Understanding and Managing Strategic Change

Edited by **H. I. Ansoff, A. Bosman, P. M. Storm**

UNDERSTANDING AND MANAGING STRATEGIC CHANGE

Contributions to the theory and practice
of general management
Dedicated to the late Jan Joele, a practitioner and scholar

edited by

H. Igor ANSOFF
*European Institute for Advanced Studies
in Management, Brussels*

Aart BOSMAN
*Faculty of Economics
University of Groningen*

Peter M. STORM
*Faculty of Economics
University of Groningen*

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PREFACE

On January 8th, 1979, Jan Joele became the sole victim of a fire which suddenly broke out in the Brussels hotel where he was staying that night. Jan Joele was a close friend and colleague of each contributor to the book. As most of the authors represent rather different fields of research in the general area of management and organization, this book brings together a set of contrasting perspectives on organizational complexity. In this regard, it is intended as a professional remembrance to Jan Joele who succeeded, both as a practitioner and as a scholar, in relating these perspectives to each other.

This book is aimed at those who, either as researchers or as management consultants, have a more than passing interest in the nature of strategic and organizational change, as experienced by topmanagement in medium-sized and large firms. As we believe that the major problems of controlling such changes are rather similar all over the Western Hemisphere (if not all over the world), we are grateful to have found North-Holland, internationally known for its professional books and journals in the area of advanced organizational research, willing to publish this book.

We would like to acknowledge the assistance and encouragement we received from Hans Ten Dam, Dineke Joele and Toni Wattel in initiating this book, from Ansoff Joele Associates and Twijnstra Gudde N.V. for providing financial support, from Saskia Cortlever and Bernardine Douwes for typing and retyping the manuscript and from Casper Peereboom for drawing the grahs and figures.

The Editors

LIST OF CONTRIBUTORS

H. Igor Ansoff – Ph.D. in applied mathematics. Formerly employed as a manager in various high-technology firms. Founding dean of Graduate School of Management, Van der Bilt University, Nashville. Now Professor of Management at the European Institute for Advanced Studies in Management in Brussels, and at the Stockholm School of Economics. Widely known author of books and articles on strategic planning and strategic management.

Aart Bosman – Ph.D. in management science. Formerly director of the Institute for Economic Research, University of Groningen. Now Professor of Marketing and Information Systems, University of Groningen. Author and co-editor of several books in the areas of production management, marketing and information systems.

Roel Beijdorff – M.A. in micro biology. Now director of the foundation for Applied Ecology, in The Netherlands.
Actively engaged in systems dynamics applications.

Danny Davies – M.A. in Business administration. Research associate at the Strategic Studies Group, T.N.O. (Central Organization for Technical and Scientific Research), The Netherlands, and consultant to management in developing countries.

Jay Galbraith – M.A. chemical engineering and Ph.D. in management. Formerly Professor of management at Wharton and at the Institute for Advanced Research in Management, now independent consultant.
Author of 'Designing Complex Organizations" (1973).

Jan Joele — M.A. in management science. Studied at Harvard and MIT. Specialized in Industrial Dynamics, organizational structure and strategic management. Active in establishing the Business School at Groningen University.

Ton de Leeuw — Ph.D. in management science. Formerly Professor of management at the University of Technology, Eindhoven. Now Professor of Organization and Management at the University of Groningen. Author of books and articles on the application of Systems theory to management and organization.

Henry C. Lucas — Ph.D. in management. Professor and chairman Computer Applications and Informations Systems Area, Graduate School of Business Administration, New York University. Author of several books and articles in the area of management information systems design and implementation.

John Rade — M.A. in economics. Research associate of the foundation for Applied Ecology. Author of various reports and articles on the application of Systems Dynamics.

Hans Schenk — M.B.A., associate Professor of Management, University of Groningen, author of various articles in the areas of inter-organizational relations and industrial economics.

Carlos Siffert — M.S. in chemical engineering. Advanced Management program at Harvard University. Head of Process Engineering Department. Since 1973 Director of Development and Planning, Promon Engenharia, consulting engineers, Sao Paulo, Brazil.

Henk Sol   – Ph.D. in Information Systems. Associate Professor, Groningen University. Author of various articles in the areas of computer simulation and management information system design.

Peter Storm   – Ph.D. in organization behaviour. Associate Professor of Management, University of Groningen, and free-lance management consultant. Published various articles and books in the areas of leadership, organization development and organization design.

Hans Ten Dam   – M.A. in educational psychology. Worked as an independent consultant in organizational development, specializing in conflict resolution and crisis management. Founding partner of Ten Dam and De Vries, management consultants.

