

Strategic Renewal and Change

When executives and students of management talk about organizational change, they mean many different things. Introducing a new enterprise resource planning (ERP) system in order to coordinate and standardize internal processes is an organizational change. So is shutting down a factory, selling off a noncore business, or laying off employees. How about adopting a new pay-for-performance system to motivate individual effort or a stock option plan to encourage a shared sense of ownership in the company? Entering global markets, integrating acquired companies, and responding to upheavals in the competitive environment—these, too, are examples of organizational change.

In order to understand and analyze the dynamics of change, and particularly the requirements of effective change implementation, it is important to sort out and distinguish the various approaches an organization can take. This chapter will explore multiple paths to change, paying special attention to behavioral change. In particular, this chapter will:

- Identify the role of strategic renewal in propelling change
- Focus on the behavioral aspect of organizational change
- Analyze the dynamics of motivating employees to alter their behaviors
- Define nonbehavioral approaches to change
- Understand the role of external events in triggering strategic renewal and organizational change

We can start by looking at how dynamics in the external environment triggered a requirement for change at a grocery store chain.

◆ PUTTING THE CUSTOMER FIRST AT GRAND UNION

In the 1980s, the Grand Union grocery store chain faced a formidable challenge: the advent of the national discount superstore.¹ Historically, the company pursued a low-cost, discount-priced strategy in the northeastern United States. But now,

◆ 2**CHAPTER 1 Strategic Renewal and Change**

new competitors invading the Northeast dwarfed them in both store size (the smallest of the new superstores was twice the size of the largest Grand Union) and purchasing power.

With the discount-priced segment increasingly dominated by the likes of Wal-Mart, top management decided it was time to respond to these new competitive realities by redefining Grand Union's strategy. Instead of battling Wal-Mart head on, Grand Union would reconfigure stores to feature top-quality products, national brands, and ethnic foods. What the company lacked in size and market power, they would make up for with high-quality products and customer responsiveness.

Bill Reffett, the company's senior vice president of human resources, realized that this new strategy required new behaviors on the part of store employees. After surveying store personnel, Reffett produced a before-and-after profile (see Exhibit 1-1). The question faced by Reffett and Grand Union's top management team was simple but vital: how best to move employees from "before" to "after."

◆ STRATEGIC RESPONSIVENESS

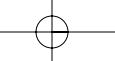
We live in a period of rapid and dramatic change: significant alterations in customer expectations and demands, new technologies, competitors with innovative business models, shifts in workforce demographics and values, new societal demands and constraints. Organizations need to respond to external dynamics in order to create and maintain outstanding performance. The executives at Grand Union looked at the competitive challenge posed by Wal-Mart and elected to engage in a process known as strategic renewal. ***Strategic renewal*** refers to an alteration of an organization's strategy with the intent of regaining sustainable competitive advantage.²

Organizations in a state of what Mische calls "strategic decline" suffer from a diminished capacity to compete and require a process of renewal.³ Exhibit 1-2 provides examples of organizations that have attempted—with varying degrees of success—to renew their strategies after experiencing competitive decline. At different points in the text, we will explore and analyze their efforts to implement the new strategies effectively. For now, let us observe, as illustrated in Exhibit 1-3, that the implementation of a renewed strategy requires organizational leaders to engage in a change process.

Strategic renewal can be either incremental or transformational. ***Incremental strategic renewal*** involves decisions to expand into new product or service lines or to

EXHIBIT 1-1 Grand Union's Shifting Employee Profile

Before	After
<ul style="list-style-type: none"> • We do not know customer desires • We make limited use of customers • We are space driven, not customer driven • We have traditional departments, low margins, and high turnover rates • We feel no ownership of service • We lack managerial skills 	<ul style="list-style-type: none"> • Holding focus groups with customers • Being customer-driven • Including service as part of the product • Adding high-margin departments • Having stores coordinating efforts and exchanging best practice • Expanding management skills

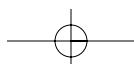
**EXHIBIT 1-2** Strategic Responsiveness in Sample Companies

Company	Altered Strategy
EG&G	Move from government contractor to commercial vendor
Enron	Move from energy production to energy trading
GE	Move from commodity business to high value-added products and services
Grand Union	Move from low-cost to high-end grocery store chain
IBM	Move from product to service/consulting company
Marks and Spencer	Move from a department store appealing to traditional, conservative adult British shoppers to a store appealing to young, trendy shoppers
Renault	Move from French-based to internationally-focused automobile company
Walgreens	Move from store-based chain in order to capture growing Internet business

EXHIBIT 1-3 Strategic Renewal and Organizational Change

seek dramatic performance improvements in current lines. As an example of line expansion, Gap Inc. has—since its founding in 1964—moved to capture new market opportunities for its casual clothing:⁴

- | | |
|------|--|
| 1983 | Purchases Banana Republic |
| 1986 | Opens GapKids |
| 1994 | Opens Old Navy |
| 1997 | Starts Gap.com online shopping |
| 2004 | Announces new concept stores aimed at women over the age of 35 |



◆ 4**CHAPTER 1 Strategic Renewal and Change**

Each incremental move allowed the Gap to capture new market segments without altering either its brand or its basic business model.

Occasionally, organizations seek more fundamental change. ***Transformational strategic renewal*** seeks to redefine customer expectations, industry dynamics, and/or the basis for competition.⁵ Executives at Grand Union envisioned a transformational shift by redefining both who its customers would be (higher income levels) and how they would serve those customers (service, high-quality products, specialty items). The transformational nature of the change makes the effort especially difficult. Transformational strategic renewal requires, notes Mische, “wide-scale invention, reinvention, and redesign of business processes and organizational structures.”⁶

Key learning

To implement a renewed strategy, organizational leaders need to engage in a change process.

