Module One: Change and Stability Management

Handout One: Change and Stability

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- Dr. Joe Leung has engaged in consulting and training services in ESG, Corporate Growth Strategy, and Corporate Changes in Hong Kong and China for 50 enterprises.
- Dr. Leung successfully assisted his clients in implementing "corporate governance" and won the "Director of the Year Awards" in 2019, 2020, and 2022 respectively, issued by the "Hong Kong Institute of Directors", indicating that his clients achieved "corporate governance" in high-level performance". Dr. Leung also assists companies to formulate "Environmental, Social, and Governance (ESG)" sustainable development plans. In 2022, he assisted his clients to win the “Special Environment, Social and Corporate Governance Awards” in the Institute of ESG and Benchmark. In 2023, Dr. Leung helped his client win the “Grand Award of HKIE BSD Excellent Building Award 2023” to affirm the achievement of sustainability.
- In the past 19 years, more than 9,800 entrepreneurs, executives, and managers have participated in Dr. Leung's executive/director training and UK MBA programmes to enhance their strategic thinking and insight to seize the opportunity in the highly competitive market environment.

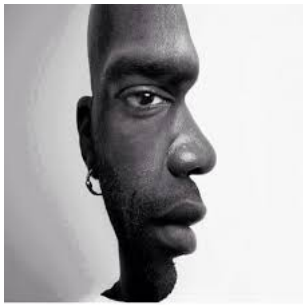
Self-Introduction

Class Programme

SESSION	TOPIC (provisional and subject to change)
One	Module Introduction and Overview What is Change? Organisational Stability
Two	The Nature of Change: Planned or Emergent? OD and Key Change Management Models Case/Group Discussion
Three	How Changing Environments Affect the Organisation General Environment and Specific Environment Case/Group Discussion
Four	Why Organisation Change Six Types of Organisational Change Discussion of Assignment 1
Five	The Nature of Change: Planned or Emergent Planned Change Roadmap Emergent Change Roadmap
Six	Leading Change: Lewin Leadership Style Managing Change: Resistance to Change Discussion of Assignment 2
Seven	Individual Presentation: Assignment 1 Digital Transformation Overall Review and Summary

Assignment Guidance

Change



Change is the only constant:

Ancient Greek philosopher Heraclitus observed that the natural world was in a constant state of movement. People age, develop habits and move environments. You can't step into the same river twice — even rocks were subject to changes by the elements over time. He called this universal law of change "Logos," and tied it to three central beliefs known as his flux doctrine:

- Everything undergoes constant change.
- There's the unification of opposites (the opposite of something can only exist because of change in the original).
- Everything exists and doesn't exist at the same time (matter can change forms so that the object no longer exists, but the original substance does).

1. Defining change

- Movement over time from a current position (P^1) to a future position (P^2), defined as:

Organizational change is the movement over time from an ongoing present to an emerging and uncertain future that is sometimes planned and managed with the intention of securing anticipated objectives and sometimes unplanned for and unforeseen.

Source: Patrick Dawson and Constantine Andriopoulos (2017), **Managing Change, Creativity and Innovation**, SAGE Publications Inc.

Strategic change can be defined as 'descriptive of magnitude in alteration in, for example, the culture, the strategy, and structure of the firm, recognising the second order effects, or multiple consequences of any such change.

Source: Pettigrew A. (1987), **Context and Action in the Transformation of the Firm**, Journal of Management Studies, 24 (6) p. 668.

Change or Not Change?

- Critical issue facing COVID-19 pandemic, economies conflict, organizations, disruptive technology and stakeholders expectation.
- A significant area of environment analysis and change theory.
- An area of ongoing debate in relation to research, theory, practice, and business development.

Question: *what is the biggest business challenge that has occurred during your life time*?