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INTRODUCTION

H. Igor Ansoff
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Jan Joele was born in Voorburg, The Netherlands, on April 16th, 1946. After graduating from High School, in 1965, Jan registered as a student in Economics at the University of Groningen. During his undergraduate studies he became extensively involved in extra-curricular activities, ranging from sports to university politics. This involvement grew even more intensive as he subsequently took on his graduate studies in Business Economics.

We believe these extra-curricular activities, in addition to his more academic interests, to be relevant in understanding Jan's professional accomplishments after he received his Masters Degree, with honours, in 1971. Within less than an eight year span, Jan's activities were instrumental to the foundation of a New School of Management at the University of Groningen, to the establishment of an International Consulting Firm specializing in strategic management, to the renewal and continuation of a program of support by the Dutch Government to the European Institute for Advanced Studies in Management, as well as to the initiation of a program of research on Systems Dynamics in The Netherlands.
Besides, he took on responsibilities in local and national politics, as a member of a new policical party. Finally, together with colleagues from Copenhagen, Oslo, Stockholm and Amsterdam, he drew up a proposal for the establishment of a European Policy Analysis Center, in which all of them desired to participate actively. The Policy Center did not come off the ground, but the proposal did result in a study on Changing Industrial Relations, sponsored by the European Cultural Foundation.

Each of these endeavours is related to the two central themes of this book.
The first of these central themes deals with the question of how to initiate and manage strategic change. For more than a decade, our

thinking on strategic change has been dominated by, what could be
called, the Rational Planning Approach. This approach is based on the
assumption that the formulation of a rational plan is the quintessen-
ce of controlled strategic change. Rational means here, among other
things, _logical,_ (in particular with regard to the way in which past,
present and future are connected together), _objective_ (in particular
with regard to the assessment of the strengths and weaknesses of the
firm) and _comprehensive_ (in particular with regard to the relevant
elements in the environment of the firm, which are taken into ac-
count). During the late sixties and early seventies many planning
models based on this assumption were introduced. Each model adding
more variables in order to provide logical explanations for the ob-
vious fact that hardly any of the previous models was being compre-
hensively used in practice.

Gradually, however, awareness grew that strategic changes -certainly,
major strategic changes- are by nature illogical deviations from the
past (illogical, that is, to the participants involved, at the moment
they occur) and that their impacts can be measured in objective terms
only years after. Comprehensive, _analytically based,_ _control_ of stra-
tegic change, then, is nothing but an ideal. Alternatively, more
attention was drawn to, _behaviourally and analytically based manage-_
ment of strategic change, for instance see Ansoff, Declerck and Hayes
(1976).

In chapter 2, Ansoff briefly describes five distinctive ways in which
the management of strategic change can be approached. Successful
management of strategic change is described in terms of three key
results: (1) a new strategy is installed, (2) management capability,
needed to pursue this strategy, is developed and (3) a behavioural
and political platform, which institutionalizes acceptance of the new
strategy, is built. Ansoff subsequently focuses on one particular
approach, the learning-action approach, which, as he argues, permits
management to strike the best possible compromise between the limita-
tions on response time, the need to minimize resistance and the limit
on available power.

In chapter 3, Ten Dam and Siffert present a case illustration of the
learning-action approach, as it was applied in a diversified engi-
neering firm in Brazil. Their chapter highlights some of the major
problems which may occur when attempts are made to actually realize
the best compromise between response time, resistance to change and
available power.

The use - or rather the non-use - of rational models by top-manage-
ment in its strategic decision making is also a central concern in
chapter 4, written by Henry Lucas. He focuses on the question why
top-management seems to have been unaffected directly by information
processing technology. The chapter describes a study which was desig-
ned to learn more about the key problems facing top managers and the
information that is needed to identify, describe and solve these
problems.

A second major theme of this book involves the description and analy-
sis of organizational dynamics. The role of models in corporate deci-
sion making at the top-level has been limited so far not only because
these models were too rational, so to speak, but also because they
have taken the internal dynamics - between and among elements, such
as departments, divisions, professional groups and coalitions, within
the company - insufficiently into account.
These two themes, strategic change and intra-organizational dynamics,
are interwoven in Galbraith's contribution, in chapter 5. Galbraith
attempts to get hold of the various stages through which new ventures
must pass from initial idea to full-grown concern. According to
Galbraith, these stages, as well as the type of organization needed
for each stage, are predictable. But despite their predictability,
many venture managers persist with a type of organization appropriate
only to one of the first stages, thereby creating internal dynamics
which either slow down or altogether arrest, the progress of the
venture.