IBM was able to pull off such a transformational renewal under the leadership of Louis Gerstner as it moved from a product to a service/consulting company. Harley-Davidson managed a different but equally significant transformational strategic renewal by redefining its relationship with its customers.

Whether the response is incremental or transformational, the decision to renew strategy presents formidable implementation challenges to executives. Think of the situation Grand Union executives faced: The company was fully staffed with employees who had been hired and developed to implement the previous strategy. In deciding to change strategies—from serving down-market to up-market customers, by emphasizing high quality and employee responsiveness—executives faced another question: How do we change employee behavior to implement that strategy? ***Behavioral change*** directly targets patterns of employee actions and interactions in order to achieve and sustain outstanding performance.

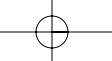
◆ BEHAVIORAL CHANGE

Given the complexity and dynamism of the competitive environment, it is not surprising that change efforts have proliferated over the past several decades. Exhibit 1-4 offers an overview of some of the most popular change efforts. Some organizational leaders treat these efforts as ***change programs***, interventions designed to offer quick and relatively painless performance improvements. Others use programs as a centerpiece for more fundamental change.

Jack Welch adopted Six Sigma (a quality improvement concept borrowed from Motorola) to drive fundamental change at General Electric. Welch called upon Six Sigma to be more than a program to reduce variance. As applied within GE, Six Sigma became a leadership tool for promoting organizational change. Six Sigma, he believed, “could permeate every part of the business” while involving employees at all organizational levels in a simple yet profound mandate: “please your customer.”⁷ Six Sigma provided an organizing concept to energize GE’s ongoing transformation under Welch.

Regardless of whether it is Six Sigma, concurrent engineering, value-chain integration, or any other change tool, effective implementation depends on an alteration in patterns of employee behavior. ***Behavior*** refers to the actions employees take to enact their roles and responsibilities within the organization.

Behaviors involve what employees do and how they do it, how much effort they bring to their roles, and how persistent they are in achieving desired outcomes.

**EXHIBIT 1-4** Popular Approaches to Change

Change Efforts	Key Points	Company Examples
Employee involvement	Allow employees, especially lower-level employees, to participate in making decisions, scheduling and designing work, and ensuring quality.	General Motors Hampton Inn Hotels SAS Airlines
Total quality Management	Align operational processes with the requirement for customer-defined quality and continuous improvement.	Globe Metallurgical, Inc. Motorola Westinghouse
Business process reengineering	Redesign cross-functional workflow and processes to drive out waste and inefficiencies.	Hewlett-Packard Lotus Development Southwest Airlines
Concurrent engineering	Integrate product design, manufacturing, and support activities into a synchronized process.	British Aerospace Carolla Development Comdial Corporation
Six Sigma	Call on strict statistical methodology to control variance, improve quality, and reduce the cost of error.	AlliedSignal General Electric Motorola
Value-chain integration	Capture value by linking and coordinating the primary activities—inbound logistics, production, outbound logistics, marketing, and sales—of the organization.	ComputerWorld IBM Electronics Microsoft
Business model reinvention	Redefine the ways in which the organization acquires and retains customers while generating profits.	IBM Ikon Office Solutions Southwest Airlines

Behavior also involves the enactment of relationships: how employees interact with others (peers, subordinates, superiors, customers, suppliers, and so forth). It is this enactment of roles, responsibilities, and relationships that constitutes employee behavior in organizations. The collective enactment of those roles, responsibilities, and relationships—that is, the *patterns* of employee behavior within organizations—constitutes the target of behavioral change efforts.

Change efforts often require alterations in patterns of employee behavior (see Exhibit 1-5). Bill Reffett focused on employee behaviors in order to support Grand Union's desired strategic renewal. The behaviors of all store employees—from bag packers and cashiers to department and store managers—would need to change for the company to enact its new strategy. Exhibit 1-6 offers Reffett's “before” and “after” behavioral profile: These are the behaviors that typified Grand Union employees in the past and the behaviors that would be required for the future.

Behavioral change seeks more than a short-term alteration, however. In order to support strategic renewal and outstanding performance, new behaviors need to be

Key learning

Change efforts focus on employee behavior as a way of supporting strategic renewal.

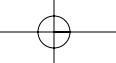
◆ 6**CHAPTER 1 Strategic Renewal and Change****EXHIBIT 1-5 Popular Change Programs Demand New Patterns of Behavior**

New Patterns of Behavior	Will Support
Increased collaboration and teamwork	Total quality management Business process reengineering Value-chain integration
Increased responsiveness to customers	Six Sigma
Increased participation in decision making	Employee involvement
Increased inventiveness	Business model reinvention

EXHIBIT 1-6 Required New Behaviors at Grand Union⁸

Employee Group	Behaviors Before Change	Behaviors After change
Bag packers	<ul style="list-style-type: none"> • Ignore customers • Lack of packing standards 	<ul style="list-style-type: none"> • Greet customers • Respond to customers • Ask for customers' preference
Cashiers	<ul style="list-style-type: none"> • Ignore customers • Lack of eye contact 	<ul style="list-style-type: none"> • Greet customers • Respond to customers • Assist customers • Speak clearly • Call customers by name
Shelf stockers	<ul style="list-style-type: none"> • Ignore customers • Don't know store 	<ul style="list-style-type: none"> • Respond to customers • Help customers with correct information • Knowledgeable about product location
Department workers	<ul style="list-style-type: none"> • Ignore customers • Limited knowledge 	<ul style="list-style-type: none"> • Respond to customers • Know products • Know store
Department managers	<ul style="list-style-type: none"> • Ignore customers • Ignore workers 	<ul style="list-style-type: none"> • Respond to customers • Reward employees for responding to customers
Store managers	<ul style="list-style-type: none"> • Ignore customers • Stay in booth 	<ul style="list-style-type: none"> • Respond to customers • Reward employees for service • Appraise employees on customer service

sustainable and *adaptive* to shifts in the external environment. The assumption underlying behavioral change is that employee behaviors matter. Research and experience have shown that, beyond products and market position, beyond plants and technology, the manner in which the organization's employees act and interact has a significant



impact on bottom-line performance. Whether measured by stock prices, revenues, or return on investment, patterns of behavior find their way to the bottom line.⁹

