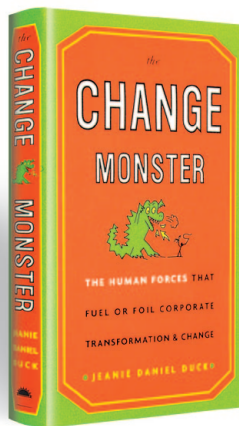


SOUNDVIEW Executive Book Summaries®



By Jeanie Daniel Duck

The Human Forces that Fuel or Foil Corporate Transformation and Change

THE CHANGE MONSTER

THE SUMMARY IN BRIEF

Most mergers and acquisitions fail to deliver their promised value. Even many internal restructuring projects often succeed only so far before employees and managers backslide into the old, less productive status quo. Why?

Despite careful management of the operational aspects of corporate change, many managers and executives ignore the human element — how changing a job description or corporate environment makes people feel. Because, ultimately, employees are the backbone of any company, aligning corporate change initiatives with your employees' inner workings — their emotions and reactions — as well as the necessary operational adjustments, can boost the success rate of any restructuring or merger.

In this summary, Boston Consulting Group Senior Vice President Jeanie Daniel Duck introduces a five-stage framework — called the “change curve” — for understanding and managing the human element of the change process.

The change curve consists of the following stages:

I. Stagnation: The organization is either depressed or hyperactive.

II. Preparation: Leaders engage in planning and communication.

III. Implementation: The initiative is expanded to involve more people in multiple layers.

IV. Determination: This is a period in the process that consists of conflicts, clashes, failures and minor successes.

V. Fruition: The results are realized.

With the help of two case studies — an actual case involving the Micro Switch division of Honeywell Systems and a fictional case (based on actual companies) involving the merger of two pharmaceutical companies — Duck leads us through the change process stage by stage.

Any major transformation of your company will awaken the “change monster” — the emotions and fears of those faced with radical change. As a leader, your job is to tame this monster.

This summary will show you how.



CONTENTS

The Change Curve — A Map to Find Your Way

Page 2

Three Essentials Of Change Management

Page 2

The Dimensions of Change

Page 2

Stage 1: Stagnation

Pages 3, 4

Stage 2: Preparation

Pages 4, 5, 6

Never Assume Employee Concerns Can Be Addressed Later

Page 5

Stage 3: Implementation

Pages 6, 7

Stage 4: Determination

Pages 7, 8

Stage 5: Fruition

Page 8

THE CHANGE MONSTER

by Jeanie Daniel Duck

— THE COMPLETE SUMMARY

The Change Curve — A Map To Find Your Way

“I don’t like doing something different, unless I already know how to do it,” might sum up how most people feel about change. Any change is stressful. Stress is a stimulus and one that can stimulate in either a positive or negative way. Studies have shown that in workplace situations, stress most commonly occurs:

- When high demands are placed on employees
- When employees’ actions are being carefully watched
- When employees are concerned about their competence

In any merger or restructuring, all three of these stressors come into play, producing an even more negative stressful reaction among employees. Leaders of change initiatives and major change programs must address these concerns.

Five Stages

Organizational — as well as individual and personal — change is a process that proceeds over time and has been shown to have distinct observable stages or phases. By identifying and describing these stages, managers can more easily spot the problem areas ahead of

Three Essentials Of Change Management

Strategy: A passionate belief in where you’re going. Communicating and translating your strategy into action is as important as the strength and depth of your belief in it.

Execution: Good, basic management. This element is even more critical when a company is undergoing a change.

Sensitivity to emotional and behavioral issues: Recognizing and addressing the emotional and behavioral issues involved in change.

This summary focuses on this third essential element of change.

The Dimensions of Change

Some changes can be relatively simple, like installing a new computer system. Generally, there are eight areas addressed in any corporate change initiative:

- ✓ Strategy
- ✓ Business model
- ✓ Key processes and IT systems
- ✓ Organizational structure
- ✓ Roles and responsibilities
- ✓ Compensation
- ✓ Locations of operation and facilities
- ✓ Size and capability of work force

The more areas that need to be addressed and the more people involved, the more complex a change initiative becomes, and the longer it will take to accomplish.

time or identify where they are in the overall process.