The theme of strategic change is taken to a higher level by Ansoff in
chapter 6. There he focuses on the need for a societal strategy of
the business firm. Ansoff's central hypothesis is that the firm is
being changed from a purely economic to a socio-economic instrument
of society. Negative reactions to the strategic actions of the firm
by society at large, have causes which are more fundamental than a
misunderstanding of the workings and benefits of free enterprise.
Ansoff subsequently describes four possible scenario's regarding the
future relationship between society and the firm. In each of these
scenario's, the firm will need a legitimacy strategy as well as a
certain set of management capabilities in order to pursue that stra-
tegy.

Similarly, the theme of organizational dynamics is taken to the so-

cietal level by Schenk in chapter 7. Schenk's central concern is with
the interaction effects of industrial firms on the state of the eco-
nomy as a whole. Chapter 6 and 7 form complements to each other in
the sense that Ansoff is led to the conclusion that each firm needs a
strategy which is more macro-oriented, while Schenk is led to the
conclusion that national government needs an economic strategy which
is more micro-oriented. Taken together, this leads perhaps to the
conclusion that society as well as the firm should pay more attention
to the development of meso-level control agents.

Chapter 7 also marks a transition, within the design of this book,
from managing organizational complexity to understanding organiza-
tional complexity.
The last five chapters of the book are all concerned, albeit in dif-
ferent ways, with the question of how to gain a better understanding
of the time dependent interactions between sub-systems within a sys-
tem.
Chapter 8, written by the late Jan Joele, focuses on intra-organiza-
tional dynamics, while chapter 9, written by Beijdorff, Davies and
Rade, focuses on inter-organizational dynamics. Both chapters provide
empirical illustrations of the application of Systems Dynamics.

In chapter 10, De Leeuw provides a coherent set of theoretical and
methodological arguments supporting the applicability of the control
paradigm in both organization design and organization development.
The usefulness of control theory particularly in the latter area, has
been questioned by many theoreticians and practicioners. De Leeuw, on
the other hand, attempts to show that the meta-theoretical nature of
the control paradigm offers various opportunities for integrating
organization design and organization development, while leaving room
for plurality.

In the final chapter, Bosman and Sol provide a more in-depth treat-
ment regarding the question of how to gain better empirical and theo-
retical insights into the nature of organizational dynamics. Their
line of reasoning leads to the conclusion that the application of
simulation – of which Systems Dynamics is a particular technique –is
essential in the development of models of organizational dynamics.

CHAPTER 2

MANAGING DISCONTINUOUS STRATEGIC CHANGE: THE LEARNING-ACTION APPROACH

H. Igor Ansoff

"A manager with a record of success in his histori-
cal environment is a pathological case with respect
to new environmental turbulence."

In this chapter an approach to managing the process
of introduction of a discontinuous strategic change
will be presented in some detail. This approach,
called the learning-action approach, is designed to
make an optimal trade-off between the external pres-
sures for a timely response, the organizational
resistance which arises when the change is accelera-
ted, and the power available within the firm for
overcoming resistance to change.

1. INTRODUCTION

1.1. Need for a New Approach

In a preceding paper we discussed briefly five distinctive approaches
to managing a strategic reorientation. Three of these have been fre-
quently used in the past, see Ansoff (1980).
The coercive approach is a standard tool in the repertoire of autho-
ritarian political systems wh   it is used overtly and deliberately.
In the business firm, curiously enough, the coercive approach has
frequently been employed by managers who were not aware of the fact
that they were using it! As discussed in detail in an earlier paper,
this has typically occurred with the introduction of strategic plan-
ning into the business firm and other purposive organizations. The
famous story of benevolent coercion is the use of PPBS in the U.S.
Department of Defense by Mr. R. McNamara, see Ansoff et.al. (1976).
The learning approach, which belongs to a quieter environment than

that of today, is a non-violent process through which many organiza-
tions evolved through time.

In the majority of <u>crisis</u> situations, which are becoming more and
more prevalent as the environmental turbulence increases, management
is typically unprepared and becomes a part of the crisis rather than
its resolver.

This underlines the fact that each of the historical approaches may
be undertaken either because management unwillingly stumbles into it,
or because it makes a deliberate choice. Earlier, we have described
the conditions under which management should choose the respective
approaches, see Ansoff (1980). But we have also suggested that, in-
creasingly, neither of the three historical approaches will be optim-
al and that, as a result, two new and emerging approaches, <u>flexibili-
ty</u> and <u>learning action</u> will become popular. The two are complementa-
ry, because flexibility enhances the general responsiveness of the
firm, while the learning-action allows it to deal with specific ra-
pidly developing trends/threats/opportunities.