The competitive advantage delivered by behavioral change can be long term and sustainable. The manner in which work is organized, information is shared, decisions are made, coordination occurs, and problems are solved are all performance differentiators.¹⁰ Furthermore, that performance edge is sustainable for decades, leading to significant and often staggering competitive advantage.¹¹

How is it that patterns of employee behavior find their way to the bottom line? Employees who are involved in decision making become more committed to implementing the outcomes of the decision-making process. Employee commitment, in turn, leads to an enhanced capacity to work together to solve problems. Quality improves, customer responsiveness increases, and adaptation occurs. Chapter 5 will examine in detail efforts to redesign organizations to capture the benefits of enhanced employee involvement and commitment. For now, we can suggest that behaviors count: Employee behaviors help shape organizational performance.

SOURCES OF BEHAVIOR

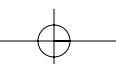
Behavioral change needs to start with an appreciation of the source of an individual's behavior. What is it that leads an individual to behave in a certain way? Individual psychology is important, of course: who the individual is, what values she brings to the workplace, even how that individual thinks and learns.

Organizational context—the setting and circumstances in which employees work—also exerts a powerful impact on behavior. Companies as diverse as Nordstrom, General Electric, Sun Hydraulics, and Southwest Airlines endeavor to promote an organizational context that shapes individual behavior. They call upon organizational culture and values, the behaviors of leaders, as well as rules and procedures to define a context that shapes how employees enact their roles, responsibilities, and relationships.

To appreciate the power of organizational context to shape behaviors, we can examine a story about a customer attempting to purchase a pair of shoes at the department store chain, Nordstrom. Nordstrom is widely considered the “gold standard” for customer service:¹²

Lance, a polite and attentive sales associate, showed her [the customer] nine pairs of shoes. Unfortunately, the store did not have the size/color/style combination that she wanted. As she was leaving [the store], another sales associate, Howard, approached and suggested that he could call a few other Nordstrom stores to find the shoes. Ten minutes later, Howard excitedly informed her that, although he had not found the shoes at another Nordstrom store, he did find them at a nearby Macy's (a primary Nordstrom competitor). Rather than sending her to Macy's, Howard had already arranged for the shoes to be overnight mailed to her home. “Of course,” Howard informed her, “Macy's will bill you for the shoes, but Nordstrom will pay for the overnight delivery charge.”¹³

Compare the behaviors of the two Nordstrom employees, Lance and Howard. Lance performed his job politely and adequately but failed to exhibit the legendary customer responsiveness to which the company aspires. Howard, the second sales associate, did all he could to make sure Nordstrom wowed this particular customer.



◆ 8**CHAPTER 1 Strategic Renewal and Change**

How do we account for these two different patterns of behavior? A simple answer would suggest that these are two different people, undoubtedly with distinct personalities. Likely, there is truth to that observation. Perhaps Lance lacks the ambition of Howard, or Howard desires to move up the hierarchy from sales into management.

Those personal explanations, however, fail to consider another powerful factor. Upon leaving the store, the customer overheard Howard explaining the Nordstrom way of doing things to Lance, the first sales associate. “I can’t believe you didn’t work harder to find those shoes for her,” Howard told Lance. Remember, Howard and Lance were peers, not boss-subordinate. “You really let *us* down.”¹⁴

Howard’s rebuke of his colleague imparted the core value of Nordstrom: Serve the customer completely and thereby build her loyalty. Howard’s behavior did not happen accidentally or serendipitously. Lance and Howard, like all Nordstrom employees, received a copy of the company’s “handbook,” a simple card containing what is known in the company as Rule Number One. “Use your good judgment in all situations,” the card read, followed by, “There will be no additional rules.”¹⁵

Every element of Nordstrom’s organizational context—from recruiting to evaluating and rewarding—focuses on placing customer service above all else. Nordstrom does not rely simply on rules and regulations to achieve outstanding service, however; it depends largely on organizational context. Howard applied peer pressure directly and immediately in order to shape Lance’s behavior.

While managers cannot be in the business of shaping and altering individual personality, they can call upon recruitment and selection as tools to bring into the organization employees with an individual psychology that fits with their renewed strategy. For Grand Union to succeed in instilling new patterns of employee behavior, Bill Reffett will have to examine a wide array of human resource policies and procedures. We will have a more complete discussion of the use of human resource development in promoting change in Chapter 6. How managers shape and reshape organizational context in order to promote behavioral change will be a core theme running throughout the text.

Key learning

In order to alter behaviors, implementation efforts need to target both individual employees and the organizational context in which those employees work.

THE ROLE OF PARTICIPATION IN MOTIVATING BEHAVIORAL CHANGE

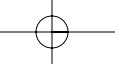
Scholars have long debated whether people naturally resist or embrace changing their behaviors (see “Join the Debate” feature). There is no debate, however, that people who participate in defining problems and solutions will become committed to the new directions that result from that process.¹⁶ By diagnosing problems, understanding their importance, and being part of the process of formulating solutions, people develop a psychological sense of “ownership” over the outcome. That ownership now creates in employees the heightened motivation to implement change in order to achieve desired goals.¹⁷

Change imposed from “above”—top executives telling employees that they must alter their behaviors in order to implement a new strategy or perform better under the old strategy—is likely to engender resistance. “People don’t resist change,” the saying goes, “they resist *being* changed.”