Question: *to what extent has/did strategic change play a part or role in the example you identified?*

Characterizing change

- Ubiquitous, permeates all aspects of life:
  - Settings: workplace, home, and social activities/events
  - Relations: individual, group, intergroup, and winder collective relations
  - Experiences: the processes by which we make and give sense to the changes that we experience
- Organizational change:
  - Planned or emergent, proactive or reactive
  - Triggered by internal and/or external drivers
  - Just so!

2. Why is change important in an organization?

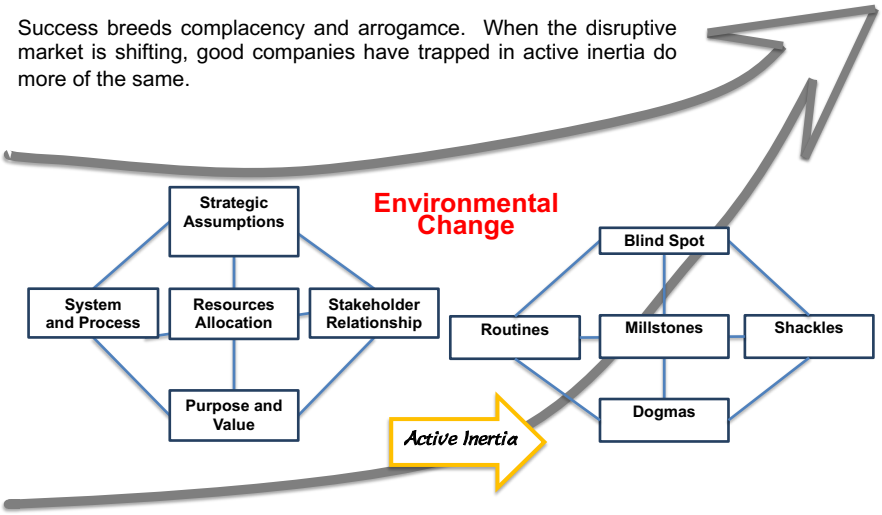
Any business in today's fast-moving environment that is looking for the pace of change to slow is likely to be sorely disappointed. The world is changing everyday: the population is changing, customer trends are changing, technology is changing and the economy is changing. Businesses who fail to embrace change can easily wind up as dinosaurs – out of touch and unable to compete under current trading conditions.

- The Ever-Changing World of Technology
- Customer Needs Are Constantly Evolving
- The Changing Global Economy
- Change Means Growth Opportunities
- Challenging the Status Quo

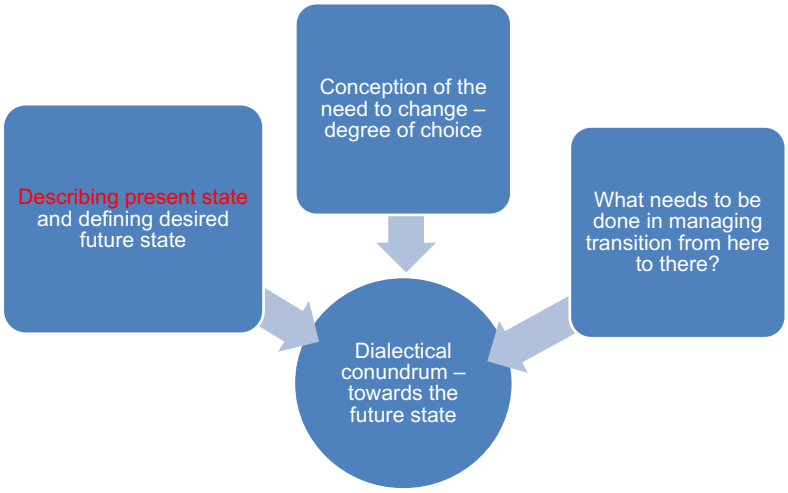
Why good companies go bad?

Active Inertia for Good Companies

Success breeds complacency and arrogamce. When the disruptive market is shifting, good companies have trapped in active inertia do more of the same.

