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Organisational Change Capability: The Theoretical Construct and Its Operational Measurement

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Recent conceptual and empirical work has developed our understanding of market and learning orientations (MO and LO) in an organisation, and of how they influence its performance. This paper argues that an adequate discussion of the process of organisational change is missing from this literature and proposes that the gap be filled by developing 'organisational change capability' (OCC) as a construct that is related to but distinct from MO and LO, and which captures the effectiveness of the processes used to implement and sustain organisational changes. The paper reports the first stages in the development of the OCC construct.

A gap in the existing conceptual framework

The existing literature to which this paper relates is that which has developed the MO and LO constructs as organisational orientations that energise and give direction to organisational activity that creates and delivers value to customers. In neither case does the conceptual framework surrounding the constructs deal adequately with the process of implementing and sustaining the organisational changes they impel.

In the case of MO the gap is illustrated by expressed concerns (Day, 1994; Jaworski and Kohli, 1996; Harris, 2000) that, although our understanding has been enhanced of what it means to *be* market oriented, we are less sure of what it takes to *become* so.

Similarly, Sinkula et al (1997) develop LO as a separate but related construct to MO and note (1999, p.414) that "the process of establishing learning orientation takes time", but they do not address this 'becoming' issue any further.

More generally, after critically reviewing existing literature on the process of organisational learning (as opposed to individual learning), Lahteenmaki et al (2001, p.121), reach the conclusion that there is a "lack of conceptualisation of the true nature of organisational learning process" and that "one of the major shortcomings of OL models is the ignorance of change management theory".

In all of the above cases, the gap arises from a failure to conceptualise the process by which an organisation becomes something that is quite well understood. It arises, in other words, from a failure to conceptualise how an organisation implements and sustains change, even when the intended outcome of change is clearly specified.

Precisely the same gap exists in models (e.g. Baker and Sinkula, 1999) that associate MO and LO, once achieved, with organisational performance. Despite the existence of cross-sectional empirical evidence that supports the idea that these constructs are capable of improving performance, there is no consideration in these models of how organisational changes derived from MO and LO are implemented and sustained.

Filling the gap

OCC as a construct distinct from MO and LO

This paper fills the gap by developing 'organisational change capability' (OCC) as a construct that influences the quality of the processes used by an organisation to implement and sustain changes but which, though related to MO and LO, is distinct from them. The reasons for developing OCC as a distinct construct are as follows:

1. Just as the market information processing activities derived from MO enable an organisation to learn but do not necessarily mean that it does so (Dickson, 1996; Baker and Sinkula, 1999), so may organisational learning lead to organisational changes but not inevitably so. An example of where it would not do so is where the learning takes place in a strategic management team that, as a consequence, formulates a plan for organisational changes whose implementation requires commitment that is not forthcoming from a broader constituency of personnel in the organisation. The example illustrates the silence in this literature of the questions ‘*who* learns in the organisation?’ and ‘*how* do they then get others in the organisation to commit to the organisational changes the original learners wish to make?’ The silence, in turn, reflects a tendency in the conceptual framework to assume that throughout the entire organisation there already exists among members of the organisation a universal sharing and commitment to its norms and goals.
2. One possible way round the problem just described is to define organisational learning in such a way that it is deemed not to have occurred *unless* it is accompanied by effective implementation. The view in this paper is that it would not be helpful to extend the LO construct in this way. The reason – despite the fact that ‘shared vision’ is one of the sub-constructs of LO – is that while vision and broad goals are relatively costless for any member of an organisation to share, it is not costless actually to make any specific behavioural changes that are formulated. Implementation of specific changes is not, therefore, something that LO is designed to embrace. The leadership, management and political skills required for effective implementation of organisational change also seem to be different in nature from the value-based conceptualisation of LO, which Baker and Sinkula (1999, p.413) characterise as “a set of values that influence the degree to which an organisation is satisfied with its theories in use (Argyris and Schon, 1978), mental models (de Geus, 1988), and dominant logics (Bettis and Prahalad, 1995)”.

