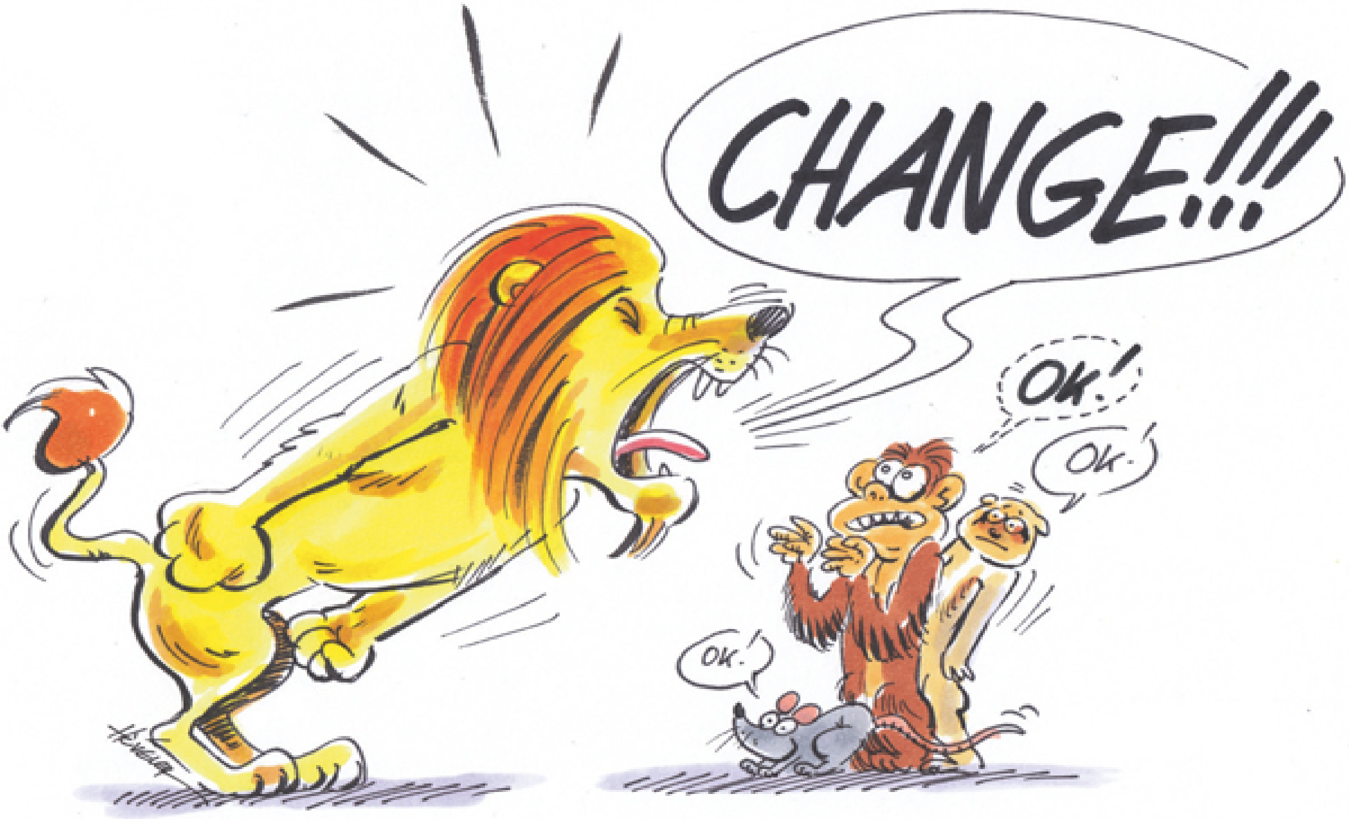


Georg Kraus | Christel Becker-Kolle | Thomas Fischer

Handbook Change Management

Management of Change Processes in Organizations
Influencing Factors and Parties Involved
Concepts, Instruments and Methods

The Authors

Dr Georg Kraus
Dipl.-Wirtschaftsingenieur (equiv. to a Master's degree in industrial engineering). Georg is a lecturer at the Clausthal University of Technology and possesses long-standing experience as a change management consultant. He supports companies in the execution of turnaround processes.

Christel Becker-Kolle
Dipl.-Psychologin (equiv. to a Master's degree in psychology) and business economist with formal education in business philosophy and business culture management. In her work as a consultant and coach, Christel builds on the experience amassed during her time as human resources manager and manager of organizational and HR development departments in a variety of companies. She has advised these companies during both the set-up and dismantling phases.