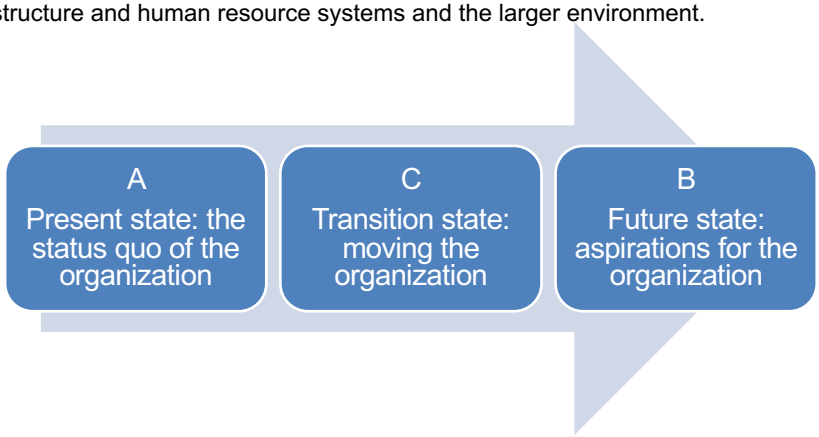


3. The Change Management Process



Movement from current state to desired future state

Strategic change is the movement of a company away from its present state toward some desired future state to increase its competitive advantage. It is an approach to bringing about congruence among the organization's strategy structure and human resource systems and the larger environment.



Managing from present to desired state:

- How to communicate and lead change?
- How to make sense of resistance and motivate people?
- How to control and minimize the disruptive aspects of change during implementation?
- How to shape the political dynamics of change so that power centres develop that support the change rather than block it?
- How to reach desired state over time?

- Change is a complex process that it is not possible to fully control or predict.
- Uncertainty of change stimulates demand for simple recipes that provide assurances that there are techniques for successful change.
- Organizational change often characterized as a movement from a present to a future (desired) state that generally unfolds in unexpected ways (whether planned for or not).

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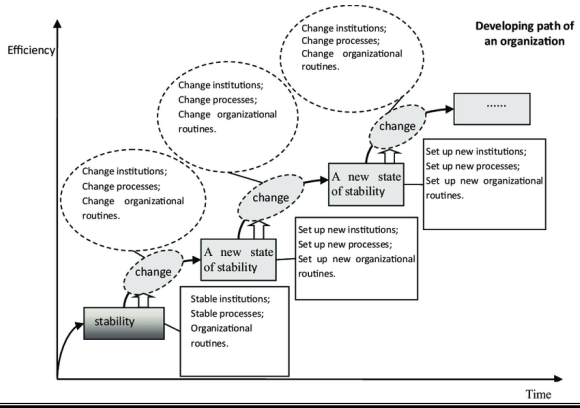
Question and Answer

4. Organizational Stability and Change

Organizational stability is the state of a company's financial, human resources, and production that has reached a threshold of steady growth in terms of bottom line, employee assessment, and development. During challenging economic times, it has been difficult for the company to reach organisational stability due to several factors which can ultimately hurt the bottom line of the company. Then organisational change, therefore, is starting.



Why Organisation Fail to Change?

Stability enables change by supplying security and consistency offering reserved knowledge and skill and enabling commitment and the provision of resources for a better realization of the change.

Change enables an organization to set up a new state of stability through the variable mechanism such as trial and error and exploration activities.

Source: Haifen Lin, Tingchen Qu, Li Li and Yihui Tian (2019), *The Paradox of Stability and Change: A Case Study*, School of Economics and Management, Dalian Universoty of Technology, China.

Model draws from evolutionary biology

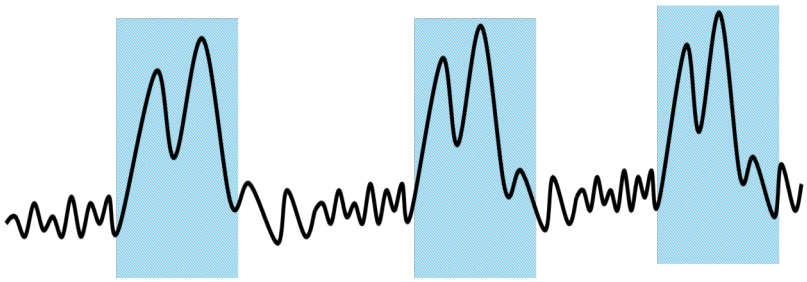
- Organizations often experience long periods of incremental adaptation that is followed by brief periods of revolutionary upheaval.