The difficult challenge for managers, then, becomes how and when to engage employees in the process of diagnosis, problem solving, and planning for change. General Motors (GM) can offer an illustration of both approaches.

Key learning

When people participate in the process of defining a problem and its solution, they will be more likely to change their behaviors in accordance with that solution.



Join the Debate—Is It “Human Nature” to Resist Change?

“Yes”—Change represents a challenge to people’s comfort level. It is uncertain, unpredictable, even risky. Some cultural anthropologists insist that human nature leads people to resist change as a way of avoiding risk. Nicholson, for instance, writes that we “are hardwired to avoid loss when comfortable but to scramble madly when threatened. . . . You can ask people to think outside the box and engage in entrepreneurial endeavors all you want, but don’t expect too much. Both are *risky* behaviors [emphasis added]. Indeed, any kind of change is risky when you are comfortable with the status quo. And evolutionary psychologists are not surprised at all by the fact that, despite the excellent press that change is given, almost everyone resists it—except when they are dissatisfied.”¹⁸ It is not surprising, therefore, that employees have such a difficult time changing their behaviors: Resisting change is nothing more than a natural response.

“No”—One of the basic motivations of all humans is the need to develop and grow, both of which fuel change. In their study of the basic drives that motivate humans, Lawrence and Nohria note, “Humans have an innate drive to satisfy their curiosity, to know, to comprehend, to appreciate, to develop understandings or representations of their environment and themselves through a reflective process: the drive to learn.”¹⁹ It is that drive to learn, when effectively focused, that can lead employees to embrace change as a natural human choice.

What do you think?

In the decade of the 1970s, soaring fuel prices and gas shortages made the U.S. consumer much more aware of the fuel *inefficiencies* of domestic automobiles. At the same time, Japanese car manufacturers such as Toyota, Honda, and Nissan captured significant market share by offering small, reliable, and fuel-efficient alternatives. GM, with its fleet of gas-guzzlers built for an era of expanding interstate highways and cheap gas, was especially vulnerable.

When Roger Smith became chairman of GM in 1980, the company was hemorrhaging money and market share. Layoffs, factory closures, and the shedding of non-auto-related businesses followed. Smith had more in mind than trimming costs, however. To lead strategic renewal, he called on a massive multi-billion-dollar investment in state-of-the art robotics and assembly technology. Out of that effort came the Chevrolet Vega, a small, fuel-efficient model produced at the company’s newly retooled Lordstown, Ohio, plant.

The Vega represented GM’s intent to face down the rising tide of imports. Employees at the Lordstown plant, however, resisted the changes that had been imposed on them from above. They objected to the depersonalization and sped-up pace of new robotic technology. Resistance took the form of sabotage, open rebellion, a protracted strike, and the rapid demise of the Vega.²⁰

Compare that resistance to a different initiative just a few years later at GM’s Cadillac plant in Livonia. Cadillac and Vega were worlds apart in terms of intended market niche. Nevertheless, GM executives hoped Livonia would help address some of the same pressures for strategic renewal: the need to produce a world-class car that would help the company regain slumping market share. As they had done at Lordstown,

◆ 10**CHAPTER 1 Strategic Renewal and Change**

executives sought improved quality and increased efficiency at Livonia. Now, however, the company approached change quite differently. Management worked closely with labor through the United Auto Workers union. Instead of imposing new technology and work processes on the plant, management and the union involved hourly workers in a planning committee that would redesign the way the plant operated.

The joint worker-management planning committee created employee teams organized around a product line or function and given responsibility beyond production, including responsibility for quality control and material handling. Other design changes proposed by the planning committee—the removal of multilevel job classifications in order to improve flexibility and efficiency in the deployment of workers, extensive front-end training for all employees to gain teamwork and problem-solving skills—turned the plant into what some in the company called “a Lordstown that worked.”²¹ Twenty-five years later, Livonia continued to operate as a high-quality producer of Cadillac’s widely regarded Northstar engine.

Imposed change encourages resistance. Individuals can feel manipulated, coerced, or even ignored. When people participate in designing change, on the other hand, they are more likely to feel they are making an informed choice about altering their behaviors. Individuals can develop commitment to the choice as well as to feel responsibility for implementing that choice. When people participate in the design of change (in the diagnosis, action planning, and implementation stages), they will be more motivated to alter their behaviors.

And employee motivation matters. New behaviors will not be sustainable if they have been prompted by manipulation or coercion. Effective change does not seek to fool employees into setting aside their better judgment. Rather, it seeks to encourage

employees to find continually new and improved ways of applying their better judgment. How can internal processes be improved? What are customers telling employees about our products and services? How might we eliminate waste and improve quality? To support behaviors that can sustain outstanding performance, effective change efforts avoid manipulation and coercion, aiming instead to enhance employee willingness and ability to contribute their own judgment.

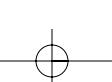
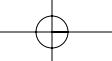
Because motivation is internal to each employee, the change leader’s challenge is complex. The task involves shaping the organizational context in such a way as to encourage and support an internal desire on a large number of employees to alter their behaviors in ways consistent with the shifting demands of the new strategy. *How* that is done will be the subject of the remainder of the book. When change leaders are successful, the organizational context unleashes “people’s innate curiosity and desire to experiment,” says Senge, which creates a powerful “engine for improvement.”²² Motivation works to build initiative and a desire on the part of the employees themselves to innovate and alter behaviors in order to achieve outstanding performance.

Key learning

Behavioral change seeks to motivate employees to change their behaviors; not to force, coerce, or trick them into changing.

