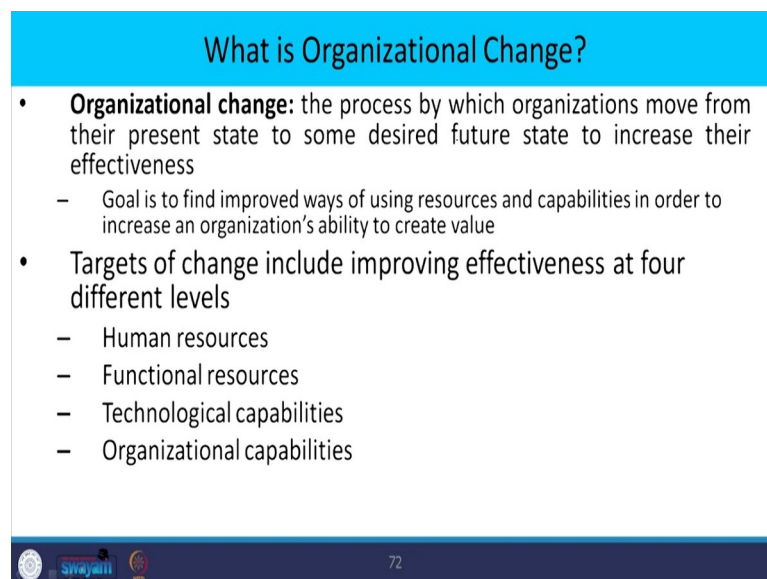


**Principles of Management**  
**Prof. Usha Lenka**  
**Department of Management Studies**  
**Indian Institute of Technology, Roorkee**  
**Lecture - 58**  
**Change Management - III**

So, in the introduction to Organizational Change part III, I will discuss about nature of organizational change. Learning objectives here is, define organizational change, what are the targets of change, explain how managers might change structure, technology and people. Contrast and compare planned and unplanned change, developments in evolutionary change, developments in revolutionary change, how change is related to innovation.

So, we will discuss in brief about what is change what is organizational change and what are the areas of change or targets of change?

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**What is Organizational Change?**

- **Organizational change:** the process by which organizations move from their present state to some desired future state to increase their effectiveness
  - Goal is to find improved ways of using resources and capabilities in order to increase an organization's ability to create value
- Targets of change include improving effectiveness at four different levels
  - Human resources
  - Functional resources
  - Technological capabilities
  - Organizational capabilities

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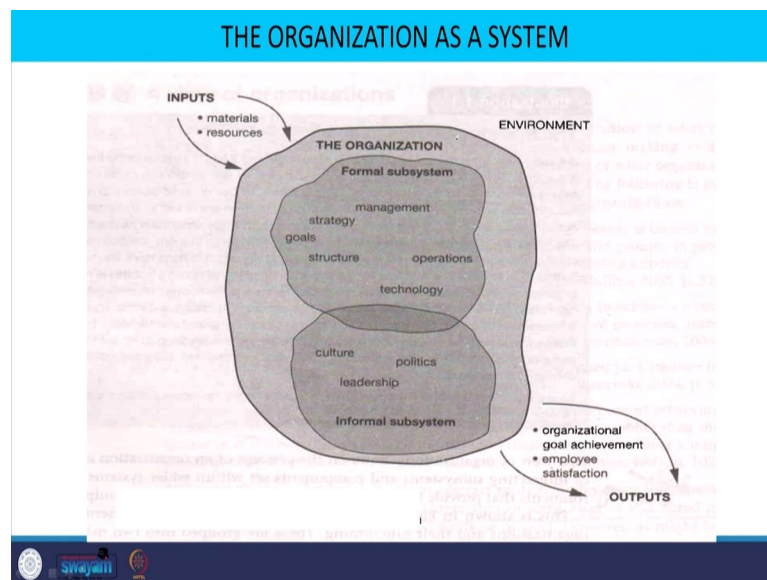
Organizational change is the process by which organizations move from their present state of affairs to the desired future state to increase their effectiveness. So, the objective here is when an organization which is functioning in its full capacity, it encounters any situation of disruption. So, there is a disturbance which happens in the organizations or in the processes of organizations its structure, technology and overall, it affects its effectiveness.

So, therefore, in this discussion we will first know which are the areas, which encounters disturbance or the targets of change and what is the scope for improving the performance of organization or how an organization can be more efficient and effective.