Thomas Fischer
Dipl.-Psychologe (equiv. to a Master’s degree in psychology). Thomas began his professional career as a change management consultant at a business consulting firm. He then went on to gain several years of experience as a management trainer and coach at a large bank, where he led change projects and supported project managers and senior management in the implementation of change processes. He has worked as a freelance consultant since 1998, training senior management and project managers, as well as advising companies on change projects.

Table of Contents

The Authors

Summary

1. **What is Change Management?**
    - 1.1 Reasons and Causes for Change Management
    - 1.2 Segments of Change Management
    - 1.3 Aspects of Change Management
    - 1.4 Standard Procedure of Change Management

2. **Types of Change Processes**
    - 2.1 Reengineering, Restructuring and Crisis
        - 2.1.1 Positioning
        - 2.1.2 Process description
        - 2.1.3 Process redesign
        - 2.1.4 Controlling
        - 2.1.5 Conclusion
    - 2.2 Strategic redesign
        - 2.2.1 Interventions
            - 2.2.1.1 Role interventions
            - 2.2.1.2 Relationship interventions
            - 2.2.1.3 Communication interventions
        - 2.2.2 Conclusion
    - 2.3 Organizational Development

- 2.4 Lean Management
  - 2.4.1 Group work
  - 2.4.2 Kaizen
  - 2.4.3 Conclusion
- 2.5 Learning organizations
  - 2.5.1 Single-loop learning
  - 2.5.2 Double-loop learning
  - 2.5.3 Deutero-learning
  - 2.5.4 Conclusion

3. **Leadership in the change process**
- 3.1 Basics of leadership
- 3.2 Typical management behavior patterns
  - 3.2.1 Management
    - 3.2.1.1 Driver
    - 3.2.1.2 Willing spectators
    - 3.2.1.3 Objector
    - 3.2.1.4 Disgruntled observer
  - 3.2.2 Top Level Management
- 3.3 Leadership tasks during change processes
  - 3.3.1 Change concept design
  - 3.3.2 Provide direction and motivation
  - 3.3.3 Guide and stabilize implementation
  - 3.3.4 Individual change
- 3.4 Dealing with resistance
- 3.5 Leadership styles during change processes

    - 3.5.1 How to lead drivers
    - 3.5.2 How to lead willing spectators
    - 3.5.3 How to lead disgruntled observers
    - 3.5.4 How to lead objectors
  - 3.6 Leadership and steering impulses during the change phases
  - 3.7 Strategic leadership
  - 3.8 Application of leadership techniques and tools in the change process
    - 3.8.1 Management by objectives
    - 3.8.2 Managing of goal achievement through praise and critique
    - 3.8.3 Coaching
    - 3.8.4 Employee appraisals and annual employee evaluations
  - 3.9 Leadership at the edge of chaos – organization and self-organization
  - 3.10 Requirements for change managers

4. **Dynamics of change**
  - 4.1 General information
  - 4.2 Level of change
    - 4.2.1 Surroundings and environment level
    - 4.2.2 Behavior level
    - 4.2.3 Abilities and skills level
    - 4.2.4 Values, norms, and beliefs level
    - 4.2.5 Identity level

        - 4.2.6 Meaning and spirituality level
    - 4.3 Phases of change
        - 4.3.1 Shock phase
        - 4.3.2 Denial and rejection phase
        - 4.3.3 Curiosity phase
        - 4.3.4 Testing phase
        - 4.3.5 Realization phase
        - 4.3.6 Consolidation phase
    - 4.4 Individual preferences in change dynamics
        - 4.4.1 Personality aspects in change dynamics
        - 4.4.2 Individual experiences in change dynamics
    - 4.5 Group processes as a reaction to change
        - 4.5.1 Solidarity and Coalitions
        - 4.5.2 Exclusion
        - 4.5.3 Power plays, intrigues, and micro politics
    - 4.6 Differences in the pace of change in an organization
    - 4.7 Demands on leadership and management during change processes
        - 4.7.1 Awareness
        - 4.7.2 Interpretation of indicators
        - 4.7.3 Reactions

5. **Systemic management of change processes**
    - 5.1 Develop a sense of urgency for the need to change
    - 5.2 Build coalitions

    5.3 Developing a vision and clear strategies
    5.4 Share the vision
    5.5 Empowerment of employees to overcome resistance
    5.6 Ensure short-term wins
    5.7 Consolidate improvements and drive forward change
    5.8 Anchor the changes into the organizational culture