Conceptualisation of the OCC construct

The conceptualisation of the OCC construct in this paper is at an early stage and so is tentative. It is based on: a review of literature on the process of creating and sustaining successful organisation change programmes (Kotter, 1996; Day, 1999a and 1999b; Lahteenmaki et al, 2001); on a change model used extensively by the Rover Group, and which one of the authors of this paper was instrumental in developing (Oxtoby, 1994); and on interviews with people who played a prominent leadership role in sustaining successful change in eleven organisations in the UK automotive supply sector (Oxtoby et al, 2001).

The domain of OCC relates to an organisation’s openness and tolerance of change in general, and to its commitment to specific organisational changes that may be formulated.

An organisation’s openness and tolerance of change in general depends on the alignment to change of its overall structure and systems, and on the extent to which the vision and broad goals of the organisation are shared and accepted by

all members of the organisation. These things, in turn, are determined by the competence and trustworthiness of organisational leadership. Over a long period of time this general aspect of OCC also will be reflected in terms of organisational culture.

Commitment of members of the organisation to specific changes that are formulated depends on

- Establishing a sense of urgency in the people involved
- Clearly communicating and getting them to understand the details of the changes required in their individual behaviours
- Convincing them that these changes are in their personal interest, as well as that of the organisation as a whole
- Providing them with whatever is needed (time, training, materials) for them to become effective and comfortable with the new behaviours
- Continuously generating, celebrating and rewarding short term wins in order to sustain the change process
- Having benchmarks against which progress can be measured.

This paper assumes that there are two different ways in which OCC influences the dynamism of organisational change. Firstly, the organisation's attitude to change in general has a direct effect on LO and thereby influences the quality of organisational changes that are formulated and proposed. Secondly commitment to specific changes influences the quality of implementation of changes formulated on the basis of learning and market orientation.

OCC, LO and MO within a conceptual framework

Figure 1 shows a conceptual framework of the relationships between the OCC, LO and MO constructs, and how they relate to the dynamism of organisational activity and to overall organisational performance. Based on the previous discussion, the domain of OCC is conceptualised as relating both to change in general and to specific changes that the organisation formulates.

Following Baker and Sinkula (1999) the LO construct is conceptualised in terms of three lower order components: commitment to learning; open-mindedness; and shared vision.

MO is conceptualised as having the three components identified in the seminal literature on market oriented behaviours (intelligence generation, intelligence dissemination, and responsiveness) (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993; Kohli et al, 1993). However, following Matsuno et al (2000), its domain is widened to include other stakeholders in addition to customers and competitors.

[INSERT FIGURE 1 SOMEWHERE NEAR HERE]

The conceptual framework depicts the dynamism of organisational activity as the outcome of organisational learning and market information processing. Overall organisational performance is assumed to depend on the dynamism of organisational activity, but possibly with a time lag.

The changes this paper has in mind may be at any organisational level - relating to overall structure, systems or work processes, to teams or individuals. They may (where they derive from double-loop, generative learning) involve major shifts in behaviours and mental frames of association, or (in the case of single-loop, adaptive learning) involve more minor adjustments within a stable paradigm. Whatever the case, the changes must be sufficiently far above the threshold of attention of members of the organisation to make them conscious that organisational changes are taking place – so that, in other words, they are aware that the organisation is in a process of ‘becoming’ rather than in a state of ‘being’. Changes of this extent inescapably disturb the social and power structures within an organisation, pollute comfort zones, raise feelings of insecurity, provoke the potential for change resistance, and make it problematic as to whether they can be effectively implemented and sustained.

Research Hypotheses

The aim of the research in this paper is - by focusing on a new construct, OCC, and on the process of implementing organisational changes - to develop existing theory of how the change formulation processes that derive from LO and MO influence organisational performance. Hypotheses about some of the relationships in Figure 1 are based largely on previous literature – in particular on Baker and Sinkula (1999). These are summarised here with minimal discussion, before turning to a consideration of hypotheses that are new or idiosyncratic to this paper.

Previous hypotheses.

Market oriented organisations are expected to respond to their processing of market-based intelligence by introducing greater dynamism into their activity programmes and processes.

H1: MO has a positive direct effect on the dynamism of organisational activity.

Learning oriented organisations continually question the efficiency and configuration of their business processes, and the mental frames by which they are assessed. They are expected to respond by formulating and proposing organisational changes aimed at continuous incremental improvements or, occasionally, by making transformational changes.

H2: LO has a positive direct effect on the dynamism of organisational activity.