So, goal is to find improved ways of using resources and capabilities, what are the resources and capabilities which are required or which need to be developed in order to increase organization's ability to be more creative and effective or to create value.

So, targets of change include improving effectiveness at four different levels. What are these levels? The human resources, functional resources, technological capabilities and organizational capabilities.

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As we discussed, in the part I of the lecture that organization is like a system, which consists of input, processes or output. So, the inputs are the materials and resources. Resources can be its land, capital, machinery, people. So, all these resources are input to an organization and its system. Organization, like the processes of the organization consists of a formal and an informal subsystem.

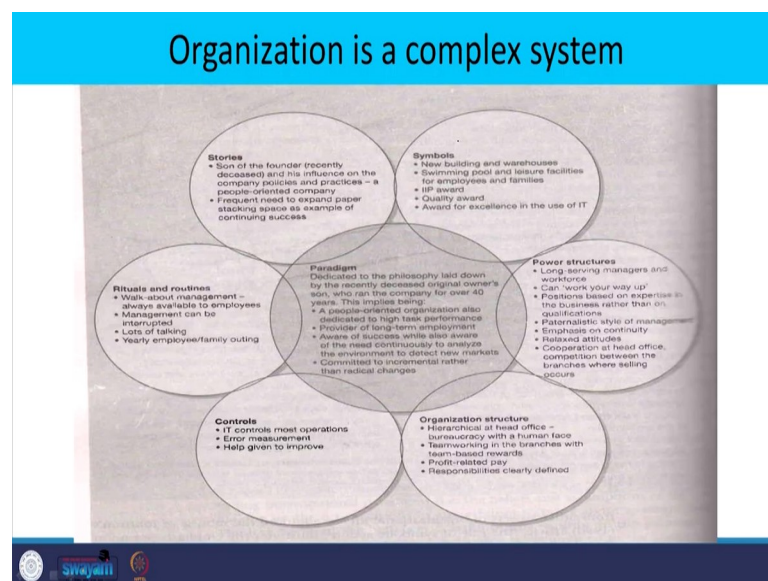
So, what is the constituent of a formal subsystem? Formal subsystem consists of management, strategy, goals, structure, operations, and technology. An informal system which is closely intertwined with the formal system is the culture, politics, leadership which is associate, which is part of the organizations processes.

And the inputs are converted through various processes in the organization, various formal systems in the organization and then there is a finished good or service which is an outcome or output in the system. So, organization attains its goals and objectives and it is also the employee satisfaction, customer satisfaction all these are some qualitative and qualitative goals of an organization.

So, in this particular definition of organization as a system. Organization is an open system; that means, that the environment has an impact on functioning of organization on the processes of organization. So, any change in the external environment can disturb the performance of organization. So, taking this queue we will discuss further how an organization is a complex system.

As we discussed, an organization has a formal and informal sub subsystem. Informal subsystem is closely associated or intertwined with the formal subsystem. So, disruptions any of these subsystems can have a major impact on performance of an organization.

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So, how is an organization complex system? Culture let us take the example of the paradigm of organization, where the culture is an important part of organizations subsystem or informal subsystem. So, we discussed that culture consists of stories, culture is basically shared values perceptions or rituals which are carried by all individuals.

So, culture being a part of an organizations complex system or an informal subsystem consist of stories, symbols, rituals, power structures, controls and so on. So, a complex organizational system consists of the culture, the rituals and routines and symbols which are part of the culture than the power basis of power and politics, organizational structure and control.

So, let us discuss about the stories, say the stories of the founder and his influence on the company's policies and practices in a people-oriented culture, people-oriented company will have an impact on performance of an organization. I will site one example, of how Steve Jobs, being the founder of Apple, his philosophy, his policies have influenced the organization and its various policies.