The “change curve” is a five-stage framework that describes the typical process of change. The five stages of the change curve are **stagnation, preparation, implementation, determination** and **fruition**. Different parts of the organization can be at different locations on the curve, and sometimes you may need to revisit earlier stages. But these are phases that have been seen again and again in numerous companies and cultures. As the company moves further along the change curve, it has been shown, employee morale and confidence rise. ■

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Stage 1: Stagnation

Stagnation, the first stage of the change curve, can be summed up in two words: demoralization and denial. A depressed or demoralized company exhibits the same symptoms as a depressed person: a general slowness, difficulty or inability to make decisions, and lack of motivation or energy.

A company can also exhibit stagnation at the other end of the spectrum by being hyperactive — engaged in frenzied activity but accomplishing very little. This type of atmosphere leaves employees feeling exhausted, abused and very (negatively) stressed.

In some cases, consultants have seen both symptoms exhibited in the same company. In a company experiencing this type of stagnation, there can be many change initiatives in progress, but none that reach

A depressed or demoralized company exhibits the same symptoms as a depressed person: a general slowness, difficulty or inability to make decisions, and lack of motivation or energy.

fruition. The danger is that management loses credibility and the work force builds up a resistance to any and all change initiatives.

Stagnation can be caused by poor

strategy, lack of leadership, a shift in the market, a lack of new products or services, too few resources (including employees), outdated technology and poor execution. Employees of a stagnating company often express feelings of being safe and secure in their jobs and having faith that their jobs, and the company, will continue forever.

One example of a company in stagnation is Mattel, which comes up with endless spin-offs for its Barbie product line, but has trouble creating anything new. Its acquisition of The Learning Company was an attempt to infuse new ideas and technology into the company, but this move did neither.

Diagnosing Stagnation

Constant vigilance against stagnation is required of all company leaders, most especially in the high-technology and dot-com sectors. Analysis of quantitative data, and external and internal qualitative (or emotional) data is necessary for correctly diagnosing stagnation within a company. You need to talk — and listen — to your customers, suppliers, service providers, distributors and industry experts.

For example, some questions to ask your customers include:

- Do you like doing business with us? Why or why not?

- Do you see our product or service as integral to the health of your business?
- Do we provide unique value or are our competitors as attractive as we are?
- How has your relationship with us changed over the years?
- What one thing could we improve that would make a difference to you?
- How would you describe our company to a colleague or friend?
- How would you compare us to your ideal?

Just as important is talking and listening to your employees, whether through structured surveys and focus groups, hallway meetings, presentations or even just spending a few of your lunch hours at the cafeteria. Use as much face-to-face time as possible with both customers and employees.

Overcoming Stagnation

Once you recognize and diagnose stagnation, the next *(continued on page 4)*

Micro Switch: First Steps

Make Micro Switch competitive for the 21st century. This was the challenge presented to Ray Alvarez, the new general manager of Honeywell Micro Switch — a company with 5,000 employees spread among 11 factories or offices in the United States, Mexico and Europe. Accomplishing this task would not be easy.

When he came on board, Alvarez found a company using outdated equipment and processes — the antiquated working conditions in the first factory he visited seemed to date from the 19th century. Not surprisingly, workers were demoralized. Willing to accept poor working conditions and little empowerment in exchange for the paycheck, Micro Switch had what Alvarez called “wage earners” (rather than employees) who saw no value in trying to do things differently. The company’s work force exhibited no energy or team spirit.

From the start, though, Alvarez was determined to collect soft data — the emotional considerations of the employees — as well as hard financial data. He visited every plant and immediately began forming a change management team. He found that he would need to address all eight areas of change: His company needed a new strategy, a refined business model, revamped processes, adoption of new technologies, entry into new markets, a new management team, new team-based work units, and the reshaping and retraining of its work force.