Learning orientation is expected to raise the quality of market-oriented behaviours, and so exert an indirect effect, via MO, on the dynamism of organisational activity. Whether it dampens or amplifies the effect of MO depends on what kind of organisational changes are in mind. By improving the insight gained from interpreting market intelligence or stimulating the creativity of responsiveness to it, for example, LO might raise the frequency with which sales staff are expected to adapt their behaviours to make them more tailored to the perceived needs of different customers. On the other hand (Baker and Sinkula, 1999) LO might dampen the effect of MO on

the frequency of new product introductions by making the organisation rely more on LO and less on MO for new product success. Whatever the direction of LO's mediating effect, it is expected that there will be one.

H3: LO mediates the direct effect of MO on the dynamism of organisational activity.

New Hypotheses.

Synergistic relationships between OCC, LO and MO

Both LO and MO are assumed to energise strategy formulation processes that give rise to particular ideas for organisational change. Recent research has viewed strategy formulation and implementation as interrelated processes, the feedback between which occurs so frequently that effective organisational changes seemingly emerge from a single process of 'improvisation' (Moorman and Miner, 1998). This paper regards formulation and implementation as distinct but closely interrelated synergistic processes. Whether the formulation processes that arise from LO and MO get translated into effective and sustained organisational change depends, therefore, on the quality of the implementation processes derived from OCC.

H4: OCC increases the positive direct effect of LO on the dynamism of organisational activity.

H5: OCC increases the positive direct effect of MO on the dynamism of organisational activity.

OCC builds the commitment of members of the organisation to proposed organisational changes by ensuring that personnel understand why the changes are needed and precisely what is required of their own behaviours, by providing the skills and material resources that they need to be comfortable with their new behaviours, and by making sure they do not feel that their efforts in making the changes go unnoticed or are not rewarded. One outcome of such success in organisational change management is that the components of LO are enhanced: members of the organisation become more committed to learning; become more open-minded; and more willing to share in the vision and overall goals of the organisation.

H6: OCC has a positive direct effect on LO.

The role of OCC in the relationship between the dynamism of organisational activity and overall organisational performance.

Because of a possible time lag and complexity of the link between organisational changes and overall organisational performance, the effects of the interrelated formulation and implementation processes derived from LO, MO and OCC are made transparent in this framework by focusing on their effects on the dynamism of organisational activity. Nonetheless, the expectation is that an organisation that is highly learning orientated, highly market orientated, and highly capable of

implementing and sustaining organisational change will improve its overall performance by nature of the changes that are made. Such an organisation is not one with a mere fetish for change, but rather is highly skilled at formulating and implementing (or 'improvising') the kinds of change that will improve its efficiency and effectiveness in its business environment. Organisations where change is a mere fetish will be less dynamic in their activities, either because they cannot sustain a high flow of ideas for change or because they do not have personnel who are willing and able to sustain the implementation of a high flow of proposed changes.

H7: the dynamism of organisational activity (eventually) has a positive direct effect on overall organisational performance.

It is worth highlighting the essential role that OCC plays in establishing the plausibility of this hypothesis. High LO and MO together are enough to generate a high level of dynamism in ideas for organisational change. But the absence of high OCC means that the implementation process does not interact with the strategy formulation process to shape the ideas into something that can be implemented and sustained as organisational change and whose nature lowers the cost or raises the value of what the organisation offers in its markets. In the absence of high OCC more proposed changes either run out of steam and are abandoned, or they are implemented but have no leverage on overall organisational performance. Performance may even deteriorate if members of the organisation become disillusioned and de-motivated by the experience of poor implementation.

These considerations emphasise the complementary nature of the strategy formulation and implementation processes, and also of organisational capabilities (LO, MO, OCC), in relation to how they influence organisational action and performance. Pettigrew et al (2001, p.702), in reference to the complementarities theory developed by Milgrom and Roberts (1990), note that "the crucial general proposition from complementarities theory is that high-performing firms are likely to be combining a number of changes at the same time and that the payoffs to a full system of changes are greater than the sum of its parts, some of which taken on their own might even have negative effects." The conceptual framework in this paper therefore is consistent with recent theoretical and empirical work on the role of complementarities in the relationship between innovation in organisational forms and performance.