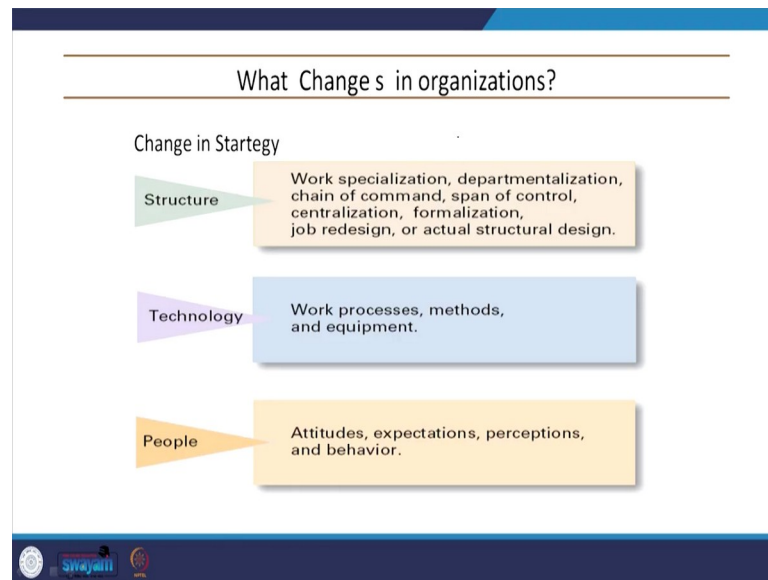
Similarly, Infosys was initiated or started up by Narayan Murthy. So, the value system of Narayan Murthy has influenced the organizations culture. So, there is a need to explore how the organizations stories influence the organizational paradigm. Symbols, the building and the warehouses, the artifacts, the awards of excellence they all influence the behavior and the performance of organization or the sub system of an organization.

Rituals and routines, every organization has some kind of routine practices or rituals which they cherish and which also influences the organizations performance. Organization system, controls IT, control more operations, error measurement, quality all these aspects are very important as a part and parcel of organizations system.

Organization structure. What is a structure? Hierarchy, authority, basis of power, teamwork and incentive or profit based pay, responsibilities how the responsibilities are being delegated, how they are carried forward.

So, all these aspects are also part of an organizations complex system, power structure, long serving managers and workforce then positions based on expertise, then paternalistic culture style of management all and cooperative style of management, authoritarian and authoritative styles of management all these are how the power structure is being practiced in the organization.

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So, that means, why did we discuss about the organization and its complex reality which we wanted to discuss about when there is a change in the organization it influences not only the strategy structure and technology, but it influences various aspects of the organization, be it the formal system or informal subsystem of an organization. So, what changes in organizations strategy, structure, technology and people we will discuss in details.

Change in strategy, suppose there is a change in strategy, so how does it influence the structure, technology and people. Work specialization, departmentalization, chain of command and span of control, centralization, formalization the job redesign or actual structural design will be influenced if there is a change in strategy.

Let us take an example, say suppose an organization is working there is a set standard or organization has say suppose, an organization has changed its strategy from cost minimization to say innovation. So, earlier the cost minimization, with the cost minimization strategy the structure would have been more mechanistic and technology would be routine technology and the people would have also developed themselves according to or in synchronization with the strategy.

But, later on when there is a change in strategy, so the structure changes, technology changes, structure would be more organic type of structure with more flexibility, more

empowerment and technology would be advance technology and it would be a supporting the innovation in culture and people would also develop accordingly.

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Areas of Organizational Change		
Organization Structure and Design	Technology and Operations	People
Job design	Information technology	Abilities and skills
Departmentalization	Equipment	Performance
Reporting relationships	Work processes	Perceptions
Authority distribution	Work sequences	Expectations
Coordination mechanisms	Control systems	Attitudes
Line-staff structure	Enterprise resource planning	Values
Overall design		
Culture		
Human resource management		

So, areas of organizational change. Let us discuss about organizational structure, design and technology and operations and people in more detail, how they are, what areas are influenced or how it changes. So, taking the first one that is organizational structure and design, the job design or nature of job changes. The departmentalization is also influenced, reporting relationship as I told you if an organization changes a strategy from cost minimization to innovation.

So, there would be an impact on nature of job design, departmentalization, reporting relationship, authority distribution should there be centralization or decentralization. Coordination mechanism, so what should be coordinating mechanism, who should be coordinating with whom, line staff structure. How many employees would be or line in the main administration or how many would be in the staff rule, overall design, culture and human resource management.

Then in technology and operation, information technology, equipment, work processes, work sequencing, control systems, enterprise resource planning. So, there would be a change in all these areas of technology and operations and finally, what would be the attitude and skill of ability and skill of employees should they need any kind of developmental measures or not.

What is the effect of change on performance of employees, their perception, their expectation, attitude and values? Targets of change, especially human resources typical kind of change effort directed at human resource include investment in training and development. As the employee performing efficiently in the previous state of affairs with the change in technology would not be able to perform to his fullest capacity because of lack of training and development.

