, more specialised, and closer to important markets.
- There is an emphasis on quality assurance — an organisation-wide system of procedures to ensure that the products satisfy consumers. This includes quality control, coupled with total quality management.
- Human relations are being improved, so that employees will approach their work more intelligently. This includes such considerations as balancing workloads, using ergonomics, simplifying materials handling, changing operations sequences and training employees.
**TEST your understanding**

1. Identify three minor and major changes that have occurred in your school over the last few years.

2. What does the term ‘structural change’ mean?

3. In 2013, Telstra employees protested at the company’s AGM against call centre jobs being outsourced to other countries. 
   (a) Explain why outsourcing may cause internal unrest in an organisation.
   (b) List reasons why Telstra employees protested against the possible outsourcing of jobs.
   (c) What are the possible benefits to an organisation that outsources some of its business operations?

4. Construct a mind map to summarise the organisation’s three main structural responses to the changes in the environment. The mind map has been started for you.

5. Explain why an organisation’s culture should be modified in response to changes in the external environment.

6. Why are alterations to the human resource management function necessary in response to changes in the external environment?

7. What human resource management changes have organisations undertaken in response to environmental changes? Use the following headings in your response:
   - Recruitment and selection
   - Termination procedures
   - Training and development
   - Performance appraisal.

8. Select two operations management changes and outline how they assist the organisation in achieving a competitive advantage in the marketplace.

**APPLY your understanding**

9. Consider the following situations and determine whether the change required would be major or minor. Give reasons for your answer.
   A. A sales representative complains that he is unable to access the latest prices on some products quickly enough, because price changes are mailed monthly to his office.
   B. A distinct decline in the quality of manufactured items from the heavy metal section has been traced back to the high turnover of staff in the section over the past nine months.
   C. The development of new technology in the paper manufacturing industry will require the chief executive officer and the board to completely reassess their present manufacturing operations.
   D. The responsibilities of several key staff in the accounting department will need to change as a result of the new computerised accounting system.

10. Research an organisation that is being restructured as a result of changes in its internal environment. Business magazines or journals are an excellent source of information and frequently report on organisational restructuring in a variety of industries or organisations. Some recent examples of changes you may wish to explore include:
   - e-commerce
   - organisational alliances
   - corporate culture.

11. ‘Zoe could not understand why her team members were being so difficult. Couldn’t they see that the changes she had made to the work roster would be to everyone’s benefit? She thought they had all agreed to the changes when they were discussed at the last team meeting. She was not sure what to do next.’ Consider your own experience of the difficulties in trying to predict how something will turn out. What can managers do to reduce these difficulties?

12. Flatter management structures often result in higher levels of responsibility and accountability for all employees. Consequently, any organisational restructure that involves removing a layer of management will be perceived by employees as a major change. Assume you are the manager in charge of a restructure that will result in a flat management structure. Outline the advantages you would put forward in support of the restructure.
**APPLY YOUR SKILLS: Managing change**

**PRACTISE YOUR SKILLS**
- accurately use relevant management terms
- research related aspects of change management using print and online sources
- analyse business literature, information and data
- use management theory to evaluate different strategies to manage change
- apply change management knowledge and concepts to practical and/or simulated representations
- analyse and evaluate effective change management in the context of the selected significant issue.

**Newspaper portfolio**
Select three external (macro) sources of change (factors) that influence an organisation's environment. Collect 8 to 10 articles on each external factor from the Internet, newspapers and journals over an 8- to 10-week period.

Paste the articles into a scrapbook under three headings describing the external factors. Ensure that you date and acknowledge the source of each article.

**TEST your understanding**

1. Write three reports of approximately 500 words on each of the external factors you chose. Use a business report style with subheadings, graphs and diagrams to support your text. In your answer, you could:
   - describe how the external factors have exerted pressure for change
   - discuss the impact of this pressure on the organisation
   - identify possible sources of resistance
   - outline tactics used to overcome resistance.

A major focus within your reports should be an analysis of the impact of each of the external factors on the individual organisation or industry sector. Your responses should combine the theory obtained from your teacher and textbooks with the information on current business conditions and factors from your Internet, newspaper and journal articles.

2. (a) Identify some of the changes you have noticed within your school in the past year.
   (b) In each case, explain the extent to which the forces were internal or external.