- Convergent periods punctuated by strategic reorientations (or re-creations).
- The punctuated equilibrium model promotes a particular relationship between incremental and radical change.
- https://www.youtube.com/watch?v=qSjiFxIHknk

Two Main Type of Changes

Incremental change associated with those periods when the industry is in equilibrium and the focus for change is ‘doing things better’.

Discontinuous change which occurs during periods of disequilibrium. It involves a break with the past rather than an extrapolation of past patterns of change.



Incremental Change, Discontinuous Change and Punctuated Equilibrium

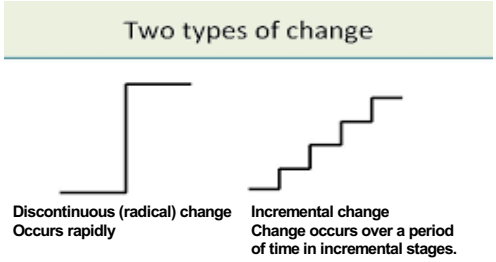
- **Incremental change** refers to a small adjustment made toward a targeted result. In the business world, the fact of making an incremental change does not have a significant impact on the existing structures or alter current methods. simultaneously and constantly in business organizations around the world. Incremental change is the process of continuous improvement—what the Japanese refer to as "kaizen." Discontinuous change is the kind of large-scale transformation that turns organizations inside out and upside down.

- If managing incremental change can be compared to encouraging a group of joggers to gradually pick up the pace, then leading discontinuous change is like getting those same joggers to leap off a cliff and build their parachutes on the way down.

- Incremental change fits the Newtonian framework of a linear, progressive, and predictable world. There is an unmistakable logic behind incremental change that makes it easy to communicate and relatively easy for people to adopt. Best of all, it uses current practices as a baseline for the systematic improvement of a product, service, or system. And people like the fact that they can base their future success on their past performance.

- **Discontinuous change**, or **discontinuous** technological **change**, refers to external **changes** that require internal adaptation along a path that is nonlinear relative to a firm's traditional innovation trajectory.

- But much of the change organizations are facing today is not incremental. It is discontinuous or radical. It is restructuring, reengineering, transformation. It is these actions—and others—that challenge our most deeply held beliefs about the past. Discontinuous change confronts the entire organization with the possibility that the very roles, actions, and attitudes that were most responsible for past success will be insufficient, and perhaps even detrimental, in the future. And that concept is difficult to communicate and much harder for people to adopt.

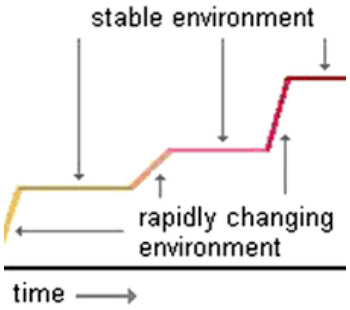


The Punctuated Equilibrium Model

The Punctuated Equilibrium Model (PEM) is a social theory for understanding change in complex social systems, including in organisations (Burnes, 2004).” PEM is an important model of organisational change in which change is relatively stable but experiences short bursts of fundamental change. The concept explains the strengths and drawbacks of the model and uses illustrative case studies to highlight the usefulness of the PEM for explaining change.

Punctuated Equilibrium Model Definition: The punctuated equilibrium model of change "see organisations as evolving through relatively long periods of stability (equilibrium periods) in their basic patterns of activity that are punctuated by relatively short bursts of fundamental change (revolutionary periods)" (Burnes, 2004).