◆ NONBEHAVIORAL CHANGE

Not all change efforts take aim directly at behaviors. After failing to implement their new up-market strategy, leaders at Grand Union gave up on behavioral change, instead filing twice for bankruptcy protection before selling off the company’s physical assets.



That was a different approach to change. Rather than focusing on new behaviors, executives engaged in **turnaround**, an intervention intended to stabilize cash flow, shore up the balance sheet, and maximize shareholders' wealth.

Grand Union leaders used turnaround as a final resort. There are other occasions, however, when a company seeks turnaround as its initial and only change strategy. The goal in that case is *not* to create sustainable outstanding performance but rather to maximize shareholder wealth in the short run. Al Dunlop, the head of multiple U.S. corporations during the 1990s, can serve as a prototype turnaround leader. In just one example of his approach, Dunlop took over ailing Scott Paper in 1994. His explicit intent was to increase shareholder value (he personally purchased \$2 million of Scott stock on the open market). "Shareholders are the number one constituency," he insisted.²³

In pursuit of improved shareholder value, Dunlop laid off most of the top management team, sold operations, shuttered 41 of the company's 60 facilities, and reduced headquarters staff by 70 percent, salaried management by 50 percent, and hourly employees by 20 percent, resulting in a head count reduction of some 11,000 employees. Additionally, he ended Scott Paper's practice of donating money to community and charitable events, instead investing heavily in core-business product development.

Dunlop oversaw similar turnarounds at American Can, Lily Tulip, Crown Zellerbach, and Sunbeam. By emphasizing economic value creation above all else, Dunlop increased shareholder wealth. What he did not do at Scott or the other companies was create sustainable outstanding performance. In just over a year at the helm of Scott Paper, he sold off remaining Scott assets to rival Kimberly-Clark. True, share price rose 150 percent in his 14-month tenure, Dunlop departed with a \$100 million package, and the business press hailed him as a corporate superstar. What he had not done was enhance the capacity of the company to compete in the long run.

Turnaround often focuses on "downsizing" or "rightsizing": reducing the number of employees in order to pare costs. A study of over 3,000 firms by the U.S. Department of Labor covering the years 1980 to 1994 found that at least 59 percent laid off 5 percent of their employees and one-third laid off more than 15 percent of their workforce at least once during that 15-year period.²⁴ Even in the extended boom years of the 1990s, companies such as AT&T, Exxon/Mobile, and Digital Equipment Corporation laid off large numbers of workers in a usually futile attempt at strategic renewal.²⁵

The impact of layoff announcements on the psychological state of employees—on their sense of security and belief in the future—accounts for part of the difficulty of translating downsizing into sustained outstanding performance. Employees who become insecure because of workforce reductions are less productive and less committed to the organization.²⁶ Given the short-term severance and outplacement costs of workforce reductions, the savings in compensation to the organization and subsequent impact on the bottom line are often overstated. Studies of firms that engaged in downsizing found no evidence that reductions consistently found their way to the bottom line.²⁷ Downsizing provided no "quick fix" for sagging performance.

That is not to say that organizations can or should ignore the goals of turnaround. Failure to keep a sharp focus on matters such as profits, earnings, and return on investment will quickly lead to loss in investor confidence and increasing difficulty raising

◆ 12**CHAPTER 1 Strategic Renewal and Change**

needed capital. Poor financial performance can quickly erode employees' sense of efficacy and worth, thereby undermining motivation.

Similarly, turnaround issues such as an increasing shareholder wealth and improving operational efficiencies can and should be part of an overall change effort.²⁸ Jack Welch laid off one-fourth of General Electric's workforce as part of an extraordinarily effective two-decade-long strategic renewal process. Turnaround efforts that involve the restructuring of assets through acquisition and divestiture, as well as significant changes in plant and equipment, can be combined with behavioral change to improve performance.

Another nonbehavioral approach to change focuses on technology. **Technology** can be understood broadly as the processes, mechanics, and interactions required to convert raw material into finished offerings. Some technology change occurs in a virtual behavioral vacuum, requiring no significant alteration in patterns of behavior. Think about the adoption of a new e-mail system for an organization. Passionate battles may erupt among information technology specialists over the relative merits of one system or another. In the end, little behavioral change is required to make the switch. Other technologies, however, can achieve their promised potential *only* when accompanied by behavioral change. A teamware software product designed to promote coordination among team members will fail to achieve much, if any, performance impact, unless and until team members understand and accept the requirement for interdependent action and shared responsibility.

We will explore the complex interaction between technology and behavior more fully in Chapter 7. For the moment, we can observe that attending to technology without paying at least equal attention to the behavior of employees—as demonstrated by GM's Lordstown experience—can be a path not just to disappointment but also to dysfunction. When employees participate in the design and implementation of new technology, as occurred at Livonia, they are more likely to alter their behaviors in ways that will help ensure effectiveness.

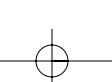
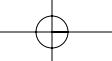
Key learning

Effective strategic renewal efforts combine aspects of turnaround, technology change, and behavioral change.

We have identified three faces of change (summarized in Exhibit 1-7). All three offer options available to leaders in search of strategic renewal. Although we have seen examples of leaders who approached one or the other of these “faces” as separate and independent options—GM’s singular pursuit of technology change at Lordstown, Al Dunlop’s turnaround at Scott Paper—effective change efforts combine the three.