Pharmaceutical Merger: Denial

A long-standing European pharmaceutical firm, renowned for its research and sense of mission in serving humanity and science, was due to lose its best-selling patent; in addition, one of its drugs far along in the pipeline suddenly lost regulatory approval. While the firm's management was aware of these dangers, its scientists were not. When the announcement of a takeover bid from an American rival came, the company's scientists and researchers were stunned. For them, the acquisition was driven by the greediness of a profit-driven American interloper. The R&D function was in denial because management, by keeping the company's serious problems to itself, had not prepared its scientists and researchers for the possibility of a merger or acquisition.

Stage 1: Stagnation

(continued from page 3)

step is to develop and implement a strategy that will free your company from stagnation and bring it success.

Before you can implement a sound strategy, however, you have to attack the culture of the company — its beliefs, habits and attitudes — that is probably hindering its progress. Many companies have corporate cultures frozen in the past. How much is your corporate culture in sync with today's reality? You can find out by asking questions such as:

- **Where do we stand competitively?**
- **Where do we think we stand competitively?**
- **How does our culture compare to the current reality?**
- **What beliefs and behaviors drive our organization?**
- **What beliefs and behaviors do we need to change in order to compete effectively?**

The managers at Honeywell Micro Switch, for example, continued to think of their company as the leader in the electric switch market for years after most customers viewed electric switches as dinosaurs.

In another example, Merrill Lynch & Co. resisted the “do-it-yourself” investing of online trading until the company finally realized that online trading was the future — and the company had no choice but to become a major player.

To burst free of stagnation, you need to ask yourself: “What outdated beliefs and behaviors are prevalent in our organization that will prevent us from conceiving or executing a winning strategy?” ■

Stage 2: Preparation

During this stage of the change curve, many operational issues are addressed: a new structure for the organization is designed; new employee roles and responsibilities are defined; and management determines which products, services and capabilities will become critical in the future.

As with any preparatory phase, this stage is filled with anxiety about the future (“Will I be laid off after the merger?” “Will I be relocated to New Jersey?”). Expect emotions — yours and your employees' — to be on a roller coaster. Emotional responses seen during this phase include anxiousness, a feeling of being threatened, excitement, betrayal, annoyance and irritation, disbelief and cynicism. Employees become more distracted as changes start to occur, causing productivity to drop.

Three Main Tasks

Leaders of the change effort have three main tasks in the preparation phase:

- **Aligning and energizing the management team around the corporate strategy and vision.**
- **Articulating and detailing the vision and plan so it can be clearly understood and executed by others.**
- **Generating a healthy dissatisfaction with the status quo and a genuine appreciation for change within the entire work force.**

Aligning Top Managers

Leaders of any corporate change movement should begin the preparatory phase by holding one-on-one conversations and group discussions with top management team members. The process involves listening, sharing and refining. The goal is to develop group thinking about the change. This can't happen, however, if the leader isn't open to hearing criticism of his or her ideas.

For example, Ray Alvarez of Micro Switch knew one of his most important tasks at this phase was getting to know each of his three direct reports so that he could determine each person's value to the organization. Each had a different style and relationship with their employees. Alvarez needed to determine the depth of the three managers' knowledge of the industry, their willingness to collaborate with other members of the management team, and, if any of them were let go, their potential reaction to being fired (for example, would they take customers with them?).

It quickly became apparent that he was dealing with a collection of individuals, not a team. They didn't know what to expect or how to collaborate. There was much work to be done before this group was ready to lead a change initiative.

(continued on page 5)

Stage 2: Preparation

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Aligning Cultures

Aligning the cultures of your company can be as important as aligning your management team. While differences in national cultures are addressed in multinational mergers, the generational or attitudinal cultures within corporations themselves are often overlooked.

Overall, these differing internal cultures are much harder to bring into alignment than cross-national ones.

The goal is to develop group thinking about the change.

This can't happen, however, if the leader isn't open to hearing criticism of his or her ideas.

Plants at different locations, or business units defined by product category or business discipline (i.e., marketing, engineering), can have vastly different

approaches to their daily tasks and long-term goals and objectives. The ideal is to create one core set of values that unites and leverages these many subcultures, not to make every department or group a clone of the other.

Are Employees Ready for Change?