A view of industry evolution asserting that long periods of equilibrium punctuated by periods of rapid change when industry structure is revolutionized by innovation.

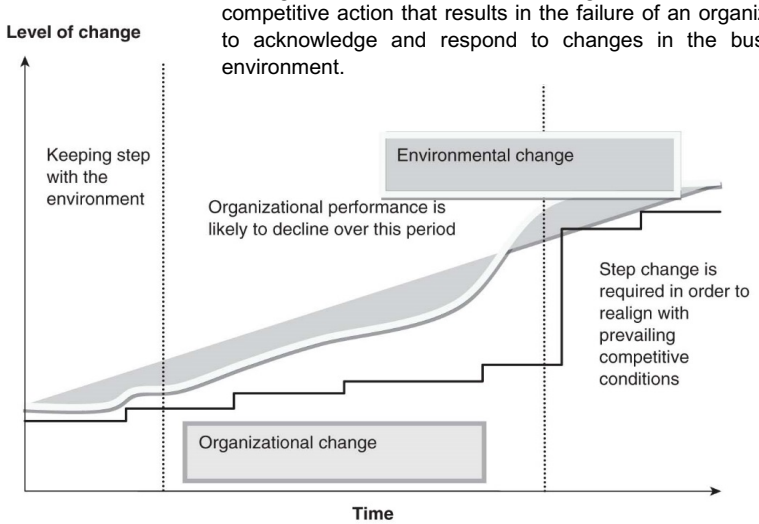


Source: Bernard Burnes, (2004*)*, **Kurt Lewin and the Planned Approach to Change: A Re-Appraisal.** Journal of Management Studies, 41: 977-1002.

Question and Answer

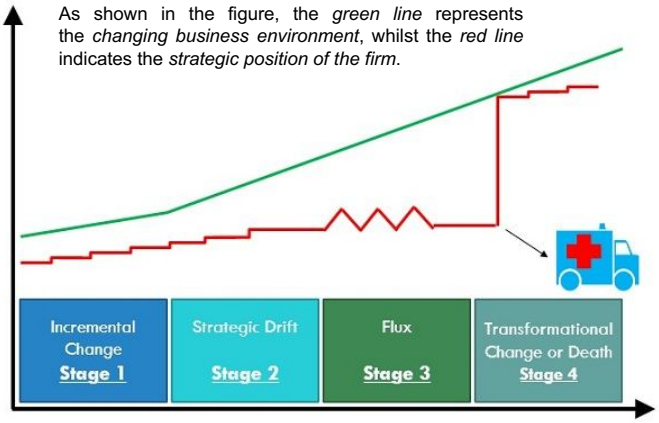
5. Strategic Drift

Strategic drift can be defined as a gradual deterioration of competitive action that results in the failure of an organization to acknowledge and respond to changes in the business environment.



Source: Gerry John and et al. (2011), **Exploring Strategy**, Pearson Education Limited.

Strategic Drift connotes the slight shift from the predetermined course of action or direction to another one, often unwanted, specifically in the long run. It is obvious, that in some situations shift is important, but too many shifts over the time may result in the company to lose its focus and it might turn out as highly reactive, which is going to adversely affect its success. It is the step by step decline of the competitive action, leading to the failure of the firm to identify and react to the change in the business environment.



Incremental Change: It takes place prior to any remarkable change in the technology, demand, preference and economy. Firm adapt to such change, in order to stay aligned with the dynamic business environment.

Strategic Drift: When the business environment experiences change in an increasing rate, but the business organization continues its operations, as per the previous stage, i.e. it only makes incremental changes. However, such incremental change is not enough to match with the actual change in the business environment.
Therefore, its effect on the firm is insidious, which can be visible in the drop in the financial performance, as well as the causes of such decline are not fully ascertained by the top management. At this stage, the strategic actions turn out as less effective.

Flux: Now, at this stage, the company's management cannot fail to consider the gap amidst the product demanded by the customers and products offered by the firm. And, the firm clearly understands that they have to implement the change, but it is not easy for the management to concur on what they need to change and how they are going to do it. Hence, here the change required should be transformational, rather than incremental.