6. **Organizational culture / corporate culture**
    6.1 Developing awareness of organizational culture / corporate culture
    6.2 Definition and objective of corporate culture
    6.3 Basics of organizational culture change
        6.3.1 Unplanned changes in corporate culture
        6.3.2 Planned changes in corporate culture
    6.4 Steps during change in organizational culture
        6.4.1 Analysis of previous organizational culture
        6.4.2 Concept of a new organizational culture
        6.4.3 Measures for implementation / change of organizational culture
        6.4.4 Evaluation of cultural change
    6.5 Things to consider in cultural change
    6.6 Criticism of the usefulness of organizational culture
    6.7 Mission statement and corporate governance

7. **Typical mistakes in change processes**
    7.1 Blind start – insufficient analysis of status quo
    7.2 Insufficient problem awareness (it’s all good)
    7.3 Truth in installments – bad communication and information
    7.4 Eat or be eaten – bad choice of approach
    7.5 Throwing bombs and not invented here – unprofessional stakeholder management
    7.6 Everything at once – too much, too quickly
    7.7 Benefit or emotional pressure – never heard of
    7.8 Why methods, if we can do without
    7.9 Controlling is fine – but we are already way ahead
    7.10 Political games

8. **Factors for success in change processes**
    8.1 Each change needs to be based on a diagnosis
    8.2 Start at the root of the problem
    8.3 Focus on the customer
    8.4 Professional design of the awakening
    8.5 Create individual benefit and / or use emotional pressure
    8.6 Create transparency and clarity
    8.7 Support from top management
    8.8 Winning over middle management
    8.9 Including and involving affected employees
    8.10 Right timing and right pace

- 8.11 Project management planning and implementation
- 8.12 Professional controlling
- 8.13 Consistent actions

9. **Role of stakeholders in the change process**

10. **Structural interventions**
    - 10.1 Benchmarking
        - 10.1.1 Determination of benchmark object
        - 10.1.2 Description and analysis
        - 10.1.3 Benchmarking partner
        - 10.1.4 Analysis of differences
        - 10.1.5 Plan of action
        - 10.1.6 Securing the results
    - 10.2 Strategy development
        - 10.2.1 Strategy horizons
        - 10.2.2 Key questions for strategy development
        - 10.2.3 Portfolio analyses
        - 10.2.4 Strategy as a loop
    - 10.3 SWOT
    - 10.4 Organizational diagnosis
    - 10.5 Intervention design
    - 10.6 Network of committees
    - 10.7 Communication matrix
    - 10.8 TCP matrix
    - 10.9 Project management

        - 10.9.1 Project contract
        - 10.9.2 Project kick-off
        - 10.9.3 Project organization
        - 10.9.4 Project structure plan and milestone plan
        - 10.9.5 Reporting
    - 10.10 Employee surveys
        - 10.10.1 Term and function of an employee survey
        - 10.10.2 Variations of employee surveys
        - 10.10.3 Employee surveys as a tool for continuous organizational development
        - 10.10.4 Results of employee surveys as an element of change management
        - 10.10.5 Process of employee surveys
        - 10.10.6 Special problems, dangers, and mistakes
        - 10.10.7 Conclusion

11. **Analogue interventions in change processes**
    - 11.1 General information
    - 11.2 Definition and goals of analogue interventions
        - 11.2.1 Criteria of analogue interventions
    - 11.3 Possible applications of analogue interventions
        - 11.3.1 Analogue methods and interventions in strategy processing
        - 11.3.2 Analogue methods and interventions in development of organizational culture

    - 11.3.3 Analogue methods and interventions in organizational communication
    - 11.3.4 Analogue methods and interventions in organizational development
    - 11.3.5 Analogue methods and interventions in human resource development
    - 11.3.6. Analogue interventions in other applications
  - 11.4 Criticism of analogue interventions
  - 11.5 Special considerations during implementation and application of analogue interventions

12. **Organizational structures**
    - 12.1 Functional structure
    - 12.2 Functionally centralized and decentralized structures
    - 12.3 Regionally centralized and decentralized structures
    - 12.4 Customer and service orientation
    - 12.5 Organizational integration models
      - 12.5.1 Group work, manufacturing islands
      - 12.5.2 Workflow
    - 12.6 Outsourcing models
      - 12.6.1 Telecommuting
      - 12.6.2 Centers
      - 12.6.3 Outsourcing, globalization
    - 12.7 Hierarchies
    - 12.8 Anticyclical trends