**APPLY your understanding**

3. Arrange to interview someone who has experienced a major change in his or her workplace. Research and report on the impact of this change on the interviewee, his or her colleagues and the organisation’s culture. Make particular reference to:
   - how the change was managed
   - the driving and restraining forces
   - the role of leadership in the change process.

4. Think about a situation in which you would like to make a change but face some resistance. The situation might involve improving your Business Management results, changing the arrangement of your timetable or having greater use of the family car.
   (a) Write a brief outline of the status quo.
   (b) Write a brief description of the situation as you would like it to be if you could change it.
   (c) List the main driving forces.
   (d) List the main restraining forces.
   (e) Devise strategies for reducing the impact of the restraining forces.
   (f) Using the Kotter eight-step model, prepare a plan to successfully implement and adopt the change. Present your plan to another class member for evaluation.
Belisa Pharmaceuticals

Peta O’Brian is the Managing Director of Belisa Pharmaceuticals which employs 300 loyal, long-serving employees. Fierce competition is threatening the long-term viability of her organisation. Sales and profits are declining due to the lower prices of its competitors. Belisa Pharmaceuticals could compete if it introduced new technology. (It has the finance to purchase and install the machinery.) The introduction of the new technology is going to mean changes to the workforce and the current products.

- Only 275 employees are required to work the new technology, so 25 will become redundant.
- Even though sales have declined, Peta has a number of very loyal customers who have expressed satisfaction with the format of the current product.

**TEST your understanding**

1. Why do you think the introduction of new technology will result in:
   - (a) lower production costs?
   - (b) the need for fewer employees?

2. What assistance could Belisa Pharmaceuticals offer employees who are made redundant?

**APPLY your understanding**

3. Suggest an appropriate form of action for each of the following problems Peta O’Brian faces:
   - (a) Dismissing 25 employees; that is, selecting the criteria she might consider in deciding who should stay and who should go.
   - (b) Training the remaining employees to understand and use the new and more complex technology (quite a radical change from the technology currently in use).

---

**Change and keeping staff on board**

Nine2Three Employment Solutions is a boutique recruitment and employment company specialising in flexible workplace practices and the placement of women returning to the workforce, predominantly into accounting and office administration roles. We pride ourselves on being highly professional.

The Global Financial Crisis (GFC) meant we needed to implement strong change to our business model. We needed to ensure that we could navigate the economic climate and keep our staff employed. We needed to reduce our costs and requested staff to reduce hours of work. This was a significant change to the business, and the management and staff had to adapt.

Asking staff to reduce hours in a difficult economy is not an easy thing. We used clear communication to employees, both individually and as a team, to ensure they were not left in the dark as to what was going on, and to see the reasons behind the hard decisions. Getting our team members on board, committed and connected to our business was, and remains, our number one priority.

**TEST your understanding**

1. Identify the driving forces for change in Nine2Three Employment Solutions.

2. Summarise the tactics used by Nine2Three Employment Solutions to manage changes.

**APPLY your understanding**

3. Suggest appropriate forms of communication that could be used to keep the employees informed of changes.

---

New technology can be frightening for team members if they are not on board with the total concept from the beginning. It was very important for us to communicate to them the reasons we wished to change our processes and the positives that would come from change.

Offering training in any new technology or work duty helped us to minimise any negativity surrounding the changes.

We keep our staff motivated in times of change by communicating effectively with each and every employee. We make our team members feel that their input and ideas are valued and that they are an integral part of Nine2Three. Addressing any concerns raised and giving our employees a forum to speak about any concerns was also really important. Communication is the key to great workplaces and managing change.

Source: Extracts from 2010, ‘Real life stories: Change and keeping staff on board’, *NETT*, p. 42–43.

---

Kathryn MacMillan, managing director of Nine2Three Employment Solutions
Key Concepts
Organisations must constantly change in order to survive. The dynamic nature of the internal and external (operating and macro) environments is a source of change. There are driving and restraining forces for change in large-scale organisations. Change has possible impacts on the internal environment of large-scale organisations, including the functional areas of operations and human resources.

Magnatech Industries — managing change
This case study of a real organisation is designed to provide insight into the management of change and the challenges that need to be addressed for long-term survival.

