Managing organizational change
Part two **Choosing a strategy for change**

This article is the second in a series dealing with the issue of managing change in organizations. Each article deals with a specific problem and proposes measures or approaches for dealing with it. The first article dealt with the turbulence that organizations have been facing for some time; this second article addresses the choice of a strategy for change among those available to management.

One of the challenges for managers having to introduce change in their organization is to determine the strategy that will produce the best results. Let us consider the following example:

Nature Shop is a regional chain of food stores which has difficult choices to make. Although it has been firmly established for a number of years and has acquired a reputation for the quality of its products and services, Nature Shop has experienced significant financial losses over the last three quarters. This situation can be ascribed to two factors: the arrival of a new competitor in the company's environment, and an unanticipated and rapid deterioration of the regional economy. Although the company's survival is not at stake at this stage, the shareholders and management are worried because it is a new phenomenon in the company's history and there seems to be good reason to believe that the problem is there to stay.

The company's management sought the advice of three different experts about steps that could be taken to react to the situation and received three proposals:

- one would be to launch an aggressive marketing operation to regain and secure the company's market share;
- another involves the introduction of a thorough, computerised, cost control system;
- the third, even more radical, consists in entering into a strategic alliance with a national network.

Faced with such diverging options, Nature's management is wondering on what basis it can select the most appropriate strategy.

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This situation has become commonplace among organizations and illustrates the often excruciating dilemmas with which managers are regularly confronted, that is, the necessity to react quickly and choose among diverging and often conflicting strategies in order to adapt to a significant deterioration in external circumstances. Observations over the last few years further suggest that the implementation of an inadequate strategy may be even more threatening to an organization's health and can rapidly jeopardize its chances of survival, even in the case of firmly established companies – the margin for error is now extremely narrow.

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No absolute cure

Let us use a medical analogy: in medicine, a successful therapy is not only a well administered therapy (*dosage*), it is also and especially a therapy that is suited to the illness (*prescription*). A bad prescription may not only contribute to maintaining the illness, but in many cases will make it even worse and jeopardize the patient's condition. Similarly, to succeed with organizational change, one must first determine the kind of treatment required and then ensure that the chosen alternative meets the requirements of the situation.

Literature and seminars on organizational change usually place the emphasis on how to initiate or manage change, but tend to overlook the need to assess the relevance of change in a given context. In addition, one often ends up faced with dogmatic approaches that give rise to endless debate[1]. Some advocate radical approaches, others step-by-step approaches; everybody has his own views and there are no clear criteria for making a real choice.

The two factors that determine strategy

How, then, does one determine the most suitable strategy in each situation? In our opinion, one should first analyse the adequacy of the organization's resources in relation to prevailing conditions. Our observations in the field have indeed shown us that the state of an organization results from a chemistry involving two ingredients:

1) A recent article in the *Harvard Business Review* ("Change Is Changing"; April 2001) reporting the views upheld by the tenets of the various strategies bears out this phenomenon.

Table 1 – Organizational situations

		External business conditions				
		Very favourable	Somewhat favourable	Ambiguous	Somewhat unfavourable	Very unfavourable
Organizational resources	Fully adequate	Situation of excellence	Balanced situation			
	Rather adequate	Balanced situation	Balanced situation	Vulnerable situation		
	Just adequate		Vulnerable situation	Vulnerable situation	Situation of inertia/tension	
	Barely adequate			Situation of inertia/tension	Situation of inertia/tension	Crisis situation
	Not adequate				Crisis situation	Crisis situation

Table 2 – Dynamics characterizing each organizational situation

Variables	Situation of excellence	Balanced situation	Vulnerable situation	Situation of inertia/tension	Crisis situation
Productivity	Exceptional	Towards upper standard	Towards lower standard	Below lower standard	Very low
Cost-effectiveness	Exceptional	Towards upper standard	Towards lower standard	Nil	Negative
Market coverage	Extensively covered	Largely covered	Moderately covered	Poorly covered	Marginally covered
Reactions to environment	Continued adjustment	Periodical adjustment	Occasional adjustment	Minimal adjustment	Refusal to adjust
Internal relations	Proactive cooperation	Cooperation on request	Cooperation difficult	Uncooperativeness	Antagonism
State of technology[1]	Innovative	Adequate	Acceptable	Outdated	Obsolete
Prevailing concerns	Customers, products, services	Products first, then process[2]	Processes first, then products	Processes	Conflict
Problem solving	Creativity	Case by case solutions	Partial solutions	Deadlocks	Deadlocks and conflict
State of motivation	Enthusiasm	Motivated concertation	Passivity	Demotivation	Recrimination
Attitude towards management	Partnership	Point-to-point cooperation	Wait and see	Mistrust	Antagonism
Prevailing trend within the company[3]					
Strategy of change to be prefered	Lookout	Growth	Optimization	Re-invention	Contraction Exiting