Transformational Change or Death: At this stage, the firm has two alternatives:
The firm can formulate and implement a change management strategy, so as to make the desired change in the firm, which may result in success or failure of the firm.
The firm can also continue with their old strategy, whose result will be dying a slow death.

Damage to Employee Morale: Because of the psychological fallout, from the continuous shifting and change of long term effect on the firm, usually tends to develop a regressive state of mind, which makes the staff members indifferent to a constant state of alert.

Change for change sake: Due to continuous shift, change is not anymore perceived as a strategic move, but it is considered as a change for change sake.
Sceptical: Managers and executive become sceptical, because of the lack of certainty, due to which the motivation to stand up and the fight for survival diminishes with time.

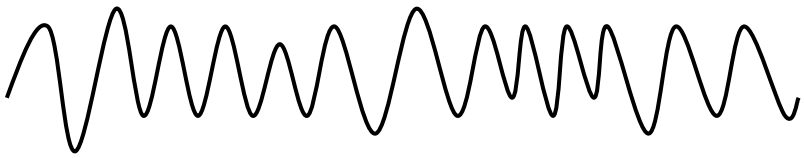
How to prevent Strategic Drift?
There are certain ways, which the organization can implement to prevent strategic drift, these are:

- Develop a culture in the organization which is not just openly tolerant of both positive as well as negative feedback, but also gladly receives it.
- Ensure that the firm accepts change as and when required, as well as it is not reluctant to question the change when it seems irrelevant.
- Develop a flexible environment in the organization, in a way that all the levels of the management take part in the decision making process.
- Identify new challenges and prioritize them as per their significance.
- Formulate comprehensive and clearly defined strategies for business.
- Consequently, loss of momentum, increase in unnecessary cost, diversion of focus, the decline in performance, preservation of status quo, and decline in competitive advantage, innovation and market adaptability may take place due to strategic drift.

Continuous change, but sometimes failed

- The continuous change model presents change as evolving and incremental – driven by alertness and inability to remain at a standstill – they are frequent and continuous, long term ability to change structures and processes

- To what extent does this reflect the current environment?



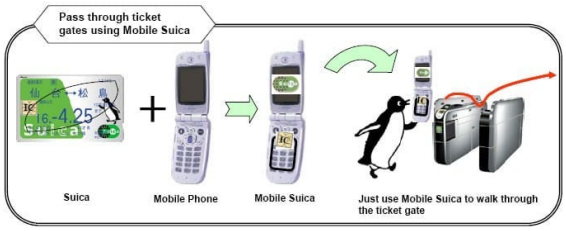
Question and Answer

Galápagos Syndrome

Galápagos syndrome (Galápagos effect) is a term of Japanese origin used in business studies to refer to an isolated development branch of a globally available product. The term is used as an analogy to a part of Charles Darwin's *On the Origin of Species*. Darwin encountered in the Galápagos Islands isolated flora and fauna, which had undergone evolutionary changes independently from the mainland. This phenomenon was a key to the development of evolutionary theory. Darwin stated that due to the differences in environment from one island to another, species adapted to make survival more viable in the local environment of each island. Similarly, a development of goods "in relative isolation from the rest of the world because of a focus on the local market" can lead to similarly differing products. The term "Galápagos syndrome" has been used as a metaphor outside the field of business jargon. The term "Galápagosization", referring to the process of the isolation of Japanese "Galápagos-thinking", links this process to the Japanese island mentality. (Wikipedia)