12.9 Conclusion

13. **External and internal consultants during change processes**

13.1 Role of external consultants

13.2 Consulting from internal human resources and organizational development departments

13.2.1 Consulting, conception, and implementation of change management processes

13.2.2 Changes in human resource development concepts caused by change management measures

13.2.3 Criticism of “the magic of change”

13.2.4 Conclusion

13.3 The role of finance in change processes

13.3.1 Transformation of corporate accounting in financial controlling

13.3.2 Finance as a co-creator of change processes

13.3.3 Changes in financial controlling caused by change processes

13.3.4 Implementation of changes in the finance department

Index

Summary

This handbook, translated from the German, deals with change processes in companies and organizations. It provides information on the fundamental principles, background and methods and instruments of change management and is aimed at those responsible for change management within companies and organizations, as well as at external consultants, coaches and trainers.

The book combines the focal areas of organizational development and human resources within a single holistic approach to the planning and management of change processes, offering guidance on:

- The fundamental principles, leadership, dynamics and management of change processes and corporate / organizational culture
- Typical errors to avoid; success factors
- Specific instruments of change management, divided into structural and analogous interventions
- Environment and limiting factors, organizational forms, and legal and consulting issues
- Case studies for prototypes of change processes

The authors draw on a corresponding spectrum of qualifications and experiences: Christel Becker-Kolle is a business economist and trained psychologist, Thomas Fischer is a trained psychologist and Dr. Georg Kraus is a trained industrial engineer. All three authors are active as consultants.

1 What is Change Management?

Change is part of life. Despite this fact, people strive for stability. The desire to have control, security and order often shape the way we think and act. It is difficult to determine the source of this need. Is it an early childhood longing for security? Is it because we constantly attempt to reduce the complexity of reality to a point where it makes sense? There are several models that attempt to explain why humans tend to hold on to the present state. Though the analysis of these basic patterns is an interesting and revealing study, this work will focus on the symptoms and behavior patterns rather than the psychological and evolutionary biological explanatory models of the human being. The following axioms are the basis of this study in change management.

Nothing is stationary, everything constantly changes

We change biologically every day as we grow older. Through age and information, our knowledge changes, as does our way of thinking. Organizations change, even unconsciously as employees change their base of knowledge through experience. Regardless of these daily shifts, many hold on to the status quo.

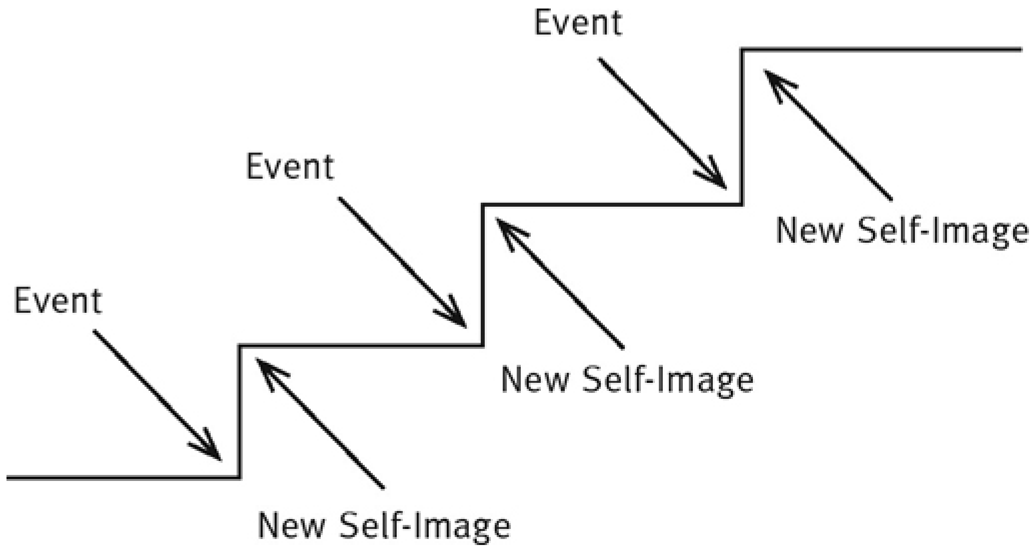
Change is not always easily recognized by the observer

There are changes that are not visible to the observer. The *homo sapiens* does not recognize the evolution of the *homo sapiens*. We can develop an evolutionary theory based on the past, but we cannot see that we are caught up in this biological process of change ourselves. This also applies to observations of natural phenomena such as mountains. Erosion is so minimal to the observer that he cannot see the change within his conception of time. Change managers like to bring up the “boiled frog” example. If you throw a frog into hot water it will jump right back out. If you put the frog in cold water, however, and slowly heat it up, it will not be aware of the gradual increase in temperature. More often than not, it will miss the point at which it could jump out of the pot. The water is then so warm that the frog’s extremities are numb and it can no longer jump, even though it wants to. This example symbolizes how dangerous it is to overlook change.