Construct Development

Development of the OCC construct

As discussed above, conceptualisation of OCC in this paper is drawn partly from a review of literature on the process of creating and sustaining successful organisation change programmes (Kotter, 1996; Day, 1999a and 1999b; Lahteenmaki et al, 2001), partly from a change model that has been used extensively by the Rover Group, (Oxtoby, 1994), and from interviews with people who played a prominent leadership role in sustaining successful change in eleven organisations in the UK automotive supply sector (Oxtoby et al, 2001). As far as the authors are aware no formal attempt has been made previously to develop a scale to measure an organisation's capability of implementing organisational change processes.

The first stage of an operational measure of OCC is reported in the Appendix. It is assumed that construct development occurs at the business unit level of an organisation. The literature review and interviews revealed a high degree of similarity in views about the essential elements of successful change processes, even though there were differences in the terminology used to label similar ideas. The common essential elements are summarised by seven theoretically distinct categories, which tentatively are proposed as the underlying dimensions of OCC. For each dimension a number of statements is listed in the Appendix, and are meant to be indicative of the items that will be included in a Likert attitude scale of OCC.

Only very brief discussion of the seven dimensions is given here. Readers interested in more are referred to Kotter (1996) and Oxtoby et al (2001).

Sense of urgency for change

A shared sense of urgency among people involved in the change is needed as a motivational driver to disturb the status quo. Even though the stimulus for change may originate from an external threat in the organisational environment, persistent and determined management is needed constantly to remind people of the danger of complacency.

Leadership

Leadership is needed at the very top of an organisation to create a vision that is widely understood and inspirational to all personnel. In addition, a system of leadership needs to cascade throughout the organisation in the form of a network of 'key players', each an effective leader in their part of the company. The effectiveness of leadership depends on its transparent consistency, commitment, clarity, competence, and charisma.

Commitment to change

People are more committed when they have feelings of ownership over the changes formulated for their job and work environment. In turn this is influenced by the extent to which they participate in the formulation, as well as in the implementation, of change. High commitment from members of the organisation involved is particularly important in 'improvisation' (Moorman and Miner, 1998), where there is high frequency feedback between the formulation and implementation processes.

Empowerment

Empowerment leaves members of an organisation feeling self-confident in their ability to achieve the changes that involve them. It derives from the guidance and support personnel are given to make the changes, including any necessary training in new skills and knowledge, tools and materials, time to make adjustments, and complementary empowerment of other people (e.g. line managers) and parts of the organisation with which they interact.

Measure progress

Reliable measurement of the progress being made towards clear objectives is important both to providing direction and reinforcing change. People become discouraged if the efforts they make have no apparent effect so, in lengthy change programmes, it is advisable to build a series of 'short-term wins' throughout the process.

Recognise and reward change

This depends partly on ensuring that an organisation's formal appraisal and reward systems are well aligned with change objectives, but also extends to informal systems that provide socially mediated rewards to personnel. A powerful contributor to motivating and reinforcing change is the visibility with which measured progress is displayed, communicated and celebrated both within the organisation and within other communities (professional associations; local neighbourhoods) of which members are a part.

Embed change

In a behavioural sense this relates to recording any 'best practise' that emerges from the change process, and to transferring it to other parts of the organisation. Behavioural changes may be fragile, however, if they are not captured in organisational systems, structures or routines, and not reflected in organisational norms and values. These determine whether effective changes are sustained, and whether the organisation has an appetite for future change.

Operational measurement of OCC is at the early stage reported in this paper. The next research priority is measure development of the construct, to explore and confirm its dimensional structure and to select the most appropriate items for inclusion in the scale.

Measurement of other constructs in the conceptual framework

As indicated earlier in the paper, the plan in this research is to make use of existing measures of LO (e.g. based on Baker and Sinkula, 1999) and MO (based on Matsuno et al, 2000). At this stage it is envisaged using a self-explicated measure of overall performance at the business unit level (e.g. as in Jaworski and Kohli, 1993), relying on the argument used in prior research that high correlations typically exist between subjective and objective measures of performance (Dess and Robinson, 1984).

Careful consideration needs to be given to how a valid measure of the dynamism of organisational activity can be obtained. Measuring merely the turmoil of organisational change is not conceptually valid in the framework of this paper. What is needed is an indicator of the operational quality (but not the market value) of implemented changes. However, resolving this issue falls outside the scope of this paper.