Socializing employees into the organizational culture if there is a change in culture. Say suppose, HP and Compaq have merged together to form a new organization. So, the employees of HP and the Compaq, they were groomed in two different environment, two different culture. So, when there is a merged organization, so employee socialization is very important or orientation of each other's culture, knowing about each other's culture, respecting each other's culture is equally important.

So, socializing employees into organizational culture also includes an important kind of change, typical kind of change effort.

Change changing organizational norms and values to motivate a multicultural and diverse workforce, as all of us know that the nature of workforce is changing and challenging. The major challenge towards organizations is there is a shift from the traditional organizations to a modern organization, which is more vibrant where there is advocacy for or concern for multicultural work force, globalized workforce.

So, multicultural globalized workforce will have differences in employees. There is more diversity in the workforce with respect to their age, their race, religion, culture and so obviously, there would be more conflict. There is a need for changing organizational norms and values to motivate and multicultural workforce to work efficiently without any differences, without interpersonal or individual differences.

Promotion and reward system should also be designed accordingly, changing the composition of the top management team. So, these are the changes, which is required at the human resource management level. Then in the functional resources how change is influenced.

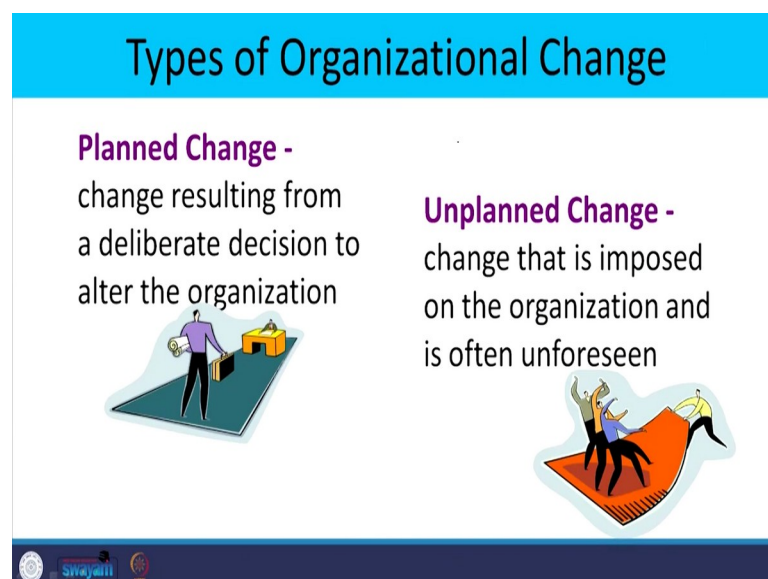
Change effort directed at functional resources by transferring resources to the functions where the most value can be created in response to environmental change. Organization can improve the value that its functions create by changing structure, culture, technology.

So, functional resources basically emphasize on changing structure, nature of the structure, if the organization is having a tall hierarchical structure, it would be with a change it would become a flatter structure or a matrix type of structure or a project type of structure, based on what is most comfortable in a situation or mostly aligned to a particular strategy.

Culture, as discussed earlier, culture also would require change, say if the organization has a clan culture they would move towards a different type of culture. If there is an authoritative culture. So, there is a participative culture. So, there would be a shift from one nature to another type or one type to another type of culture. Similarly, technology also changes and how to improve the technological capabilities.

Change efforts directed at technological capabilities are intended to give an organization the capacity to change itself in order to exploit market opportunities. So, technological capacities also become a core competence for an organization. Change efforts directed at organizational capabilities alter educational alter organizational culture and structure, thereby permitting the organization to harness its human and functional resources to exploit technological opportunities.

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Next, we will discuss about types of organizational change. So, broadly there are either the change effort can be planned or it appears to be unplanned. So, what is planning for change or what is planned change? If an organization intends to shift from one state to another state of affairs. So, there can be a planning required for change or sometimes the disruptions or change happens which is unplanned, unplanned in nature which happens by chance.

So, planned change is change resulting from a deliberate decision to alter the organization. Like if an organization is earning a say intends to earn more profit.

So, it will expand to different geographical territory it will say an organization like State Bank of India has merged with associate banks of State Bank of India. So, it is a kind of a change which is planned well in advance. The merger in the banking sector, the large mergers in the banking sector which has happened with a proper planning.

Unplanned change, when an organization encounter some kinds of some situations of crisis like discussed in the part II of change management or introduction to change because of issues like internal or external factors. Sometimes because of disruptions in or because of global crisis, because of economic factors, because of political factors there would be some disruptions or sometimes because the organization is in the life cycle stages of an organization.