It is often difficult to recognize one’s own change

We are often not aware of our own change. Our surroundings then serve as a mirror for our change. People who have developed a good defense mechanism towards feedback and criticism are at risk of changing in a certain direction without noticing. This is often referred to as “step-by-step realization”. We don’t recognize our own change until an outside impulse, such as an event, feedback, or a crisis make us realize that

our self-image needs to be revised.



Change brings uncertainty and is therefore often avoided

We prefer to live in a state of clarity. Rituals and traditions make us feel as though the world is controlled and manageable. This longing for perceived security can be observed in small settings (e. g. marriage) as well as in large settings (e. g. traditions and religions). The creation of illusions as a form of security is an important engine in human behavior.

Change often requires physical and psychological energy and is therefore often avoided

It is exhausting to deal with change. It is uncomfortable to observe, evaluate, and adjust to change in our surroundings and within ourselves. Therefore, if we can sidestep change, we often will.

With any change, there are winners and losers

Change usually leads to a shift in power, as social structures and hierarchies alter. Benefits that we have grown accustomed to are removed or given to others, responsibilities are adjusted, and social demands are questioned. Some individuals are affected, while others are involved. “Scrambled eggs with bacon” is a good analogy. When you make scrambled eggs with bacon, the chicken is involved and the pig is affected. Change is similar and resistance is therefore more or less intense. Those involved agree or observe, while those impacted fight openly or secretly against the change. Each person focuses on their own well-being and can individually reject and boycott necessary change if they believe they will emerge as losers. An example are dictators, who are not willing to support change in their country because of their own need for self-preservation.

Time strengthens structures (in thinking and in organizations)

The longer people have experienced and approved of certain structures, the more difficult it is to let them go. Because of this, older people tend to struggle with a change in their thinking more than others. Traditional organizational structures are often perceived as “given” and are, therefore, not questioned. The ability to mirror observations with our own encounters and to make judgements based on these experiences makes daily life easier, because we do not need to constantly question everything. But it also leads to an acceptance of familiar phenomena and a failure to question the status quo. This, in turn leads to a so-called “operational blindness”.

Most changes in the history of change processes were so-called “big bangs”. Big changes, apart from those caused by nature, such as volcano eruptions or periods of drought, were often attributed to a crisis. Generally, a situation was exhausted and stretched to the limit until people were ready to act. In some cases, the resistance to change was so strong, that entire societies perished rather than adjust to the new circumstances. While reacting to a crisis can be viewed as “dealing with change”, it is not considered a rational approach, as the focus becomes crisis management. A continuous process of change, during which people constantly confront and adjust, is much more desirable. This applies to leaders as well as followers.

The objective of this book is to explain why change management is the one of the most important leadership skills and to illustrate how leaders should approach change. The term “change management” has only become popular in the past few years and originates with the Anglo-Saxon language, as do many management vocabularies. The term “organizational change management” is also a common business term, but is aligned with the people side of change management. For the purpose of this book and in following the latest trend, we will use the term “change management” to describe professional management of change rather than tie it to a methodological concept. Change management should therefore be considered a metaconcept that summarizes individual enhancing or contradicting concepts. We will describe each facet of managing change in addition to describing entire concepts as an integrated approach to the subject.

Although change management has played a role for as long as mankind exists, we will focus on the modern definition within this book. Change management has its roots in the 1950s. Until the 1960s most organizations had a strong hierarchical structure. Employees were generally given clearly defined tasks. The organization was seen as absolute and the authority of superiors was generally accepted without question.

The generation of 68, those that protested the social constraints of the time, called for a stronger focus on employees. Activities around group dynamics, team training and team development began popping up in organizations. These employee-oriented approaches further evolved over time and were labelled “organizational development” in the 80s. Most of these organizational development approaches continued to focus heavily on influencing employee behavior and showed signs of evolving into the group dynamic approach. Until the mid-1990s, there was a clear distinction between structural and strategic changes in an organization and employee focused reform. Since the proponents of these approaches represent different practices, this is understandable. A more integrated view of “driving change” has emerged only in the past ten years.