EXHIBIT 1-7 The Three Faces of Change

Type	Target	Rationale
Turnaround	Costs	Improve return on shareholder investment
Technology	Internal processes	Increase efficiency
Behavioral	Employee actions and interactions	Create human capacity for implementing renewed strategy and creating sustainable outstanding performance



TRIGGER EVENTS AND CHANGE

Strategic renewal can be either incremental or transformational. Leaders cannot assume, however, that regular, ongoing incremental responsiveness will eliminate the need for more fundamental change. All industries, Tushman and O'Reilly note, go through periods that require fundamental change:

Almost all successful organizations evolve through relatively long periods of incremental change punctuated by environmental shifts and revolutionary change. These discontinuities may be driven by technology, competitors, regulatory events, or significant changes in economic and political conditions . . . The sobering fact is that the cliché about the increasing pace of change seems to be true. Sooner or later, discontinuities upset the congruence that has been part of the organization's success.²⁹

Unless organizations exist in a stable competitive environment—and few do—they must periodically confront revolutionary change. **Revolutionary change** refers to large-scale, long-term reorientation of most or all of the central aspects of organizational life. **Evolutionary change**, by contrast, refers to small, incremental improvements typically in organizational processes and technologies: a new order administration process, a technology that allows the company to become more quickly responsive to their customers, and so on. The requirement to keep up with the competition, even to anticipate shifts in the external environment, typically triggers evolutionary change. Revolutionary change involves “frame-bending” change to the organizational culture.³⁰ Executives conclude that the “fundamental properties or states of the system” must be transformed.³¹

Whether revolutionary or evolutionary, strategic renewal is typically initiated in response to a **trigger event**—a shift in the environment that precipitates a need for altered strategies and new patterns of employee behavior. Returning to the example of Grand Union, executives did not wake up one morning and think: *Let's create a new grocery store chain.* External factors—particularly new competition—triggered the requirement that employee behaviors change if Grand Union was to survive.

Trigger events, says Isabella, “are so named because their magnitude and potential for organizational as well as personal impact set into motion a series of mental shifts as individuals strive to understand and redefine a situation. By their very nature, they unbalance established routines and evoke conscious thought on the part of organizational members. They stir up feelings and emotions that come to affect people’s reactions to the change. In short, trigger events bring people’s mindsets into the arena of change.”³² Trigger events can be external, internal, or a combination of the two. Exhibit 1-8 revisits the strategic renewal efforts presented earlier in Exhibit 1-2, adding the key events that triggered renewal efforts.

As we saw with Grand Union, trigger events often come from a firm’s external environment: in that case, a specific threat posed by the rise of the giant discount chain Wal-Mart. Some external changes are less specific, impinging more generally on the operations of a wide array of businesses and industries. Take the requirement to compete in an interdependent, global marketplace. Companies ranging from giant manufacturers to your neighborhood grocery stores and movie theaters find themselves facing global competition. Effective response to globalization triggers a

Key learning

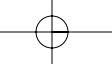
Trigger events, either external or internal to an organization, precipitate the need to alter behavioral patterns of employees.

◆ 14**CHAPTER 1 Strategic Renewal and Change****EXHIBIT 1-8** Strategic Responsiveness and Trigger Events in Sample Companies

Company	Altered Strategy	Trigger Events
EG&G	Move from government contractor to commercial vendor	End of cold war Shifts in United States defense policies
Enron	Move from energy production to energy trading	New leader (Jeffrey Skilling) Desire for new business model
GE	Move from commodity business to high-value-added products and services	Recession of 1980s New leader (Jack Welch)
Grand Union	Move from low-cost to high-end grocery store chain	Decline in performance New competitive forces (Wal-Mart, e.g.)
IBM	Move from product to service/consulting company	Decline in performance New competitors for key product lines (Cisco, Dell, e.g.) New leader (Louis Gerstner)
Marks and Spencer	Move from a department store appealing to traditional, conservative adult British shoppers to a store appealing to young, trendy shoppers	New competitive forces (Zara, e.g.) Fragmenting of retail business models
Renault	Move from French-based to internationally-focused automobile company	Stagnant European market New leader (Carlos Ghosn)
Walgreens	Move from store-based chain in order to capture growing Internet business	New technology (Internet)

demand within organizations for high levels of integration and coordination across organizational and national boundaries. Successful global organizations move financial resources, technology, people, best practices, and knowledge in a seamless flow as required by a highly fluid international competitive environment.³³ To be effective in such a complex environment, new behaviors will be required on the part of employees both in the home-based and nondomestic operations.

Shifts in the labor market may also trigger a requirement for change. The growing reliance of organizations on “knowledge workers”—employees with highly specialized technical know-how—has shifted the balance of power within the labor market.³⁴ For these employees—about 20 percent of the U.S. workforce³⁵—frequent movement



between organizations has replaced longevity within a single organization as the basis on which the employment relationship is built. In the last decade of the twentieth century, Internet start-ups vied with each other for talented employees. At upper-management levels, a kind of free agency system developed in which individuals moved freely and frequently from organization to organization. The majority of the workforce found itself under a different dynamic but one that ironically had some of the same results. The recurring cycles of layoffs altered the relationship between employee and employer.³⁶ As with other labor segments, loyalty to a single organization eroded.

The infusion of women and minorities, of disabled, and of non-native-born employees into the workforce continued to reshape the labor market as well. While the diversification of upper-management ranks proceeded more slowly than some had expected, workforce diversity at all other levels of the organization became a fact of life that managers must learn to deal with effectively.

The reshaping of the financial marketplace provided its own trigger for organizational change. In 1980, 20 percent of American households owned stock (either individually or as part of their pension plan). That number exploded to well over half by the end of the 1990s. From a relatively cloistered and compliant group, investors—and the institutions that represent them—became informed and involved, with high expectations for returns on investment. The daily ebb and flow of stock prices as well as the quarterly earnings of public companies moved, during the 1990s, as a topic from the business page to the front page, from corporate boardrooms to watercooler conversations, and from formal investment houses to the Internet. In ways that past generations of managers could hardly have imagined, today's managers must attend to the expectations of this new generation of investors. The challenge for organizational leaders is to achieve a balance between the interests of multiple stakeholders. If the demands on one stakeholder—in this case, shareholders—takes consistent precedence over the others, organizations can undermine the motivation of employees to continue contributing to the long-run effectiveness of the organization.