Magnatech Industries is a large, private company that manufactures rigid plastic injection mouldings for a range of whitegoods manufacturers of refrigerators, freezers and washing machines. Injection moulding is a manufacturing process that involves heating plastic to a fluid state and inserting it into a mould. This process means that a variety of products once manufactured from heavier and more expensive materials can be produced from less expensive plastic materials.

Over the last decade, significant changes in this industry have meant changes to Magnatech’s strategic plans, resulting in operational and structural changes. Technical innovation in the external business environment is likely to result in further, wide-ranging change over the next five years.

Business background
Name of business
Magnatech Industries

Type of ownership/legal structure
Proprietary company

Shareholders
100 per cent Australian owned

International division
Pro Tag International Thailand

Core business function
Plastic injection moulding servicing the whitegoods (refrigerators, freezers and washing machines) industry

Mission statement
To provide technical solutions through high engineering standards which meet the needs of our clients

Employees
115 in Australia, New Zealand and Thailand

Brief history
The company has a history that stretches back to the 1950s, when a toolmaking business was established by the original owner. In 1972, the company began to make refrigerator, freezer and washing machine mouldings for three Australian manufacturers. In the 1990s, tariff reductions for electronic appliances had a significant impact on the business. Margins on whitegoods dropped by 40 per cent as the domestic suppliers reduced prices to compete with the cheaper imports.

While Magnatech faces both global and domestic competition, it continues to maintain a major share of the domestic market for plastic mouldings for whitegoods. International competition is increasing. Often, a partially loaded shipping container...
destined for Australia will be topped up with plastic mouldings, which will then be off-loaded on the domestic market at cost price.

There are currently five plants manufacturing refrigeration mouldings in Australia. Three of these are multinational companies that have chosen to make Australia their headquarters for production in the region, due to Australia’s political and economic stability.

**The market**

Magnatech supplies mouldings to major customers in Australia (with a significant majority of the market share), with production facilities in Australia, New Zealand and Thailand. One of the characteristics of this industry is the increasing pressure to minimise inventories, reduce manufacturing costs, and reduce lead time (the time it takes to convert raw materials into a finished product) from one week to 48 hours.

Magnatech currently produces tinted trays and shelving for refrigerators and freezers in 10 different colours. While Magnatech maintains a stock of white internal mouldings, the coloured trays and shelves are made to order. With industry pressure to reduce lead times, Magnatech can generally produce orders for standard colour mouldings within 24 hours. A specialised colour may initially require a lead time of two weeks.

**Changing direction of the business**

While there has been a considerable amount of external change in the industry over the past decade, Magnatech’s core business activity remains unchanged: injection moulding. However, the strategic plans for the organisation:

- reflect an awareness of the change in the industry
- acknowledge Magnatech’s potential vulnerability in the face of change, particularly as its customer base for core products is a handful of major customers
- incorporate internal changes to ensure long-term survival.

Changes in the direction of the business include the following.

1. **Development of new markets, especially export.** Magnatech was initially reluctant to expand internationally because of the difficulties it believed it would face. However, the company soon learnt of the opportunities presented by such an expansion. While still in the developmental stage, Magnatech Industries’ export markets are increasingly becoming another reliable source of revenue that reduces the risk involved from domestic competitive pressures.

2. **Development of new products, using the skills developed within the core business.** A recent major product development includes the manufacture of a range of security tag devices for clothing retailers. The product, ProTag, has been designed and developed by an associate company, ProTag International (100 per cent owned by Magnatech, including patents and trademarks). As a special releaser is required to extract the tag, products that are displayed are safe from theft. Unlike their core products, which are targeted towards whitegoods manufacturers, the customer base for ProTag is retailers.

   The technology used in the production of the ProTag security system may also be adapted for other product areas. Security systems for aircraft luggage, for example, are currently under evaluation.

(continued)
3 **Site diversification with business expansion in Asia.** Site diversification, particularly with the Thailand plant, has resulted in some significant cost savings and increased market share for the Magnatech Group. Magnatech Asia can take advantage of:

- access to resins (an input in the production process) at competitive prices
- the benefits offered by the Australia–Thailand Free Trade Agreement, which reduced the barriers to trade between the two countries.