The Springer Gabler business dictionary defines change management as the strategy of planned and systematic change, which happens when organizational structure, corporate culture, and individual behavior is influenced, with the greatest possible inclusion of all involved employees. The chosen holistic perspective takes into consideration the interaction between individuals, groups, organizations, technology, environment, time and communication patterns, value structures, power constellations, etc., which exist in the relevant organization.

1.1 Reasons and Causes for Change Management

There are multiple reasons for change. The following list gives examples of possible causes of change processes:

- Financial crisis
- Change in the market
- New technologies
- New management
- Global projects / cooperation
- Knowledge management
- Management training
- Changes in the environment (i. e. privatization or new legal requirements)
- Organizational changes
- Mergers
- Outsourcing
- Process changes
- Project work
- New forms of work organization

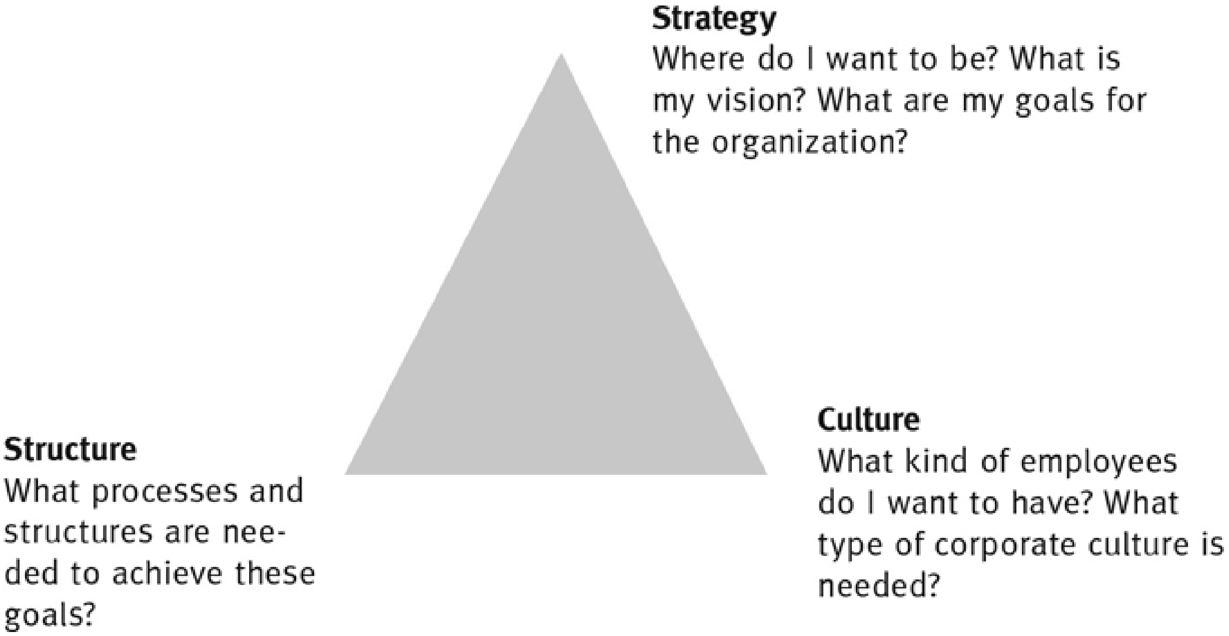
There are generally three ways in which change can occur:

- Crisis / Revolution
- Renewal / Change
- Adaptation / Evolution

A crisis constitutes a change due to external factors and requires quick action and deep cuts. The organization must adapt in order to survive. Renewal or planned change is a planned strategic restructuring of an organization. Management recognizes it and reinvents the organization. Adaptation is an evolutionary approach, where those involved continuously work on their personal development.

1.2 Segments of Change Management

Although most change processes and methods are distinctive, we were able to identify certain common characteristics on a higher level. The following three categories should always be considered when approaching change.


Strategy
Where do I want to be? What is my vision? What are my goals for the organization?
Structure
What processes and structures are needed to achieve these goals?
Culture
What kind of employees do I want to have? What type of corporate culture is needed?

Strategy-Structure-Culture Triangle

Change therefore requires direction (strategy), clarification of processes and organization (structure), and involvement of people (culture). No matter how complex the change process, these three levels will help you ask the questions necessary to achieve a successful transformation.