Numerous industries ranging from financial services to airlines and utilities, and even national economies, have seen the systematic removal of government constraints, requiring companies to compete in a much freer marketplace. Employees operating in a highly regulated environment such as banking had, in the past, paid close attention to compliance. Growth was unspectacular but steady. Once financial services became deregulated, cautious, risk-averse employees handicapped their company's ability to compete. Behaviors that had worked well in the past now became the source of the problem for the future.

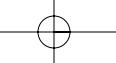
The trend is not entirely *away* from regulation. The popularity of the book *Fast Food Nation*³⁷ and the uproar caused by Janet Jackson's "wardrobe malfunction" during the 2004 Super Bowl broadcast led the fast-food and broadcast industries to impose their own constraints in an effort to avoid external regulation. Unethical and/or illegal behaviors by employees can now result in significant fines and loss. Boundary pushing—and crossing—behaviors by executives at companies such as Enron and WorldCom invited federal regulators deep into the operations of many organizations, leading to altered behaviors not only on the part of accountants but also by CEOs, who now have to vouch for the accuracy and truthfulness of financial statements. The picture is decidedly mixed, but in all cases, the shifting demands and expectations of governments and societies can trigger a requirement for strategic responsiveness and renewal.

◆ 16**CHAPTER 1 Strategic Renewal and Change****EXHIBIT 1-9 Trigger Events Posed by a Changing World**

Trigger Events	Precipitate Organizational Response
Globalization	Increased organizational complexity and pressure on coordination
Labor markets	Increased employee mobility putting pressure on attraction and retention
Diversity	Increased potential for competing and conflicting points of view
Salience of shareholders/financial markets	Increased pressure on short-term performance and imbalance among multiple organizational stakeholders
Regulation and deregulation	Requirement for flexibility, adaptation, and tolerance for uncertainty
Mergers and acquisitions	Requirement to blend cultures and enhance coordination among employees of two companies to achieve desired synergistic advantage
Internet	Global connectivity, ease of shopping (and comparing prices), and dispersed customers create new competitive dynamics while fluid, dispersed, and temporary work arrangements make the achievement of coordination and the building of organizational commitment difficult

Shifts within organizations may themselves trigger the requirement for change. The “takeover mania” of the 1980s leveled off the following decade with a steady but modest growth in the number of acquisitions. At the same time, the dollar value of those acquisitions escalated dramatically. What started as a decidedly American trend had, by decade’s end, spread to Europe (although not, at least to any large degree, to Asia). A number of these acquisitions were successful, but between 50 percent and 80 percent proved to be disappointments, regularly resulting in significant destruction of shareholder value for the acquiring firm. Although there are many reasons for this disappointing record, the real disasters—think of AT&T’s 1991 acquisition of NCR, the painful merger of Pharmacia and Upjohn in 1995, the plagued 1999 takeover of Chrysler by Daimler-Benz, and the 2000 merger between AOL and Time-Warner—floundered on matters of blending the behavioral patterns of employees in the two organizations, particularly the inability to resolve inevitable problems and conflicts that arise when two cultures are brought together. If synergistic advantage is the desired outcome of an acquisition, then organizational leaders must develop skills of rapidly and thoroughly absorbing and assimilating the two cultures.³⁸

The Internet proved to be a trigger for change in a wide variety of industries and companies. Businesses moved away from large bricks-and-mortar structures toward fluid, often virtual organizations. Temporary, freelance workers connected through the



Internet were united in ad hoc structures with little centralized direction or control. The role of management, indeed the very notion of organizations, may be evolving into less rigid, structured entities.

Organizational leaders may welcome some of these trigger events, dread the impact of others, and scratch their heads in bewilderment at the accumulative impact of them all. Undeniably, however, each set of events calls for changed behavior on the part of employees. These events and potential for triggering change are summarized in Exhibit 1-9.

◆ CONCLUSION

Strategic responsiveness to a dynamic environment requires organizational change. Change, however, is not a singular concept. The three faces of change suggest that change leaders face options. Turnaround addresses the need to improve the balance sheet and technology focuses on improved processes. By itself, however, neither will achieve the full, intended impact of strategic renewal. Effective change will also require attention to employee behaviors—patterns of action and interaction—no less than financial and technological effectiveness.

Trigger events—typically, discontinuities in a firm's competitive environment—precipitate the requirement for strategic renewal and organizational change. Globalization, labor market shifts, deregulation, mergers and acquisitions, and so on, pose new challenges to organizations, leading executives to believe that significant changes need to occur within their organizations in order to match the discontinuities they face on the outside.

Recognizing the requirement for change and being able to manage change effectively are, of course, two different matters. The following chapter will examine the theoretical underpinnings of effective change implementation.

Chapter Vocabulary

Strategic renewal a change in an organization's strategy through a process of creating new products, services, capabilities, and knowledge bases.

Incremental strategic renewal gradual shifts in strategic focus such as decisions to expand into new product or service lines or to seek performance improvements in current lines.

Transformational strategic renewal fundamental shifts in strategic focus intended to redefine market dynamics, change relationship with customers, and/or the core business model.

Behavioral change the process of motivating employees to alter their patterns of behavior in order to enable the organization to achieve and sustain outstanding performance in a dynamic competitive environment.

Change program change efforts adopted by management because they promise a solution to certain

problems and enhance the reputation of the company and its leaders.

Behavior the enactment of roles, responsibilities, and relationships by employees within an organization.

Organizational context the setting and circumstances in which employees work.

Turnaround an attempt to improve the immediate financial position of an organization by focusing on the income statement and the balance sheet.

Technology organizational processes, mechanics, and other interactions intended to produce a product or service.