1 Tools, equipment, processes.
2 The various formal and informal aspects of internal operation and relations.
3 This line is left blank to allow the user to enter the result of his analysis of his own enterprise or service. It is therefore a self-evaluation tool.

The closer one comes to excellence, the more one should rely on gradual adjustment strategies based on continuity

– the *external conditions* to which the organization is exposed (economy, competition, regulations, media, public opinion, financial markets, etc);

– the *quality of the resources* available to the organization to respond and adapt to the fluctuations in those external conditions (capital, R & D, expertise, technology, in-house culture, leadership quality, etc.).

For the managers of Nature Shop, this means that to set an appropriate strategy, they must first define the new requirements of their environment and then see to what extent the company's resources meet those requirements or not.

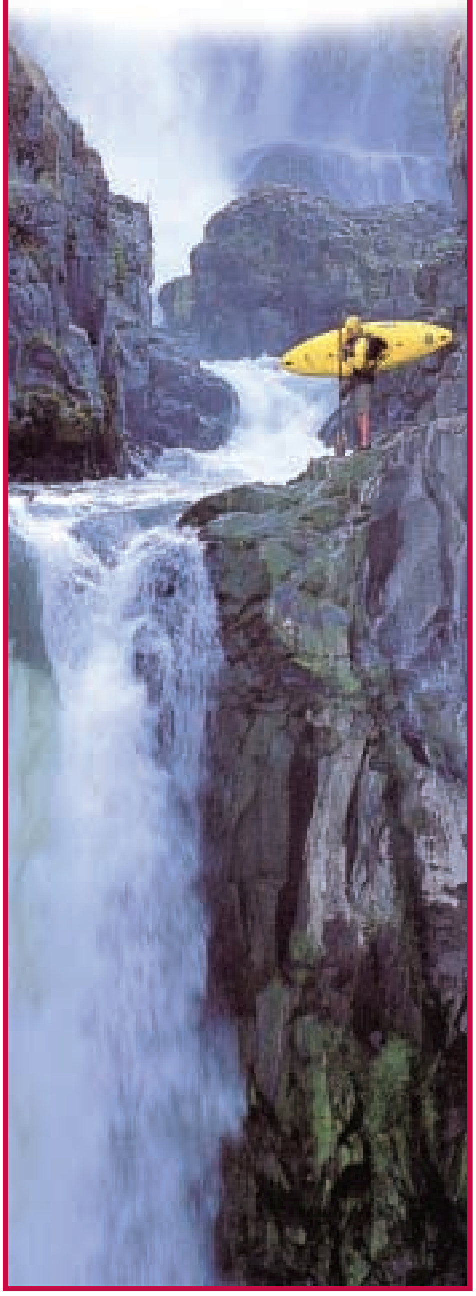
Table 1 shows the relationships between these two variables and the five resulting organizational states or situations.

This matrix assumes that the state of an organization changes under the combined effect of changes in external circumstances and the effectiveness of steps taken by the company's management. In theory, all combinations in the matrix are possible. However, it can be seen that when the state of an organization begins to deteriorate or to improve along one axis, its condition along the other axis tends to deteriorate or improve proportionally through a ripple effect, so that in practice organizations are usually distributed around the typical states lying on the diagonal axis.

Each one of these organizational situations is governed by its own dynamics, which can usually be identified using the indicators of Table 2. The value of this table is that it provides us with some indicators that enable us to identify a company's situation. Of course, the importance of the proposed variables changes from one company to another and they must usually be weighted in order to get a true picture.