The growing stage or the maturity stage or in the decline stage or in the initial stages there are several challenges which an organization encounters, the challenges of like being new in the market. So, they have to make some changes or they face some kind of crisis suddenly.

So, unplanned change is basically, change that is imposed on the organization and it is often unforeseen. Managers must be prepared to handle both types of changes. What is planned change? Planned change making change means making things different, planned change is an activity that are proactive and purposeful.

An intentional goal directed activity, goal-oriented activity, goals of planned change is improving the ability of organization to adapt the changes in its environment changing employer behaviors.

Then we will discuss about the broad categories of organizational change they are called revolutionary and evolutionary changes. Evolutionary change is gradual, incremental and narrowly focused. Revolutionary means a drastic change, a sudden change or you can say radical change, radical transformation. So, change that is sudden, drastic and broadly focused is called a radical or transformational change.

So, change can also be categorized into further categories or further sub categories based on a parameter, based on a 2 cross 2 matrix on the one hand on the X axis we can see the orders of change that is 1st order, 2nd order is incremental and transformational nature of change or nature of change on the X axis.

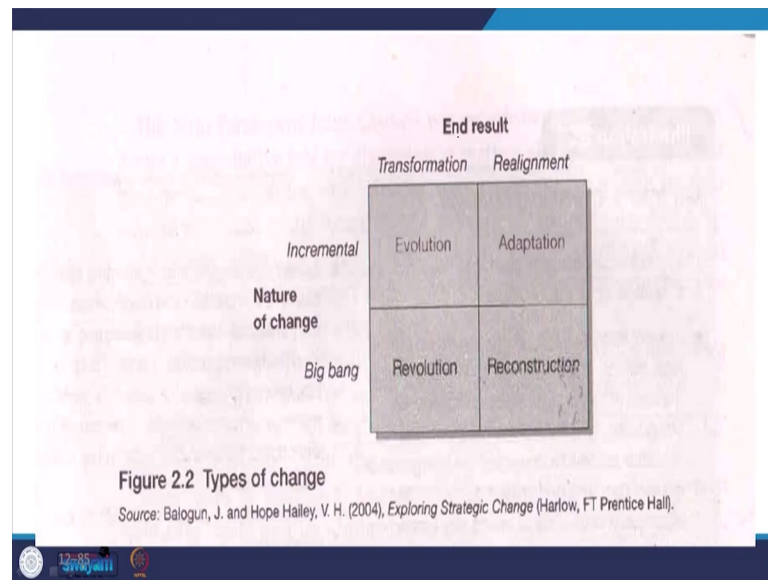
And then reactions to change on the Y axis, if you look at the reactions to change either it is proactive or reactive change and the X axis you can see the continuous change or incremental change and transformational or radical change. So, based on that there are four quadrants which describe, the first quadrant where the change is continuous or incremental in nature.

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Type of Change (NADLER AND TUSHMAN MODEL)		
	INCREMENTAL /CONTINUOUS (1 <sup>ST</sup> ORDER CHANGE)	TRANSFORMATIONAL/ RADICAL (2 <sup>ND</sup> ORDER CHANGE)
ANTICIPATION (PROACTIVE)	<i>Fine tuning</i>	<i>Frame Bending</i>
REACTION	<i>Adaption</i>	<i>Frame breaking</i>

And it is a reactionary measure is called adaptation, and incremental and proactive in nature is called fine tuning and where there is an incremental transformational change and it is a proactive initiative called frame bending and the last category where the change is radical or transformational, but it's a reactionary or as a reaction to the change. So, that is called frame breaking.

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So, I will discuss it otherwise as the on X axis you can plot end result or results of change and on the y axis if you plot the nature of change. The nature of change as incremental and big bang is otherwise radical change. So, you can come across again a 2 cross 2 matrix with 4 quadrants dominantly which is otherwise called revolution, evolution, adaptation and reconstruction which is nothing, but very similar to fine tuning, adaption, frame breaking and frame bending.

I will give you one example of what is fine tuning. When the banks started there was a lot of competition in the banking sector. So, as a result or as a catch-up response to the competitiveness the bank started adapting new technology. Bank started first the modernization of banks with automation was initiated. Further the banking, they started doing transactions with using internet and further then there is the new banking solutions have been adapted.