Concluding Discussion

The OCC construct seems a promising new candidate as a dynamic capability for the acquisition and maintenance of competitive advantage. In conformity with recent work that develops a conceptual understanding of dynamic capabilities (Eisenhardt and Martin, 2000) OCC forms the basis of organisational processes that change the resource configurations from which competitive advantage is derived. As a dynamic capability OCC has an important status because of its generic nature, in the sense that it relates to the quality of implementation of change formulations that emerge from any of an organisation's other capabilities.

OCC serves to highlight the comparative neglect of implementation and change processes in the strategic management and marketing fields. In addition to the earlier parts of the paper that dealt with this issue it is worth noting the argument in Piercy (1998, p.222) "that the ability of organisations to effectively implement marketing strategies is surprisingly poorly understood." OCC seems useful in being a construct that allows these neglected issues of implementation and change management to be addressed, yet whose conceptual status also allows it to be placed easily into existing frameworks dealing with relationships between learning, market orientation and organisational performance. Those frameworks not only make sense of the OCC construct, but it seems to enrich our understanding of the role of other constructs in there – by putting the voice of 'how?' in the frame alongside 'what?' and the voice of 'becoming' alongside 'being'.

It seems to the authors of the paper that the OCC construct is a useful bridge between separate silos of literature on, on the one hand, strategic management and marketing and, on the other hand, organisational change management. In regard to the latter Pettigrew et al (2001), recently have identified several analytical issues in regard to which the organisational change literature is underdeveloped. The underdeveloped issues include

- Recognising that change processes need to be made transparent by using a language of task verbs (changing; choosing) rather than outcome nouns (change; choice)
- Linking change processes to organisational performance outcomes
- Addressing not just the why and what of change, but also who, when and how.

It is hoped that, when fully developed, the OCC construct might make some contribution to progress on these issues.

The paper and Appendix describe enough of the measure development of OCC for optimism that it is not too metaphysical a construct. The next stage of the research gives priority to developing its measurement further

Appendix. OCC Scale Items.

(R indicates a reverse item)

Sense of urgency for change

- When changes are made in this business unit there's really always a good reason.
- Change is not an optional extra in our business, it's a matter of survival.
- Maybe there are some problems in the way we do things, but no worse than in any of our competitors. (R)

Leadership

- In this business unit the bosses don't just preach change, they practise it every day.
- The bosses here are really committed to what we do as a business.
- The bosses in this business unit can be trusted to know when changes are needed.
- No one around here really knows what this company is trying to do. (R)
- People around here really like what this company is trying to do.

Commitment to change

- People in this business unit don't just go along with changes made, they help make them.
- Everyone is made to feel involved when changes are being made – everyone counts.
- There's no team spirit when it comes to handling changes in this business unit. (R)
- When changes are made in this business unit, nobody ever explains properly why they are needed – nobody listens to people who know better. (R)

Empowerment

- When we try to make any changes in this business unit we can never get other departments to go along with us. (R)
- When changes are made in this business unit, everyone is perfectly clear what they have to do and where they fit in.
- When changes are made in this business unit everyone involved is given plenty of time and opportunity to learn the new things they need to know.
- When changes are made in this business unit everyone involved knows they will be given the right tools to do the new job well.
- The line managers around here are really good at helping workers cope with changes.
- If you're not sure what changes you should be making, there's always someone around to show you.

Measure progress

- When we make any changes in this business unit we always have clear objectives to measure our progress.
- It's always made clear to us how what we've achieved by any changes compares with what was expected.
- In this business unit we soon get to know if the changes we make are on the right track, even if it will take much longer to complete all of them.

Recognise and reward change

- In this business unit people who can handle change get well rewarded.
- In this business unit people who deserve the praise for making changes get it.
- When changes are up and running well in this business unit all due recognition is given to the people really responsible for it.
- No one around here ever gets appreciated for all the trouble they go to in making changes work properly (R)

Embed change

- In this business unit any changes that work well soon spread to the other parts.
- People in this business unit soon get to know about improvements in 'best practise'.
- It's a matter of pride around here that we keep up with 'state of the art' in what we do.

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Figure 1. Conceptual Framework.

