ISB CTO

Week 17: Championing Change Management

Championing change management is a critical leadership skill that enables organisations to navigate the complexities of transformation. Effective change management requires not only a clear vision and strategy but also the ability to inspire, influence, and guide teams through uncertainty. Leaders must balance the need for structured approaches with an understanding of the human elements of change, fostering an environment where employees are motivated to embrace new ways of working. By focusing on key principles like establishing urgency, leveraging social networks, and empowering change agents, organisations can better position themselves to achieve successful and sustainable transformation.

Business Expansion: Entering and Scaling Up

There are two main approaches for business growth: organic and inorganic. Organic growth involves developing new products or pursuing internal corporate venturing, where something new is developed within the organisation. The alternative is inorganic growth, which involves looking outside the company for partnerships.

Inorganic growth can occur in three forms:

- **Non-Equity Alliance:** A contractual relationship with a technology provider
- **Equity Alliance:** Taking an investment stake in another company
- **Acquisition:** Purchasing another company entirely

Case Study: Moser Baer and OM&T

Let's examine how to decide between organic and inorganic growth, and, if choosing inorganic growth, how to decide between a non-equity alliance, equity alliance, or acquisition.

- **Moser Baer's Decision Context**
  As Moser Baer, consider why you might look to diversify beyond the core industry of CDs, DVDs, and HD DVDs. The case highlights choices between HD DVD and Blu-ray technologies, yet subtly indicates these technologies were becoming obsolete due to flash drives and streaming. Moser Baer's core business was at risk of decline. With that context, consider these options:
  - Sell the business to an industry leader.
  - Acquire firms to consolidate and become an industry leader.
  - Shut down and return cash to shareholders.

  Managers often avoid these options and opt for diversification. In Moser Baer's case, they identified solar cells as a diversification opportunity.

- **The Solar Opportunity**
  The solar industry was a rapidly growing, 'sunrise' sector, projected for significant expansion. Even capturing 10% of the market could mean substantial business growth. On the supply side, Moser Baer recognised that manufacturing solar cells used similar technology to HD DVDs or Blu-rays, both involving coating substrates with a reflective layer. This similarity made solar a viable and attractive diversification path.

- **Evaluating OM&T as a Partner**
  Consider why OM&T might be important for Moser Baer's solar ambitions. On the surface, OM&T did not seem a great fit, as Moser Baer used organic dyes with a low-to-high technology approach, while OM&T employed a high-to-low technology with inorganic coatings. However, OM&T's technology was exactly what Moser Baer needed for solar production, making them a compelling partner despite the surface-level differences.

Growth Tree: Organic vs Inorganic

Deciding between organic and inorganic growth involves answering several questions:

- Are external resources available?
  - Does an existing company already have the technology we need?
  - If not, should we consider building it internally, or if yes, does a partnership make more sense?
- Do we have related technologies in-house that support development?
  - Could our current technology aid in developing the new one, or might it hold us back, suggesting a need for an external partnership?
- What is the potential for increasing returns?
  - Could investing in this technology yield proprietary advantages or increasing returns, making a partnership with a company that already possesses these assets more beneficial?
- Is there uncertainty in technology development?
  - Does the level of "causal ambiguity" in developing this technology suggest that partnering with an established provider would mitigate risk?
- How critical is speed to market?
  - If rapid market entry is essential, would partnering with a technology provider enable faster deployment than developing it in-house?

Once you decide on inorganic growth, you'll need to choose the type of partnership: non-equity alliance, equity alliance, or acquisition. These options vary widely:

Non-Equity Alliance	Equity Alliance	Joint Ventures	Acquisitions
Contractual relationships, including buy-sell agreements, franchising, or shared distribution	Involves minority equity investments or equity swaps	New firms where partners share equity and bring unique strengths to the table	Full integration of the target company into the acquirer, with the target ceasing to exist as a separate entity

Despite recognising the complementary nature of alliances and acquisitions, most managers lack frameworks for deciding which is more suitable. When examining the differences between alliances and acquisitions, one key criterion is equity ownership. This aspect brings both benefits and costs that can influence a partnership's direction and success.

Benefits of Ownership

- Exclusivity and Control: Higher equity ownership increases control over a partner's technology, limiting competitors' access. In acquisitions, exclusivity is maximised as the acquired technology becomes unavailable to others.
- Alignment of Interests: High ownership allows aligning partner interests with your organisation.
- Inter-organisational Coordination: Greater ownership can enhance collaboration. Close integration allows for shared resources, reducing redundancies.

Costs of Ownership

- Financial Commitment: Ownership requires substantial financial investment, especially in acquisitions, where an acquisition premium may be necessary.
- Technological and Market Uncertainty: Committing heavily to a technology comes with risks, particularly in nascent markets. High ownership ties you to one technology, which may become obsolete if a better solution emerges.
- Impact on Motivation: Integrating a smaller, innovative company into a larger firm can reduce the motivation of its workforce which can be aggravated by cultural differences.