Once the company's leadership is unified behind the change initiative, you can broaden your focus from top managers to the entire work force. (In reality, there will be some overlap here: Your entire leadership team may not be aligned before you start focusing on the rest of the organization.)

It's important in this step to quantify and assess how your employees feel about the change. One technique that will help you do this is called the Ready, Willing and Able Assessment (RWA). The RWA survey can be customized to a particular company and yields both quantitative and qualitative data. The quantitative data is helpful for determining the pervasiveness, area and extensiveness of a perception while qualitative data can help you get a better picture of the intensity of feelings toward a particular interpretation.

The RWA focuses on three aspects of change preparedness:

- **Readiness to change.**
- **Willingness to change.**
- **Ability to change.**

An RWA survey can be administered via e-mail, one-on-one discussions or as part of focus groups. The survey needs to create relevant questions for its own employees and its market situation. Respondents are asked to comment on their beliefs about the need for

Never Assume Employee Concerns Can Be Addressed Later

When an American company acquired a blue-chip European pharmaceutical firm, it saw the merger as a way to strengthen its lead position in the industry. Another goal was to add new talent and economies of scale to its product development. The European employees, however, felt they had been sold out to a competitor that was purely profit-driven.

To make matters worse, the Executive Integration Team (EIT), formed immediately after the merger was announced, worked in almost total secrecy, fueling the rumor mill at both companies. After two months, the EIT announced a planned reduction in work force at both companies, but offered no details. The result was an even more intensified anxiety level among the 45,000 employees on both sides of the Atlantic.

Ignoring Alienation

Marco Trask was the executive in charge of research and development at a new pharmaceutical group created from the merger.

Trask hesitated about meeting with or addressing the combined research and development staffs of the two companies because he felt he had no hard facts. Nevertheless, he undertook visits to all eight research facilities to introduce himself to the staffs, an interactive company intranet was set up and a bi-monthly employee electronic newsletter was launched. A video was even produced which was circulated to other departments in the companies. Still, it became clear in follow-up surveys that a strong "us versus them" chasm existed between the research departments of both companies. Trask mistakenly believed these feelings would go away once the operational issues were settled.

changes in the firm's operations (i.e., due to competitive threats or poor performance); their personal willingness to change (are they confident that the change initiative is the correct plan?); and their own ability to carry out such changes (do they have the skills they will need or do they believe the firm will provide the necessary training?). Questions can be drawn up that invite both quantitative and qualitative answers. The qualitative data (agreeing or disagreeing with a given statement) gives leaders a snapshot of where major issues exist. Asking for input also adds the more human elements and emo-

(continued on page 6)

Stage 2: Preparation

(continued from page 5)

tions.

Just administering the survey is not enough. Employees must know that their input has been taken into consideration. Management's follow-up actions are critical for building credibility. By learning more about employee resistance, managers can better focus their efforts and assess how they can best communicate the change process effort to the organization.

Communicate, Communicate, Communicate

Communication is key in articulating the vision and plan and building an appetite for change in the organization. You don't need a lot of bells and whistles to communicate effectively. The most important criteria for effective communication are a genuine belief that you need to exchange and provide information, and to care about your audience.

Always be on time or early with announcements — even announcements that there is nothing new to announce. Never be late or skip an expected announcement. It's human nature for people to make up their own versions — usually the worst scenario possible — in the absence of any hard facts.

Micro Switch: Using Symbols to Communicate

Ray Alvarez and his Micro Switch management team came up with two symbols to announce its diverse work force, which included employees from scientists to factory workers, the company's perilous state and its need

Implementing Change: The 'Build Behavior First' Method

At Honeywell Micro Switch, General Manager Ray Alvarez used the "build behavior first" method. In fact, he refused to tell people how to achieve improved on-time delivery (OTD), one of the change initiative's goals. He set up weekly meetings with his management team to ask them what they had done that week to improve OTD and what they were planning to do the next week. One manager admitted that delivery times did improve — not because he felt they had developed any new "gee whiz" tools or methods, but because there was so much more focus on delivery time. And more important, these managers learned that with this success, they could approach other challenges by being more focused.