In spite of its growing attractiveness, flexibility is still prac-
tised more in word than in deed, one of the reasons being that the
understanding of how to build flexibility and to evaluate its costs
versus benefits is still rudimentary, see Eppink (1978). The problem
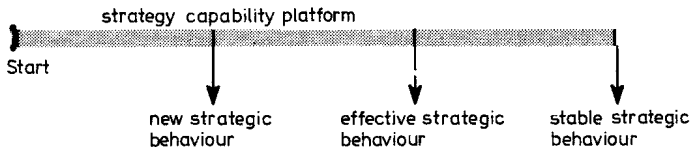is complex and requires a detailed exploration which we shall defer
to a later paper.

In this chapter we shall describe in detail the learning-action ap-
proach which permits management to strike the best possible compro-
mise between the limitations on the response time, the need to mini-
mize resistance, and the limit of the available power.

1.2. Three Key Results in a Strategy Change

Figure 1 illustrates three key results of a successful change in
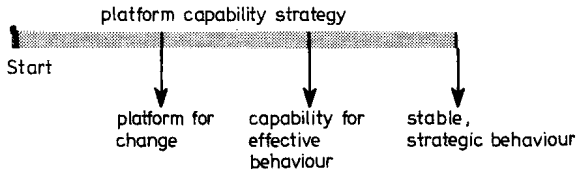strategy:

(1) A new strategy is installed: changes are made in the products-
    markets-technology mix of the firm, new competitive strategies
    and new societal responses are developed.

(2) Management capability is developed (skills, knowledge, informa-
    tion, systems, structure, capacity, rewards) which is needed for
    successful formulation and pursuit of strategy.

(3) Behavioral and political platform is built which institutionali-
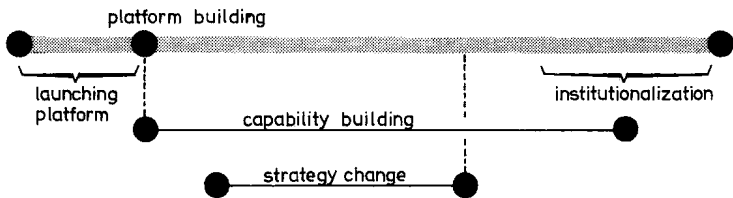   zes acceptance of the new strategy and makes unnecessary conti-

● Coercive approach:

strategy capability platform

Start

new strategic
behaviour

effective strategic
behaviour

stable strategic
behaviour

– Behavioural *platform* for new strategy

● Learning approach:

platform capability strategy

Start

platform for
change

capability for
effective
behaviour

stable,
strategic behaviour

– New *strategy* and strategic behaviour

● Learning - action approach:

platform building

launching
platform

capability building

institutionalization

strategy change

– Management *capability* to develop and manage new strategy

figure 1

Key results in a strategy change

nued enforcement by top management.

Figure 1 shows that in both the coercive and the learning approaches, the three results are achieved sequentially, but in reverse sequences. But the approach we are about to construct is not sequential but parallel. It starts with platform building which continues throughout the length of the change process. Once a <u>launching platform</u> is built, that is, when the power potential is sufficient and resistance low enough to launch the change, capability building is started and is quickly followed by strategy change. As figure 1 shows, platform and capability building frequently will continue after the strategy is in place.

2. <u>LAUNCHING THE PROCESS</u>

2.1. <u>Platform Building</u>[1]

In earlier discussions, we have pointed out that, if cultural and political acceptance are secured early in the process of change, the behavioral resistance will be low during the remainder of the process.

In the learning approach the complete behavioral platform is built before the change is started; in the coercive approach behavioral acceptance evolves after the change, under continued coercion from top management.

An effective intermediate approach is the following:

(1) As the first step, a <u>launching platform</u> (see fig.1) is built which creates favorable behavioral and systemic preconditions for launching the planning (but not necessarily for the implementation) of change.

(2) Platform building continues in parallel with planning so that, by the time implementation starts, the needed higher level of commitment is built. The planning process is organized in a way which contributes to the commitment building. We shall refer to this process as <u>building implementability into planning</u>.

(3) After the implementation, platform building continues until the culture fully accepts the change, the power structure supports it naturally, without coercion, and the capacity/capability are fully adequate for the new strategy. We shall call this third phase of stabilization of the post change activity the <u>institutionalization of change</u>, see figure 1.