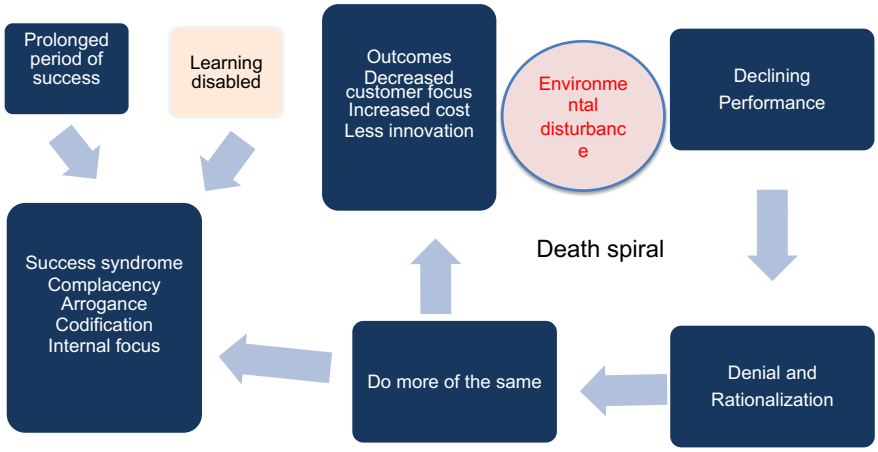
For the biggest part of Japanese history, the island nation went through a period of isolation termed 'sakoku' lasting some 220 years. However, it has since opened up to the world through events like the Meiji Restoration and post WW2 Japanese Economic Miracle — but a curious phenomenon that's strikingly similar to the period of sakoku seems to have influenced the way the Japanese go about their daily lives.

Japan was once the world leader in mobile phone technology. Before the world even got close to basic 2G internet, the Japanese were already enjoying the joys of web surfing and texting via e-mail. To the rest of the world, these technologically advanced phones were icons of aspiration — a brand of Japan itself.

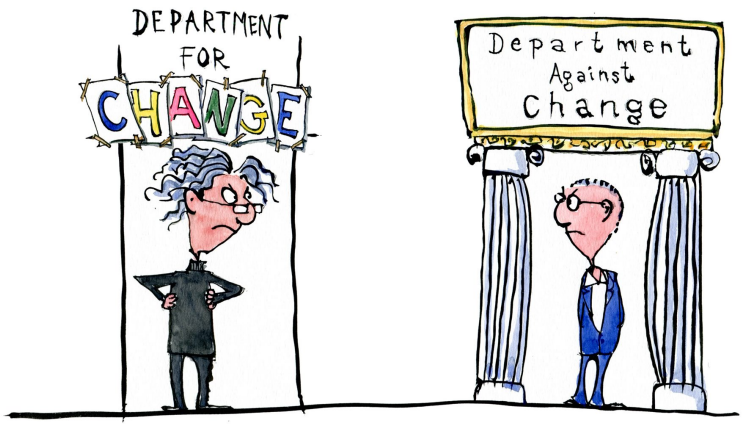


Death Spiral

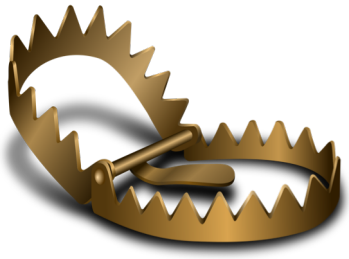
Source：David A. Nadler, Robert B. Shaw and A. Elise Walton (1995), **Discontinuous Change: Leading Organisational Transformation**, Wiley.



Question and Answer



6. Trap of Success



This refers to companies that rest on their laurels and rely too heavily on their past successes. As such, they neglect to pursue new avenues to strengthen their long-term viability and end up reacting too slowly to changing customer needs.

- Path dependence – managers become locked into behaviours that produced the original success and are rarely questioned
- Growth leads to complexity
- Attention shifts away from the environment
- Customers and suppliers receive less attention
- Complacency and internal focus
- https://www.youtube.com/watch?v=xziKI90C06g short, concise, good illustration of trap

Conclusion

- Change is represented as movement from a current position to a future desired state.
- The punctuated equilibrium model views incremental change being punctuated by more radical adjustments.
- Internal and inclusive change can be achieved via continuous improvement
- The organizational approach to change varies according to a range of factors and rates of success