A Missing Vision Impedes Implementation

The leaders of the merger between two pharmaceutical companies focused almost exclusively on operational issues. In the research and development function, for example, R&D knew which capabilities would be required in each area, where employees would be located, what their compensation would be and what their new job descriptions were. There was much activity; in focus groups conducted during this phase of the change process, however, it was clear there were strong feelings of mistrust toward the integration team. Most notable: No strategy or vision was being developed for the newly merged entity. Leaders felt this could occur after the organizational issues had been addressed.

for change. Initially he used a visual image the Midwestern employees could easily see — "storm clouds on the horizon" — to symbolize the competitive threats the company faced in the future. Next, he used the symbol of a "death spiral" the company could fall into if necessary changes weren't made.

But it wasn't just symbols that Alvarez and his team used in their messages. Because of the dire need for change, Alvarez broke some of Micro Switch's "unwritten" rules and decided to share sensitive customer and competitive data with employees. ■

Stage 3: Implementation

The point at which preparation becomes implementation is different for each organization and each change. But it can't happen until the employees not only know what their company is trying to be, but what new tasks they will be asked to perform when they show up for work on Monday morning.

Leaders are responsible during Implementation for managing the expectations, energy and experience of the firm. It's not easy to ask a person to change; it usually creates resentment, embarrassment and tension. You need to find the people in your organization who understand (or have the potential to understand) the desired change and allow them to show others how it can work.

Here are some suggestions for getting this phase started:

- **Test and Deploy** — If a new process is being implemented, start it with one product line or within one department first, rather than company-

(continued on page 7)

Stage 3: Implementation

(continued from page 6)

wide. Then you can see how it works and figure out any “bugs” in the system.

- **Build Behavior First** — This approach is recommended for companies in which there is high resistance to change, or where the required change is substantial. Focus on a single objective and ask all employees for input. This technique allows you to empower employees by letting them show you how they can come up with a solution.
- **Use Attraction to Convert** — After testing a new process or method successfully in one department, use this example as a model.
- **Plan Replication** — When the change efforts begin, give managers in each department time to observe, reflect and document what they’ve learned as the processes evolve. Let them observe best practices with other managers so that the success in one department can be transferred to others.

Building Informal Communication Networks

One danger in any merger or restructuring is the loss of informal communication networks (i.e., when Bill in accounting can no longer call up Sally in purchasing with a quick question because Sally has been relocated). Managers need to identify and hook into these types of networks. They can tell you a lot about how employees are reacting to changes and where any bottlenecks exist. There are three types of informal networks:

1. **Cassandras:** These employees (usually middle managers or line supervisors) are the first to spot impending problems and “sound the alarm.”
2. **Networkers:** These employees, usually due to their personality, are keenly attuned to what’s happening within a company. They may interact regularly among the different departments or different levels of employees. They can be extremely helpful in identifying which plans are working and which aren’t.
3. **Influencers:** These are the employees who can affect the opinions of others. Like thermostats, they can literally “cool down” a department or “heat up” another.

If At First You Don’t Succeed...

Avoid the trap of glossing over or ignoring parts of your change plan that fail. Employees know when something has flopped; when management doesn’t talk about a failure, they lose credibility. Instead, focus on learning from the failure. ■

Learning Teamwork

Honeywell Micro Switch was able to achieve its Determination phase by ensuring that all of its employees were involved. General Manager Ray Alvarez accomplished this by setting up six teams, dubbed “Building Block Councils.” Each had a specific goal, from improving customer satisfaction to employee training, and involved employees at every level. Besides providing stronger focus on core issues, the Building Block Councils helped managers and employees learn to work as a team, to learn the value of explaining the reasons behind the change initiative’s goals, and appreciate the importance of things as simple as saying “thank you” to contributors.

Stage 4: Determination

At this point, early successes seem far away, and many employees, even former champions of the change initiative, may begin to have doubts. This period is often punctuated by clashes, conflicts and failures.

Often, service levels drop or production problems arise. This is the time when competitors can come and “cherry pick” the best talent from recently merged companies. By not addressing the underlying emotional and behavioral causes, a company can actually slide back into stagnation.