ATMs and all these are in additions to the catch-up response to competitiveness or they started fine tuning their operations. Then as a reactionary measure, when the first bank launched came up with the with new ideas, with new technology the centralized banking solutions the core banking solutions.

So, other banks also started coming up with this idea and they also started adapting, so that is called adaptation whereas, the third point that I would like to highlight is the frame bending and frame breaking.

Frame bending is again a proactive measure adapted when the organizations sense make the change. When there is much ahead of any kind of change which will happen or much ahead of you know anything that is going to happen in the organization or the crisis which may emerge in future.

So, some organizations are very proactive the sense make what is the demand, how the demand is going to change in the environment and so they plan accordingly. So, that is called frame bending and there is a kind of complete shift in strategy, the complete shift in the business model.

Like I would like to site one example of how the Star Bucks, which was earlier the importer of coffee beans and they were doing very well in the coffee beans business and by importing coffee best quality of coffee, coffee beans. But, when the competition started moving when this segment was getting more mature, so Star Bucks could not just stop itself by adapting the same business model of importing coffee beans, but they have to go for coffee retail segment.

So, the Star Bucks that we see today in India, is not just only the one company, but it's a strategic alliance between Star Bucks and Tatas. So, through this example I wanted to say that a company will not stop functioning, it will continue to operate, continue to keep perform. So, they have to be very proactive much in advance they have to develop some strategy. So, that their continuity is maintained.

And then next we come to the next point that is frame breaking. When the organization or when the damage is already done. So, the organization has nothing to do, but they have to save phase. So, many organizations like Sathyam, which has transformed or which would fall under the category of frame breaking where it is a reactionary measure to major change or transformational change.

So, why these two categories are called transformational because the entire business model changed. So however, this says that though the company is in the same there is a complete shift in the business model. So, this is an example of reactionary measure to the damage or the crisis which has occurred. So, conclusively I would like to state that there are four types of change one is fine tuning, adaptation, frame breaking and frame bending.

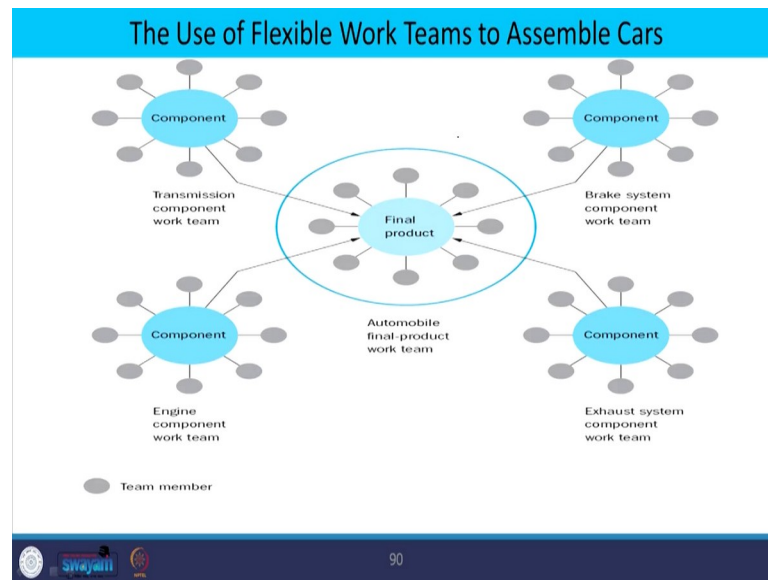
Moving on to the next topic development in evolutionary change, social technical systems theory- a theory that proposes the importance of changing role and task or technical relationship to increase organizational effectiveness. Managers must quit or jointly optimize the working of an organizations technical and social systems or culture to promote effectiveness.

Managers need to make change in the technical system slowly to allow group norms and cohesiveness are not disrupted. Socio technical system and total quality management is also another type of ongoing and constant effort by all of an organization function to find new ways to improve the quality of organizations goods and services.

Quality circle, groups of workers who meet regularly to discuss the way work is performed in order to find new ways to increase performance. Changing cross functional relationship is very important to total quality management. Flexible workers, employees who have acquired and developed the skills to perform any of the tasks necessary for assembling a range of finished goods. Compensation frequently tied to the number of different tasks what a person can perform workers can substitute for another.

