CHAPTER 7
Organization Change and Innovation
Chapter Learning Objectives

After studying this chapter you should be able to:

1. Describe the nature of organization change, including forces for change and planned versus reactive change.

2. Discuss the steps in organization change and how to manage resistance to change.

3. Identify and describe major areas of organization change and discuss the assumptions, techniques, and effectiveness of organization development (OD).

4. Describe the innovation process, forms of innovation, the failure to innovate, and how organizations can promote innovation.
The Nature of Organization Change

• Organization Change
  – Any substantive modification to some part of the organization (e.g., work schedules, machinery, employees).

• Forces for Change
  – **External forces** in the organization’s general and task environments force the organization to alter the way in which it competes.
  – **Internal forces** inside the organization cause it to change its structure and strategy; some internal forces are responses to external pressures.
Planned versus Reactive Change

• **Planned Change**
  – Change that is designed and implemented in an orderly and timely fashion in anticipation of future events.

• **Reactive Change**
  – Change that is a piecemeal response to events and circumstances as they develop.
Managing Change in Organizations

• Steps in the Change Process (Kurt Lewin’s Model)
  – Unfreezing
    • Individuals must be shown why the change is necessary.
  – Implementing change
    • The change itself is implemented
  – Refreezing
    • Involves reinforcing and supporting the change so that it becomes an integral part of the system.
FIGURE 7.1 Steps in the Change Process

1. Recognition of the need for change
2. Establishment of goals for the change
3. Diagnosis of relevant variables
4. Selection of appropriate change technique
5. Planning for implementation of the change
6. Actual implementation
7. Evaluation and follow-up
Understanding Resistance to Change

Uncertainty about the extent and effects of change.

Threats to self-interests and power and influence.

Different perceptions of change effects and outcomes

Fear of loss of social networks, power, security, and familiar procedures.

The Change Process
People resist change because of:

- Uncertainty about the extent and effects of change.
- Threats to self-interests, power, and influence.
- Different perceptions of change effects and outcomes.
- Feelings of loss in disrupted social networks, power, security, and familiarity with existing procedures.
Reasons for Resistance to Change

- Uncertainty
- Threatened self-interests
- Conflicting perceptions
- Feelings of personal loss

Planned Change
Overcoming Resistance to Change

• Encourage active participation in the change process.

• Provide education and communication about the change process.

• Facilitate the change process by making only necessary changes, announcing changes in advance, and allowing time to adapt to change.

• Use force-field analysis to focus efforts on removing barriers to change.
Overcoming Resistance to Change in Organizations

- Participation
- Education and communication
- Facilitation
- Force-field analysis

Resistance to Change
FIGURE 7.2 Force-Field Analysis for Plant Closing at General Motors

Reasons for Closing

- Need to cut costs
- Excess capacity
- Outmoded production facilities

Reasons Against Closing

- Resistance from unions
- Concern about worker welfare
- Possible future needs
Management Challenge

• Local governments typically encounter strong resistance from public employees when they attempt to privatize public services.

  – What advice could you offer a local government that would help in overcoming its employees’ resistance to change?
Areas of Organization Change

**People**
- Abilities and skills
- Performance
- Perceptions
- Expectations
- Attitudes and values

**Organization Structure and Design**
- Job design
- Departmentalization
- Reporting relationships
- Authority distribution
- Coordination mechanisms
- Line-staff structure
- Overall design
- Culture
- Human resource management

**Technology and Operations**
- Information technologies
- Equipment
- Work processes/activities
- Control systems
- Enterprise resource planning (ERP)
# Areas of Organization Change

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Reengineering in Organizations

• Business Process Change (Reengineering)
  – The radical redesign of all aspects of a business to achieve major improvements in cost, service, or time.

• The Need for Business Process Change
  – Entropy is a normal process leading to system decline.
    • Results from maintenance of the status quo
    • Puts the organization out of synch with its environment
    • Starts the organization to consuming its own resources.
Reengineering in Organizations

Approaches to Reengineering

- Recognizing need for change and acting on it with a sense of urgency
- Starting with a clean slate to open up the process
- Using a blend of top-down and bottom-up involvement
Approaches to Business Process Change

• Recognizing the need for change and acting on it with a sense of urgency.
• Starting with a clean slate opens up the process.
• Using a blend of top-down and bottom-up involvement.
FIGURE 7.3 The Reengineering Process

1. Develop goals and a strategy for reengineering effort
2. Emphasize top management’s commitment to the reengineering effort
3. Create a sense of urgency among members of the organization
4. Start with a clean slate; in effect, re-create the organization
5. Optimize top-down and bottom-up perspectives
Organization Development

- Organization Development
  - A planned, organization-wide effort managed from the top, intended to increase organizational effectiveness and health through interventions in the organization’s processes, using behavioral science knowledge.
• OD Assumptions
  – Employees desire to grow and develop.
  – Employees have a strong need to be accepted by others within the organization.
  – Individuals will influence the organization and the organization will influence the attitudes, perceptions, behaviors, and expectations of individuals.
Organization Development Techniques

- Diagnostic Activities
- Team Building
- Survey Feedback
- Third-Party Peacemaking
- Process Consultation
- Life and Career Planning
- Coaching and Counseling
• Innovation

– The managed effort of an organization to develop new products or services or new uses for existing products or services.
FIGURE 7.4 The Innovation Process

Development
Organization evaluates, modifies, and improves on a creative idea.

Application
Organization uses developed idea in design, manufacturing, or delivery of new products, services, or processes.

Launch
Organization introduces new products or services to the marketplace.

Decline
Demand for an innovation decreases, and substitute innovations are developed and applied.

Maturity
Most competing organizations have access to the idea.

Growth
Demand for new products or services grows.
Organizational Innovation: Radical versus Incremental Innovations

• Radical Innovation
  – A new product, service, or technology developed by an organization that replaces the existing one.
  – Radical innovation fundamentally changes the nature of competition in an industry.

• Incremental Innovation
  – A new product, service, or technology that modifies an existing one.
  – Incremental innovation does not significantly affect competition in an industry.
Organizational Innovation:
Technical Versus Managerial Innovations

• Technical Innovation
  – A change in the physical appearance or performance of a product or service, or the physical processes through which a product or service is manufactured.

• Managerial Innovation
  – A change in the management process by which products and services are conceived, built, and delivered to customers.
Management Challenge Question

• What challenges would a management team face when implementing technical and managerial innovations in tandem?
• How likely is this situation to occur?
Organizational Innovation: Product Versus Process Innovations

• **Product Innovation**
  – A change in the physical characteristics or performance of existing products or service or the creation of brand-new products or services.

• **Process Innovation**
  – A change in the way a product or service is manufactured, created, or distributed.
Effects of Product and Process Innovation on Economic Return

Phases of the Innovation Process

High Return

Innovation Development
Innovation Application
Application Launch
Application Growth
Innovation Maturity
Innovation Decline

Low Return

Effect on Organizational Performance

Product Innovations
Process Innovations

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The Failure to Innovate

• Reasons for Failing to Innovate
  – Lack of resources
  – Failure to recognize opportunities
  – Resistance to change

• Promoting Innovation in Organizations
  – Using the reward system
  – Having a supportive culture
  – Encouraging *intrapreneurship*
    • Inventors
    • Production champions
    • Sponsors