Therefore, the role of leaders during the Determination phase is critical. It’s too easy to simply

(continued on page 8)

Vision is Energizing

It took the resignation of three key researchers and a drop in share price for Marco Trask, who led the R&D function of a newly merged pharmaceutical group, to see the value of developing a vision plan (as well as the means for achieving it) and paying attention to the emotional aspects of an organizational change. One day after a critical article on his management style appeared in the business press, Trask reconvened his integration team. Within two days of continual meetings, Trask and his team announced to the research and development staff that a long-range strategy, vision statement and values statement would be developed within three months. They began to regularly communicate with not only the R&D team, but the entire organization. Once the plan and vision statement were announced — on time — employee cooperation, energy and excitement rose noticeably.

Stage 4: Determination

(continued from page 7)

throw up your hands and say, “They’re not doing what we told them to!” As a leader, you must question your own perspectives and assumptions to understand why employees are having difficulty achieving goals.

Don’t mistake your own perceptions for reality. The managers of the merger between two pharmaceutical companies believed that all they had to do was concentrate on operational issues; the scientists they were managing, however, were more motivated by ethical issues than profits. Detailed operational edicts were not going to convince these scientists that the change was necessary and should be supported.

Executives and managers involved in leading a change effort need to observe the overall dynamics of an organization and understand the motivations of its key players.

Although many CEOs understand the value of staying in contact with people at every level of the organization, not enough know how to do that effectively. One executive who does routinely asks employees, “What do you have to tell me today?” At first, employees were taken aback, but gradually they felt more comfortable with sharing ideas with him.

Determination from the Top Down

Most disastrous Determination phases can be linked to the withdrawal of the scrutiny and support of executives. It’s important to keep an eye on outcomes to be sure what you or your team have designed is actually producing the desired results. This requires you to manage dynamics and align beliefs and behaviors. Don’t assume that new operational procedures will automatically lead to necessary changes in attitudes and beliefs.

Often, leaders mistakenly assume that at this stage employees fully support the change. Thus, they announce new structures or processes, without making any concerted effort to get employee buy-in and support. The result is that the change process stalls, and the company slips back into Stagnation. ■

Stage 5: Fruition

No change is easy, and achieving long-sought-after goals is a truly rewarding experience. Once a targeted goal is reached, success can often beget more success. Employees become more confident, and work goes smoother. People may be busy, but they are not engaged in busywork.

This is the time to reward employees for their work, while at the same time communicating that management was capable of designing a change plan that worked. You need to get concrete and tangible with rewards: Give

performance bonuses or establish an incentive compensation plan. Put your money where your mouth is.

Inculcate a sense of learning at your company. Let employees internalize their experience of the change process, so they will be able to use these skills, approaches and attitudes in the next change initiative. After all, companies will ultimately need to go through many change processes.

The Fruition stage can, though, lead to a sense of complacency — that can lead again to Stagnation.

To avoid re-entering Stagnation:

- **Don’t make today’s innovations into tomorrow’s sacred cows.**
- **Stay abreast of the external environment.**
- **Keep listening to and communicating with the organization.**
- **Recruit fresh blood.**
- **Leverage your champions.**
- **Build skills of self-observation and correction; teach the change curve. ■**

Learning from the Process

Every change initiative can be a learning experience for managers involved in the process.

At the merged pharmaceutical company, Marco Trask learned first-hand how much commitment is required of executives leading change initiatives. He came to understand the value of recruiting different opinions and perspectives. Within three years of this merger, he was involved in another merger, for which he was named executive vice president for the new entity’s R&D department. His first priority was establishing communication, including talking one-on-one with the key researchers and scientists involved.

At Honeywell Micro Switch, the organization as a whole learned the importance of keeping its competitive advantage. Whenever a new competitive threat was spotted, management no longer had to spend as much time explaining to employees the reasons needed for change.

The change at Micro Switch has implications beyond the plant and offices. Because employees felt more secure, they invested more in their homes. Real estate in the town became more valuable, attracting more businesses and homeowners. General Manager Ray Alvarez and his managers became involved in community projects, and local community leaders credited Alvarez with helping to revitalize their area.