**Management response to change — internal adjustments**

1 **Total quality management (TQM).** All aspects of the business are continuously reviewed to ensure value is added and to maximise efficiency for the benefit of the customer. To achieve the TQM objectives, performance indicators such as industry benchmarks are used. The company has successfully developed a workplace culture based on continuous improvement as it believes this will be the most cost effective in the long term.

2 **Rationalisation.** The company continues to audit all operations and processes and has recently decided to place some of the manual operations with subcontractors. Any part or product that cannot be fully automated (for example, clicking the parts together) is now outsourced. Subcontractor labour is more cost effective for labour-intensive work.

3 **Training.** The majority of the organisation’s employees are multiskilled and there are significant benefits in employee commitment to training. The company has an excellent team and values employee ideas.

   If an employee has an idea about changes or refinements to production processes, the company is prepared to submit the idea to trial. Peter Townsend, the managing director, commented that this can sometimes be costly, but in the process of trialling new ideas, employees develop skills that can benefit other areas of the plant.

   Over half of Magnatech’s employees have at least 15 years of service. Through retirement, the company is likely to lose a substantial amount of experience and expertise. Apprentices have been employed to gain knowledge and skills required for a smooth transition. Magnatech is now embarking on human resource policies that encourage individual expertise.

4 **Ecologically sustainable production.** Over the last five years Magnatech has implemented a ‘3R’ policy: reduce, reuse or recycle. This has benefited both the company, through reduced wastage and more efficient work practices, and the environment. Magnatech also adopted a triple bottom line approach in its financial and non-financial reporting processes.
TEST your understanding
1. Who are the stakeholders in Magnatech Industries?
2. Identify the sources of change in the internal and external environments that have had an impact on Magnatech Industries over the last decade.
3. What is Magnatech Industries’ core business function?
4. (a) What is meant by the terms ‘inventories’ and ‘lead time’?
   (b) Why does Magnatech Industries want to minimise inventories and reduce lead times?
5. Outline how Magnatech Industries’ strategic plan has been modified as a result of the changes in the business environment.
6. What is Magnatech Industries doing to reduce the consequence of employee retirement?
7. Construct a mind map summarising the internal adjustments Magnatech Industries management has made in response to changes within the business environment. The first part of the mind map has been started for you.

EXTEND your understanding
8. Elaborate on the possible impact of each of the changes in direction of Magnatech Industries. Use the following headings to prepare your answer.
   • New markets
   • New products
   • Diversification
9. (a) Assess the degree of control and influence Magnatech Industries has over factors in the external environment.
   (b) What are some of the circumstances that will affect the degree of control?
10. How are internal and external stakeholders likely to benefit by Magnatech Industries promoting socially just and ecologically sustainable change? Summarise your ideas, using a table like the following one.

<table>
<thead>
<tr>
<th>Benefits for internal stakeholders</th>
<th>Benefits for external stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>New and better products</td>
<td></td>
</tr>
<tr>
<td>New technology</td>
<td></td>
</tr>
<tr>
<td>Employee training programs</td>
<td></td>
</tr>
<tr>
<td>Improved working environment</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 7 review

Summary

The concept of organisational change
- Organisational change is the adoption of a new idea or behaviour by an organisation in response to internal or external forces.
- The ability to embrace, manage and adapt to change will increasingly determine an organisation’s competitive advantage.
- Successful managers are the ones who anticipate and adjust to changing circumstances.

Internal and external (operating) environments as a source of change
- Change can come from the internal or external (operating) environments.
- The main internal driving forces include:
  - employees (human resource management plans should strive to maximise labour productivity)
  - management (the style of management will influence the direction and growth of the organisation)
  - corporate culture (acts as a guidepost by which employees may judge what the organisation wants from them)
  - policies (outline the general course of action to take in response to a particular situation).
- The main external (operating) driving forces include:
  - customers (the lifeblood of any organisation and should therefore be the main focus)
  - competitors (activities need to be monitored)
  - suppliers (backup suppliers reduce the risk of supply difficulties)
  - interest groups (seek to directly influence the behaviour of the organisation).

The external (macro) environment as a source of change
- The main external (macro) driving forces include:
  - economic (the level of economic activity fluctuates between booms and recessions over time)
  - political and legal (organisations must comply with legislative requirements)
  - technological (rapid advances in information technology impact on all aspects of an organisation’s activities)
  - global (the fast and cheap movement of people, goods, money and ideas around the world)
  - geographic (Australia’s location in the Asia−Pacific region has created opportunities. Demographic changes, especially population growth, have major implications for all organisations.)
  - social (changes in society’s attitudes and values. Organisations are coming under more pressure to implement ecologically sustainable practices.).