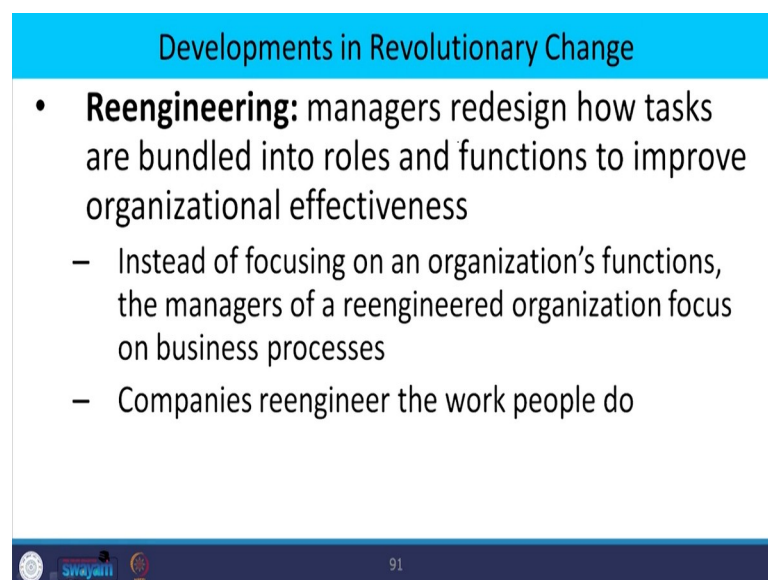
Flexible working teams, work teams, a group of workers who assume responsibility for performing all the operations necessary for completing a specified stage in manufacturing process. Team members jointly assigned tasks and transfer works from one task to another. Manager's role to facilitate the teams' activities and use of flexible teams to assemble car.

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So, flexible teams basically are used in assembly of cars, there is a component manufacturer or say transmission component work team, engine component work team, exhaust system component work team, brake systems component work team and automobile final product work team. So, an automobile sector, there is a continuous or flexible working team which keeps on working and performing to assemble cars.

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And development of revolutionary changed, what are the development? Reengineering, managers redesign how tasks are bundled into roles and functions to improve

organizational effectiveness. Instead of focusing on organizational functions, the managers of a reengineered organization focus on the business processes the various business processes like we discussed in case of assembly of car.

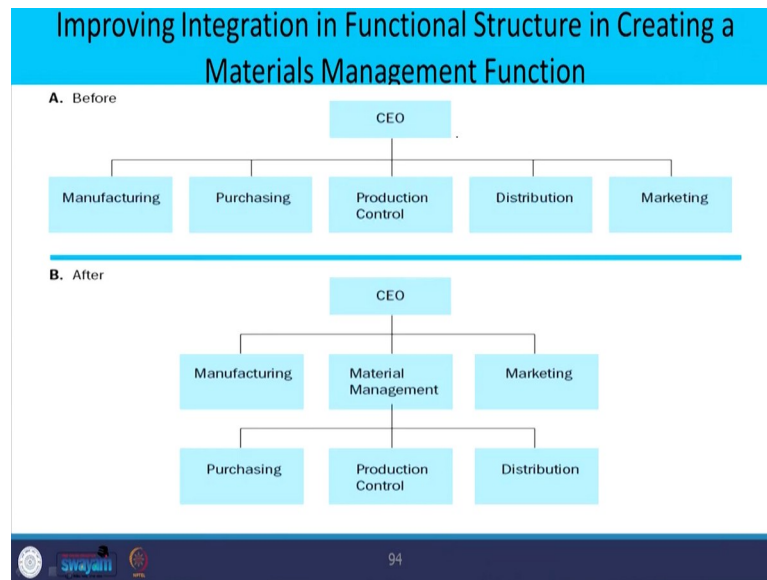
A transmission component work team is different, so there is a complete business process working there, the brake systems equipment work team or brake systems component work team is a different team. So, to look after functioning of each business process is very important.

Companies reengineer the work people do. What is a business process? Any activity that cuts across functional boundaries it is a cross functional team basically with members from different functional disciplines and also the horizontal differences are members from different functional areas, from different vertical positions which is vital to the quick delivery of goods and services or that promotes quality or low cost.

This forces managers to no longer focus on functions in isolation. What is reengineering? Deliberately ignoring the existing arrangements of tasks, roles and work activities. Guidelines for performing reengineering successfully include organize around outcomes not tasks. So, it is most result oriented and those who have the output of the process, perform the process. Decentralized decision making to the point where decision is being made.