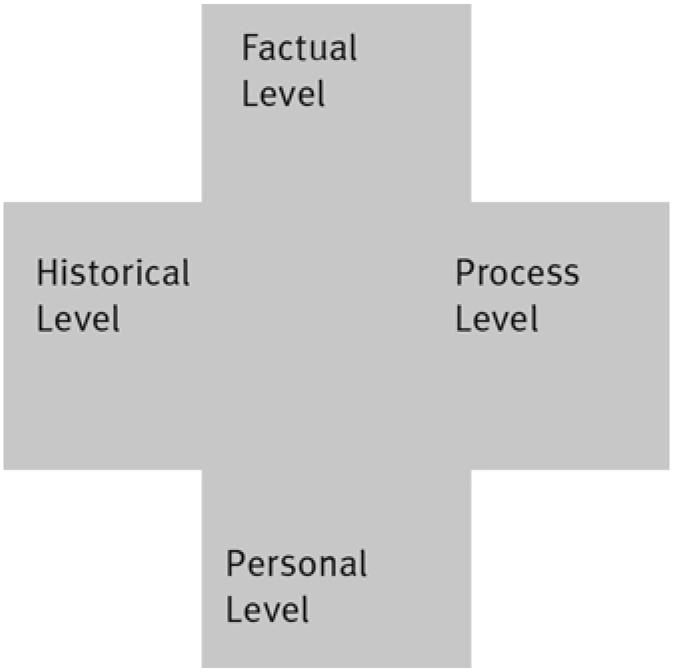
1.3 Aspects of Change Management

Apart from strategy, structure, and culture we have observed an emphasis on the architecture of change. One of the change manager’s main tasks is therefore to design and support the process in a concise and professional manner.

Factual level

(information, organizational structures and staff planning)

Change management is often related to changes in the organization. People will be required to work together in a different way. A critical function of change management is to professionally analyze, plan, and implement these shifts.



Process level

(with a focus on direction, steps and efforts)

The importance of the process level has been underestimated in the past. Change cannot happen with the click of a button. Sometimes it can take years to implement. The successful design and support of the change process within an organization is one of the most important tasks in change management.

Historical level

(history and corporate culture)

It is important to understand and integrate the history of an organization. Change managers can only design the right change processes if they understand where people come from and what traditions and rituals shape the organization.

Personal or psychological Level

(behavior, attitudes, fear, motivation and resistance)

Recognizing the resistance to change, identifying winners and losers, relieving fears and reaching people on a personal level are all important features of successful change. This is often underestimated, as many managers approach change mechanically and fail to involve the people that will be affected.

1.4 Standard Procedure of Change Management

Change management is often seen as a “project”. The need for change is recognized, management agrees that it is the right time for change, goals are formulated, and the project is realized. The following illustrates the “standard sequence” of change.

Standard procedure of a change process (as a project)

Analyze

- Outline problems
- Formulate the “case for change”
- Identify resources for the transformation

Formulate objectives

- Create a vision
- Inventory existing ideas for future conditions
- Set goals
- Determine criteria for successful goal achievement

Generate commitment

- Involve and gain buy-in from key stakeholders
- Set rules

Design the intervention

- Shape and establish the organization of change
- Determine projects that need to be completed
- Design communication structure
- Define benchmarks

Project management

- Implement projects
- Monitor change progress and adjust if needed

Determine next steps

- Perform review and conduct feedback loops
- End process or establish a standard operating procedure
- Add new processes as needed

This project approach is commonly viewed as the most effective method for implementing change. Within the past twenty years, a strong demand for “continuous change” has emerged, however, this cannot be accomplished through a single project plan. Concepts like kaizen (continuous improvement) and “learning organizations” emerged. This type of change management is subtler and not tied directly to one single need for change. Rather, it is important to keep an organization “fit” and flexible, so that it can recognize and react to change in its environment.