In keeping with its own dynamics, each one of these situations will require a different approach to change. Generally speaking:

One should first analyse the adequacy of the organization's resources in relation to prevailing conditions



- the closer one comes to excellence, the more one should rely on gradual adjustment strategies based on continuity[2)];
- the closer one comes to a crisis situation, the more one should rely on radical strategies based on discontinuity[3)].

Choosing a strategy based on discontinuity when in a state of excellence or balance would unnecessarily jeopardize the organization's health; and conversely, a strategy of continuity in state of inertia/tension or crisis would have the effect of prolonging the illness or even making it worse. In other words, the value of a strategy can be appreciated only in relation to the organization's specific context and not in absolute terms.

In the case of Nature Shop, careful analysis would enable its management to position the company in the area representative of its state and then decide on the relevant strategy. For instance, if the environment is considered rather favourable to the company and its resources seem adequate for reacting to it, the company would be in a state of balance and a developmental strategy would be appropriate; however, from the small number of clues we have about the company's situation, we can already conclude that this is not the case.

Several elements tend on the contrary to suggest that the environment is, to say the least, ambiguous, and that the company's resources are only barely adequate, so that it finds itself in a state of "vulnerability", and perhaps even of "inertia". The company will therefore have to consider a strategy of re-invention that will involve breaking away from the company's traditions.

2) Strategies that aim to improve or optimize practices; in other words, strategies which consists in doing more, in doing less or in doing better that which *one is already doing.*

3) Strategies dealing with the orientations and operating modes of an organization, and which usually lead to a change in the dominant logic (change of paradigm): realignment of markets, complete review of the organizational structure, strategic alliance, etc..

Situations and strategies

State of excellence

In a situation of excellence, a company has been able not only to adapt in an outstanding way to its market conditions, but also to develop internal practices that clearly set it aside from other similar organizations. The company is therefore both highly efficient in its market approach, and successful in getting its practices to evolve on a continuous basis.

Lookout strategy

Under these circumstances, the most suitable strategy is to keep on the lookout. It consists in carefully monitoring signals from the environment as well as internal signals in order to detect any significant fluctuations.

In response to these signals, management makes adjustments aimed at protecting the company's position and featuring a positive relationship between "supply and demand".

Such a strategy assumes that "environmental scanning" mechanisms are in place to monitor closely the emergence of new phenomena (whether internal or external) likely to affect the company's position. Follow-up mechanisms should also be put in place.

In the case of Nature Shop, a lookout strategy could involve the introduction of a thorough system for monitoring prices and costs, a series of measures for strengthening existing customer loyalty (membership card with privileges), and a task force on continuous improvement of company practices.

State of balance

In a state of balance, the company has achieved a position that is suited to the pressures of its environment. It is relatively effective in providing services or producing goods that are appreciated, and uses its resources quite well.

However, there is room for improvement and unless this is done, it will be leaving itself open to problems if its environment shifts or if a deterioration occurs in the performance of its resources.

Development strategy

To maintain its position, the company must continue to develop its response capacity.

To do that, on the basis of the changes it perceives or anticipates in its environment, it can extend its range of products and services, or replace existing products and services by new ones, or try to widen its market, for instance by extending its production and distribution networks.

Such a context is particularly favourable for joint action and alliances.

The closer one comes to a crisis situation, the more one should rely on radical strategies based on discontinuity

In the case of Nature Shop, for instance, if it were to identify an unexploited potential in the fruit and vegetables area, one development strategy could be to developed a strategic alliance with a complementary organization (a market gardening company), in order to broaden the range of its fresh products. Or, the company could acquire new expertise in the management and development of market produce and do some experimenting.

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State of vulnerability

The company is still able to control its evoluti on, but is experiencing efficiency problems.

The nature of its products remains relatively well suited to the specific market conditions, but its production and/or operating methods consume too many resources, with the effect of reducing its performance and cost effectiveness.

In addition, its ability to respond and innovate is rather weak, so that if rapid deterioration were to occur in its environment, it could easily be overwhelmed. It is frequent in such companies to see a major share of available energy being devoted to internal operation, while the products and services that the company should be providing are neglected.

Optimization strategy

The company is losing its grip on its ability to develop and must urgently initiate optimization efforts to improve its responsiveness and recover a position more relevant to its context.