Driving and restraining forces for change
- Driving forces are those forces that initiate, encourage and support the change.
- Restraining forces are those that work against the change, creating resistance.
- Resistance to change is common among managers and employees.
- The main reasons for resistance to change include:
  - managers (due to either poor decision making or fear of loss of control or power)
  - employees (fearful of changes that threaten job security or require new work routines)
  - time (either poor timing, or lack of time)
  - competitors (fear of loss to a rival if the changes are unsuccessful)
  - low productivity (disruption to work routines as the changes are implemented)
  - organisational inertia (prefer to stay with the safe and predictable status quo)
  - legislation (restrictions placed on certain operational practices)
  - cost (financial cost of implementing major changes can be substantial).
Kotter theory of change management
• The change management process is the sequence of steps that a manager would follow for the successful implementation and adoption of change.
• Management researcher John Kotter maintains that the change management process consists of eight steps.

Tactics for effective change management
• Identifying the need for change, setting achievable objectives and creating a culture of change — encouraging teamwork — are three low-risk strategies for reducing resistance to change.
• Manipulation, cooptation and threat are three high-risk strategies for reducing resistance to change.

Effective change management in the context of a significant issue
• The significant issues of change that managers must deal with include:
  – social responsibility (adopting a triple bottom line approach)
  – business ethics (applying moral standards to organisational behaviour)
  – globalisation (understanding its nature and fostering cultural diversity in the workplace)
  – mergers and acquisitions (planning, restructuring and developing a new corporate culture)
  – technological development (re-engineering work processes and the training of employees)
  – legislative compliance (establishing accurate methods of record keeping and training of managers in order to comply with the law)
  – privatisation (creating a new organisation with a different philosophy and culture).

The role of leadership in change management
• If a manager can display effective leadership skills, then resistance to change will be lessened.

Impact of change on the internal environment of LSOs
• Changes can be major (transformational) or minor (incremental).
• As a result of internal and external changes, organisations often undergo changes in their:
  – structure, including outsourcing, flatter organisational structures and work teams
  – corporate culture; for an organisation to survive in the long term, changes should be reflected in its culture
  – human resource management practices, including recruitment and selection, training, performance appraisal and redundancy procedures
  – operations management, including flexible manufacturing and quality assurance.

Review questions
TEST your understanding
1 What is meant by the term ‘organisational change’?
2 Explain the difference between the internal and external (operating and macro) environments.
3 List and briefly outline three of each of the following:
   (a) internal sources of change
   (b) external (operating) sources of change
   (c) external (macro) sources of change.
4 Outline, using an example, the difference between driving and restraining forces.
5 Explain why there was so much resistance by Qantas maintenance staff to management’s threat to outsource 3000 maintenance jobs to other countries.
6 Outline why resistance to change in management and employees is common.
7 Explain why setting achievable goals can help managers implement change more successfully.
8 List and briefly outline the eight steps of the Kotter change management process.
9 Imagine you are a human resource manager for a large retail store and you wish to implement a change in the working arrangements to a 4-day work week of 10 hours per day. How would you go about this?
10 What is the role of a change agent?
11 Suppose that as a manager you were required by the CEO to implement a change that you personally opposed. What would you do?
12 Construct a mind map to summarise the three impacts of change on the internal environments of large-scale organisations.
13 List four external (operating and macro) sources of change that affect the operation of an organisation. Using a newspaper (perhaps the business section), find two examples of organisations that have had to deal with change. Explain in your own words how the change has affected the organisation.
14 Briefly outline how corporate culture influences organisational effectiveness. Analyse the factors that contribute to an effective corporate culture.