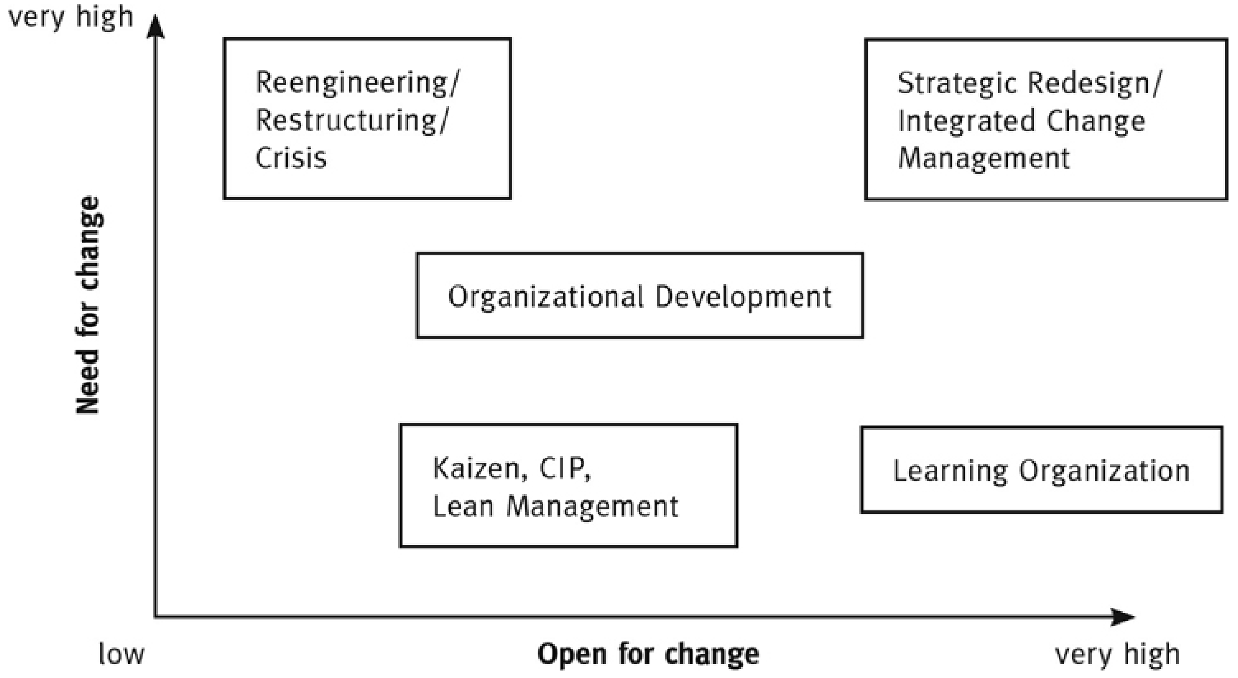
Dealing with change in a systematic way will be increasingly important in the future. But we must also recognize undesirable developments. Some organizations seem to believe that change is simply a trend. Contemporary managers put the subject of change on their agenda, but intend to conduct methodical change, which results in employees being confronted with new concepts on a semi-annual basis. We believe this to be a misinterpretation of the term change management, especially because it ignores certain levels (i. e. personal level, historical level).

Most change managers are faced with the challenge of change needing to occur alongside regular business operations. The organization cannot be shut down while implementing change. Instead, change must happen during regular business hours. Organizational change is like an airplane that needs to be completely remodeled in flight without compromising the security of the passengers. This scenario places a great deal of pressure on employees, as well as the entire organization. Successful change management, therefore, involves balancing daily operations and with the change process.

2 Types of Change Processes

Over the course of the 20th century, several concepts in the practice of “dealing with change in organizations” have been established. The effectiveness of the relevant concepts depends on the specific situation in the organization. Organizations that are in crisis, for example, and need to completely re-invent themselves, require a different approach than organizations that are well-positioned, but seeking improvements. Leadership should, therefore, assess the organization and determine to what degree change is needed and gage employees’ willingness to change. The greater the need for change in an organization, the more aggressive and sturdier the concepts for implementation must be. The higher the willingness to change, the more involved and employee-focused the process will be.

The following diagram introduces the most well-known concepts used in organizational change within the past fifty years.


very high
Need for change
Reengineering/ Restructuring/ Crisis
Strategic Redesign/ Integrated Change Management
Organizational Development
Kaizen, CIP, Lean Management
Learning Organization
low
Open for change
very high

2.1 Reengineering, Restructuring and Crisis

Hammer and Champy initiated Business Process Reengineering (BPR) trend in 1993 with their book “Reengineering the Corporation”. The objective of this practice is to attain increased customer satisfaction and organizational performance of revolutionary magnitude – “we are talking quantum leaps”. The business model needs to be fundamentally redesigned in order to prepare the organization for new market demands. To lower costs and increase service quality, a radical redesign and reorganization of an enterprise is necessary. The concept is fundamentally top-down oriented and is especially successful when a high pressure situation, or crisis, dictates perception.

The principles are:

- Alignment of core business processes
- Focus of critical business processes on the customer
- Emphasis on core competencies
- Use of modern information technologies

Reengineering concepts are rather mechanical in their approach, while people play a minor role. Focus is on a strategic remodeling and restructuring of the organization. The change manager follows these four steps: positioning, process description, process design and controlling.

2.1.1 Positioning