The optimization strategy consists in revising the practices, the use of resources and the various systems applied in order to take corrective action: cost control, staff cuts, process simplification, improvement in work organization, upgrading of technology, revision of marketing strategy, etc.

In other words, this is an approach where one endeavours to do more of what one is already doing and to do it better. To a large extent, one acts on the cost-related variables, while in the development strategy, one acts on the revenue-related variables.

For example, in the case of Nature Shop, an optimization strategy might involve among other things the introduction of a standing cost control system for each family of products, in association with an internal programme to raise awareness about leakage. It could also involve a reorganization of working methods to reduce labour costs.

State of inertia/tension

As in the previous situation, the inertia/tension state also involves financial problems, except that this time they can be ascribed to the obsolescence of the company's products and services, or to the archaic nature of its practices or organization. In other words, it is a definition of the company as such that is called into question because one is now facing a gap between the market's specific features and the company's responses.

In such situations, one often sees two clans confronting and neutralizing each other: those who favour solutions that lie within the company's traditions and those who would welcome new solutions.

Re-invention strategy

In a situation of inertia/tension, even though the company has plenty of reasons to believe that the disruption is not just temporary, it has no other choice than to entirely redefine its relationship with the market (renewal of its range of products and services, repositioning in the market, etc.), as well as its internal practices (re-engineering of its production system, work organization, decision-making mechanisms, technology, etc.).

Such a strategy is often qualified as revolutionary, and quite rightly so because it brings about an in-depth and disruptive change in the model that has prevailed so far within the company.

In effect, it is a strategy where one no longer attempts to do better but *to do something else, differently*.

In the case of Nature Shop, a re-invention strategy may consist in breaking down the organization according to its various markets in order to reduce financial risks and foster closer response to local conditions; the Nature Shop could then become a holding of relatively autonomous and decentralized companies.

The application of an inadequate strategy may be even more threatening to an organization's health

Crisis situation

Two conditions are usually required to diagnose a true "crisis situation":

- the company's survival is at stake, and
- there are no more internal alternatives.

As a consequence, the company finds itself in a state of very great weakness and is generally subject to external pressures it can no longer avoid, such as an ultimatum from financial institutions. This state of affairs often goes with a state of considerable internal turmoil, without it being possible to motivate

Contraction and exiting strategies

Since turnaround measures have run out and have failed to put the situation right, only two strategies remain.

The first, *contraction*, consists essentially in restricting production to proven and cost-effective products and services. This strategy draws on the hypothesis that some segments of the company remain relevant to the market and that it is possible to gradually recover market share by concentrating on those areas alone. Other areas of activity are abandoned.

people around creative and effective solutions.

The second strategy, *exiting*, consists in winding up the company, either by selling off its assets, or by placing it under the control of another company, for instance by signing an exclusive subcontracting agreement. In both cases, this involves major surgery which invariably results in radical change and often in significant losses for the shareholders as well as for management and staff.

In the case of our Nature Shop, a contraction strategy might involve concentrating on the distribution of a limited range of products of guaranteed profitability and withdrawing to a large extent from other areas. It goes without saying that the size of the company would shrink proportionally.

An exiting strategy might involve allowing the company to be bought up by a larger competitor.

Choosing the right strategy

The choice of a strategy invariably involves a close and lucid review of the interface between market conditions and the internal features of the company, and it is the result of equating these two parameters that leads to a suitable and effective prescription.

With the help of these principles, we can now turn back to the three proposals that were put to the management of Nature Shop. We can see that the first scenario, involving a more aggressive marketing approach, draws on the developmental logic, that the second scenario, involving cost control, is closer to an optimization strategy, and that the third, which proposes an alliance with another company, equates with a re-invention strategy.

On the basis of the information available, there is reason to fear that the first two scenarios do not address the real stakes and consequently cannot correct the company's problems. Indeed, if the new trends were to endure, the company would most likely have to apply a more radical strategy than development and optimization.

We have often noted that managers tend spontaneously to favour development or optimization strategies because these have the advantage of preserving tradition, reducing apparent risks and thereby mitigating the effects of disruption. In relation to organizations, however, continuity may pose a significant threat to the viability of the company should prevailing conditions undergo deep and durable change. This is the danger that lurks ahead for the managers of Nature Shop.

Bibliography

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