**APPLY your understanding**

15 ‘Successful organisations are those that empower their employees to adapt readily to changes within the organisational environment, whereas those organisations that attempt to resist change and disempower their staff will ultimately fail.’
   (a) Identify the main reasons for employee resistance to change.
   (b) Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.
16 ‘In response to internal and external pressures the operating environments of large-scale organisations are constantly changing.’
   (a) Discuss the internal and external pressures for change.
   (b) Using a current example, describe and explain the responses of that organisation’s management to these pressures.
17 ‘The pace of change is accelerating, with change coming from both internal and external sources. How an organisation responds to these changes will ultimately determine the organisation’s future.’
   (a) Discuss the reasons for accelerating change.
   (b) Using a current example, critically examine the strategies used to manage change effectively.
18 ‘In order to accelerate change, a “change agent” role may be introduced. Someone in the organisation may undertake this role. The change agent focuses on initiating the change, determining what part of the organisation should lead the change, the direction of the change and, most importantly, how the change will be sustained. This person often enlists others to be role models of change, sometimes working through a committee or project team.’
   (a) Discuss the role of a change agent in creating a culture of change.
   (b) Use a current example from a large-scale organisation to support your discussion.
19 ‘Inevitable resistance to change must be overcome if the organisation is to succeed. Employees and managers resist change for many reasons.’
   (a) Discuss the main reasons for resistance to change in organisations.
   (b) Using a current example, identify and describe how managers have developed and implemented a strategy for dealing with change.
**Exam questions**

**Question 1**  
(VCAA Business Management exam 2013, question 4)  
Describe two driving forces for change and analyse their impacts on the internal environment of a large-scale organisation that you have studied this year.  
6 marks

**Question 2**  
(VCAA Business Management exam 2013, question 5)  
Explain how Kotter’s theory of change management can be used to support the ethical and socially responsible management of change.  
4 marks

**Question 3**  
(VCAA Business Management exam 2012, question 3)  
c. Explain a significant change issue that you have studied this year and describe two ways in which it impacts on large-scale organisations.  
4 marks

**Question 4**  
(VCAA Business Management exam 2012, question 4)  
Change management theories provide a template for successful change in large-scale organisations. Explain how Kotter’s change management theory could be used to  
• promote driving forces for change  
• reduce restraining forces for change  
• promote the use of low-risk practices.  
In your response, include an example from a large-scale organisation or significant change issue that you have studied this year.  
10 marks

**School-assessed coursework**

OUTCOME 2  
Analyse and evaluate the management of change in a large-scale organisation, and evaluate the impact of change on the internal environment of a large-scale organisation.

ASSESSMENT task — a report in written format  
Time allowed: 90 minutes  
Marks allocated: 40 marks (the marks for each section of the report are indicated at the end of the section).  
Conditions: Notes may be consulted during the completion of this task. Length should be in the range of 700–800 words

Your report in written format should be presented using:  
• headings and subheadings  
• bullet points followed with explanations when appropriate  
• short paragraphs  
• diagrams, tables and graphs  
• recommendations when required.

You have a choice of two topics for your report.
EITHER

1. ‘Change can come from either the internal or external (operating and macro) environment. Effective managers are those who anticipate these changes and implement appropriate strategies.’

   • Outline the difference between a large-scale organisation’s ‘internal environment’ and the ‘external (operating and macro) environment’. 10 marks

   • Discuss the forces of change that surround a large-scale organisation you are familiar with. 17 marks

   • Using a current example, describe and explain the strategies a manager must implement in order to remain competitive in a competitive market. 15 marks

OR

2. The prevailing attitude in organisations today can be summed up as follows: ‘There is only one constant in business and that is change’. To help guarantee the long-term survival of the organisation, managers must respond to these changes.

   • Discuss six pressures for change and examine how these changes have affected large-scale organisations. 24 marks

   • Using a current example, describe and explain how managers have utilised a change model when implementing change. 16 marks

Preparation: It may take you 5 to 6 lessons to adequately prepare for this assessment task. Here are some steps to follow that will make the task more manageable.

Step 1. Read the question carefully, highlighting important terms. This is the most crucial step, as it will assist you to answer the question being asked and therefore avoid becoming sidetracked. Revise the concept of organisational change.

Step 2. Undertake some library research using books, magazines, newspapers and the Internet. Develop a database of information about your topic; for example, the nature of change, impact of globalisation, management strategies to deal with change.

Step 3. Select a large-scale organisation and analyse the factors that prompt change and the impact of these changes on the organisation. An excellent revision strategy is to prepare a summary card for each factor; this helps you to develop a depth of understanding.

Step 4. Collate information that identifies how a change process is implemented and developed within one large-scale organisation.