When deciding on ownership level, it's helpful to evaluate the integration and influence needs. High ownership allows flexibility in integration, whether maintaining partner independence or full integration with existing teams. Conversely, low ownership limits control over the partnership's direction.

In the context of the Chief Technology Officer (CTO) role, assessing these factors is crucial when deciding how to bring outside technologies in-house. Effective partnerships balance the need for control with financial prudence, motivation alignment, and technological adaptability.

Managing Strategic Change

Strategic change, especially in the context of digital transformation, involves more than adopting new technologies. It requires a shift in business processes and sometimes in the entire business model, leading to significant internal adjustments. Here's a structured approach to managing strategic change, including why resistance occurs and how to mitigate it.

Implementing a new business model or digital processes often disrupts the established norms, which may trigger resistance due to:

- **Fear of the Unknown:** Employees may worry about their roles, skills, or job security.
- **Fear of Failure:** Concerns about adapting successfully to new ways of working.
- **Disagreement with Goals:** Misalignment or lack of understanding of the change's objectives.
- **Comfort with the Status Quo:** A sense of loss, as skills and routines tied to the old system may feel obsolete.
- **False Beliefs and Misunderstandings:** Perceptions that existing processes are already optimal or that new methods are inherently flawed.
- **Inertia:** Often mislabelled as laziness, inertia is rooted in the challenges above.

Resistance to change and lack of executive sponsorship are common barriers to transformation. Therefore, a successful change strategy should go beyond blaming resistance and delve into proactive solutions.

To counter these challenges and promote a positive shift, consider these steps:

- **Encourage Participation:**
  Involving employees in the planning and decision-making process can build buy-in and reduce fears. When employees feel they have a voice, they are more likely to support the transition.

- **Facilitate Change Gradually:**
  Introducing a change in stages or piloting it in a small part of the organisation, allows for testing and refining the process before a full-scale rollout. Small-scale experiments (similar to randomised control trials) can provide insights and evidence to support broader implementation.

- **Negotiate and Address Concerns:**
  Recognising individual concerns and, where possible, offering incentives or reassurances can ease resistance. This might include retraining programs, role adjustments, or addressing potential impacts on job security.

- **Ensure Executive Sponsorship:**
  Strong support from leadership demonstrates commitment to the change. Executive sponsors can advocate for the project, address concerns, and allocate necessary resources to help overcome resistance.

- **Educate and Communicate:**
  Clear, transparent communication about the reasons for change, the expected benefits, and how it aligns with the organisation's goals can dispel misunderstandings and reduce fear. Educational programs help employees gain the skills they need to adapt to the new processes.

- **Establish Performance Indicators:**
  Measuring progress with clear KPIs enables tracking of the transition and reassures stakeholders by highlighting successes and addressing challenges as they arise.

By addressing the underlying causes of resistance and proactively managing each stage of change, organisations can better position themselves for a successful transformation. This approach allows the Chief Technology Officer (CTO) and other leaders to guide digital and strategic changes smoothly, ensuring that all levels of the organisation are aligned with the new direction.

Kotter's Eight-Step Process for Managing Strategic Change

Kotter's model outlines eight essential steps to guide organisations through change. This framework emphasises building a structured path to ensure change is sustainable and transformative.

Establish a sense of urgency	• Ensure that the organisation understands the need for change by highlighting the risks of staying stagnant.
Form a powerful guiding coalition	• Build a coalition of influential leaders across different levels to advocate for change,
Create a vision	• Develop a clear, compelling picture of the desired future state to motivate and guide the transformation.
Communicate the vision	• Widely share the vision to ensure that all employees understand and align with the change objectives.
Empower other to act on the vision	• Equip and encourage employees to take action toward the vision, removing obstacles to change.
Plan for short-term wins	• Break down the large transformation into manageable, short-term goals to build momentum and encourage continued effort.
Consolidate gains and produce more change	• Build on initial successes, preventing regression by reinforcing new behaviours and norms.
Institutionalise new approaches	• Make the new practices and behaviours part of the organisation's culture.

Kotter's approach emphasises the importance of a strong sponsorship network. Effective roles include:

Change Sponsors
Senior executives who drive the change at a strategic level.

Change Champions
Divisional leaders or senior managers who reinforce the change vision within their departments.

Change Agents
Functional managers or members of change management teams responsible for translating high-level goals into specific actions

Change Targets
Employees impacted by the change, who need to adopt new processes and adapt to the transformation.

An effective change agent should have extensive connections across different areas and levels within the organisation. This centrality within the organisational network allows them to:

- Spread information effectively.
- Rally diverse groups to support the change.
- Serve as trusted intermediaries between leadership and employees.

For disruptive innovations—those with fundamentally different business logic—organisations may need a separate, agile unit focused solely on the new approach. Key elements of this unit include:

- **Freedom to Focus on Innovation:** Allow the unit to operate independently, not constrained by the parent organisation's short-term performance standards.