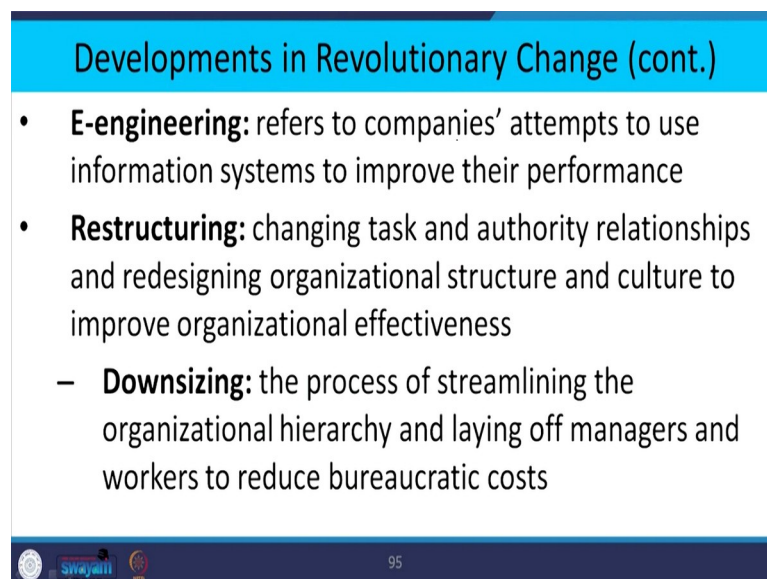
So, improving integration a in functional structure in creating a materials management function. So, the CEO of the company before if say in the first phase if you see the CEO is taking care of the manufacturing, purchasing, production control, distribution and marketing.

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But, in the phase two or after the transformation we can see that the CEO is taking care of manufacturing, materials management and marketing. And the materials manager is taking care of purchasing, production roles, production control and distribution.

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So, there is a kind of you know reengineering improving integration of functional structure to create an effective organization. Development in revolutionary change, e-engineering refers to companies, attempts to use information system to improve their



performance. Restructuring changing task and authority relationship and redesigning organizational structure and culture to improve organizational effectiveness.

What is downsizing? The process of streamlining the organizational hierarchy and laying off managers and workers to reduce bureaucratic cost. Innovation, the process by which organizations use their skills and resource to create a new technology, develop new goods and services, better respond to the needs of their customers. One of the most difficult instruments to change, to manage. So, cultivating innovation at IKEA.

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**Cultivating Innovation at IKEA**  
*"Designing beautiful-but-expensive products is easy. Designing beautiful products that are inexpensive and functional is a huge challenge."*  
—IKEA Executive



IKEA is known for its innovative approach to retailing and its ability to implement change efficiently and effectively.


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And designing beautiful but expensive product is very easy. Designing beautiful products that are inexpensive and functional is a challenge. So, this is said by IKEA executive. IKEA is known as a innovative approach to retailing and its ability to implement change efficiently and effectively.

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### Organizational Change at Home Depot

Home Depot CEO Robert Nardelli (left in photo) has dramatically changed the big box retailer's culture by introducing systems that reinforce the new values.



The slide features a title 'Organizational Change at Home Depot' at the top. Below the title, on the left, is a text block stating that Home Depot CEO Robert Nardelli has changed the company's culture. To the right of the text is a photograph of Robert Nardelli, a man in a dark suit and purple tie, standing next to a woman in a red Home Depot apron. They are in a retail environment. At the bottom of the slide, there are logos for Swajathi and other institutions.

Organizational change has also been discussed at various organizations. Like Home Depot CEO Robert Nardelli has dramatically changed the big box retailer's culture by reintroducing systems that reinforce the new values.

So, in this chapter what we have discussed is that there are various forces of change and those forces of change influence the human resources, strategy, structure and technology. So, it is advisable for organization to adapt each of these forces to learn from these forces and adapt to change.

So, an organization can efficiently and effectively carry forward or can move forward effectively only if it can sense make what is going to happen and what are the forces working in the environment, external and internal and how to manage those forces by changing its strategy, changing technology, changing processes business processes.

Then we also discussed about the types of change that is evolutionary and revolutionary changes otherwise called continuous and radical or transformational change. With this we have discussed at length about sub concepts like reengineering, innovation. Then we also discussed about total quality management, business processes and what is the effect of a flexible work team and flexible workers, total quality management, socio technical systems theory etc. So, with this I conclude this session here.

Thank you.