- **Selective Resource Borrowing:** The unit should have access to core resources as needed while remaining agile and independent.

- **Learning and Exemplification:** The unit's practices should serve as an example for the core organisation, ready to share its lessons when the time is right.

This tailored, dual approach lets organisations experiment with and refine new methods, eventually guiding broader transformations without disrupting the existing operational base.

Approaches to Change Management

Effective change management requires various strategies to help organisations and employees adapt. Here are some common approaches:

- **Behavioural Modifications**
  - Approach: This method uses incentives and consequences to encourage adoption of new processes.
  - Example: Employees may receive a bonus for following new procedures or face penalties if they resist.
  - Limitations: This method is often insufficient alone, as it doesn't address underlying attitudes or inspire genuine commitment to change.

- **Culture Transformation**
  - Approach: Focus on instilling values and behaviours that encourage proactive support for change, such as championing initiatives and fostering a culture of adaptability.
  - Goal: Shifting the culture to one where employees are motivated by intrinsic values rather than just external rewards or punishments.

- **Analytical Communication**
  - Approach: Communicates the need for change through data-driven presentations, including charts and statistics.
  - Types:
    - Macro Approach: Provides a high-level view, often lacking in personal relevance.
    - Micro Approach: Focuses on individual roles and how they'll be impacted, often using detailed screenshots or process demonstrations.
  - Limitations: Often fails to engage employees emotionally, making it less effective in fostering enthusiasm or understanding of the broader purpose.

- **Storytelling**
  - Approach: Engages employees through stories, making the change relatable and memorable.
  - Benefits:
    - Imagery: Stories create vivid images, making the vision of change more tangible.
    - Contextual Data: Stories convey data within a relatable context, enhancing comprehension.
    - Alignment with Change Process: Stories help communicate vision, show individual roles within the change, and illustrate the value of change to customers, employees, and the organisation.
    - Structure: Stories often have a conflict (the reason for change) and a resolution (the benefits of the new model), making them impactful and memorable.

Key Elements of Effective Change Management

For strategic change, especially in tech-driven contexts, the following elements are essential:

- Clear Case for Change: Define and communicate why the change is necessary.
- Stakeholder Analysis: Identify and understand the needs and concerns of those impacted by the change.
- Business Model Story: Craft a narrative around the change to explain its benefits and align all stakeholders.
- Change Management Plan: Develop a structured approach that considers the organisation's culture, employee skills, and readiness.

In technology-driven transformations, managing change requires both technological tools and human-cantered strategies. The following steps facilitate a successful change process:

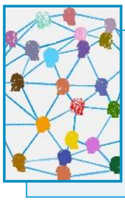
Readiness Assessment	Vision Establishment	Process Understanding	Employee Skill and Attitude Evaluation	Impact Analysis
Assess current state, including digital capabilities, employee skills, and attitudes towards change	Define a clear and compelling vision to guide the transformation.	Map out current business processes to identify where and how changes impact the organisation	Evaluate digital literacy and readiness of the workforce.	Analyse effects of the change on different areas of the organisation

In summary, managing strategic change—especially technology-enabled change—requires a blend of storytelling, readiness assessment, and cultural transformation. By addressing these factors, organisations can navigate change with clarity, alignment, and purpose.

Organisational Network Analysis (ONA) in Change Management

Organisational Network Analysis (ONA) provides insights into informal social networks within an organisation. These networks reveal the underlying connections that can facilitate or hinder change, often acting as the "real" organisation behind the formal structure.

Social networks are informal relationships, such as communication, advice, and collaboration ties, which develop around formal structures. They enable flow of information and support change or resistance, making them crucial in any change management initiative.



Network Density: Indicates how interconnected members are within a network.

Centrality: Measures an individual's influence in a network, based on the number of connections they have

- Central Players:
  - Often experts or long-tenured employees.
  - Hold informal power, sometimes independent of formal positions.
  - Drive change by influencing many others, but they can also act as bottlenecks if they oppose change or are overwhelmed.

- Brokers
  - Bridge gaps between disconnected groups, facilitating information flow across different departments.
  - Hold significant power, as they can either expedite or obstruct the change process.
  - Play a crucial role in connecting disparate groups within an organisation, but relying on a single broker for key interactions can pose risks

Applying ONA in Change Management

ONA helps identify and strategically engage key players in change management, such as central figures and brokers, to foster smoother transitions. Leaders gain insights into:

- Influence Points: Recognising central figures who can advocate for change.
- Cross-Functional Collaboration: Ensuring strong connections across departments to reduce resistance.
- Strategic Staffing: Bringing in or promoting individuals with external contacts or broad internal networks to infuse fresh ideas.
- Bottleneck Prevention: Managing broker roles and balancing central player workloads to prevent capacity-related resistance.

By leveraging ONA, change leaders can effectively map, understand, and mobilise the social networks within their organisation to support successful transformation.