Revolutionary change long-term, large-scale reorientation of most of the aspects of the organization.

Evolutionary change small, incremental improvements in organizational processes and technologies.

Trigger event a shift in the environment that precipitates a need for organizational change.

◆ 18**CHAPTER 1 Strategic Renewal and Change****Discussion Questions**

1. Review Exhibit 1-2. Select one of the companies. Based on the brief statement of their renewed strategy (or research the company for further details), think about how patterns of employee behavior will have to change.
2. Explore the challenges that faced Bill Reffett and the leadership at Grand Union. What explanations can you offer for the apparent failure of their new strategy?
3. What are the three approaches to organizational change? In what ways are they different and in what ways do they overlap?
4. Identify the main external forces triggering the requirement for organizational change. Pick three and discuss how they might necessitate behavioral change on the part of organizational employees.
5. Why is motivation important to behavioral change? How might leaders approach change differently if they are trying to motivate employees to change rather than force them to change?

Case Discussion

Read “Indecent (?) Sports Talk” and prepare the following questions:

1. WEEI is doing quite well. So why does Julie Kahn need to consider change management? Characterize the type of change she is seeking.
2. Now focus specifically on behavioral change. Whose behaviors need to be changed and what

behaviors will have to be changed? How important is it to the organization that Julie Kahn be successful?

3. Recognizing the challenge of behavioral change, how might Kahn design and implement a change intervention at WEEI?

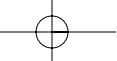
Indecent (?) Sports Talk

It was April 2004 and Julie Kahn had reason to celebrate. As vice-president and general manager of Sports Radio WEEI-AM in Boston, she received a special degree from Newbury College, recognizing her as “one of the country’s only female general managers in sports radio and one of the radio industry’s most accomplished female executives.”³⁹ Honors are nice, but in the radio business ratings are far more important, and here again the news was all good. WEEI rated number one among Boston listeners in the 25- to 54-year-old age bracket, the group most valued by advertisers. The station also ranked tops among male listeners in the same age group, allowing WEEI to proclaim itself to be the most popular sports talk station in the United States. Individual program components, quite naturally, sparkled in their respective time slots. Glenn Ordway’s afternoon drive time (2 P.M.–6 P.M.) *Big Show* rated number one, as did the *Dale and Neumy* midday (10 A.M.–2 P.M.) program. John Dennis and Gerry Callahan’s *Dennis and Callahan* show (6 A.M.–10 A.M.) placed second only to the local broadcast of Howard Stern’s nationally syndicated show.⁴⁰

Great news indeed.

But the life of a radio executive can get complicated. Ever since the February 1, 2004, Super Bowl telecast, in which pop singer Janet Jackson revealed her breast due to what was called a “wardrobe malfunction,” the U.S. Congress, as well as assorted family, political, and religious groups, had been pressuring the Federal Communications Commission (FCC) to clamp down on what they called “indecency” on the public airways. Sports programming like that on WEEI appealed largely to men. As Kahn herself acknowledged, what men like to talk about is “women, sports, sexual innuendo with women, and sports again.”⁴¹

Therein lay the problem. With the FCC increasing its enforcement, and its fines, against sexual indecency, some of the topics that had helped propel the popularity of WEEI would now have to be treated with greater care. On-air personalities, not to mention show producers, would have to proceed with greater caution without jeopardizing their popularity. Kahn’s job was to oversee that transition.



STATION BACKGROUND

WEEI—the call letters originally stood for “Edison Electric Illuminating”—began its broadcast life in the mid-1920s, operating as NBC’s Boston affiliate with a weak radio signal.⁴² During the Great Depression, CBS purchased WEEI, considerably increasing the station’s power and reach. CBS ownership continued for 42 years under a format mixing music and talk. Starting in 1974, WEEI changed to a 24-hour news format, dropping all music. That format continued through 1991, even though station ownership changed several times (including, for a while, ownership by the Boston Celtics, the local professional basketball team).

On Labor Day 1991, WEEI became, for the first time, a *sports* talk station. Laying off the large news staff, the station hired local sports personalities to host programming from 10 A.M. onward. The station purchased broadcast rights to the Boston Bruins hockey team and the Boston Celtics, later adding the Boston Red Sox and the New England Revolution professional soccer team (although giving up Bruins’ and Celtics’ broadcasts). To build support, WEEI syndicated Don Imus’s popular *Imus In the Morning* show. Imus’s mix of racy talk and increasingly sophisticated political interviews and discussion helped boost the station’s popularity and presence in the community. Soon, new owners were acquiring small stations surrounding the Boston area to increase WEEI’s reach.

Entercom

Another ownership turnover occurred in 1999 when Pennsylvania-based Entercom purchased WEEI along with three other Boston stations. The only major programming change under Entercom related to the morning drive-time programming. Entercom elected not to renew the contract for the Imus show, replacing it with local programming. Gerry Callahan, a *Boston Herald* sports columnist, joined local sportscaster John Dennis for the *Dennis and Callahan* show.

Entercom, which became a publicly held company in 1999, describes itself as the owner and operator of:

a nationwide portfolio of radio stations. We . . . provide many different types of programming from oldies to rock, news/talk to country, smooth jazz to sports. In addition, the company is the exclusive radio broadcaster of the Boston Red Sox, Seattle Seahawks, New Orleans Saints and numerous major college sports teams.⁴³

The lion’s share of the company’s revenues—nearly 80 percent—derived from local advertising.

Julie Kahn joined Entercom in August 2000 as general manager for two of the company’s FM Boston stations, WAAF and WQSX. After receiving a masters’ degree from Northwestern University, Kahn became active in radio sales, moving from Chicago to San Francisco. She was one of the first women to sell advertising time for major-league baseball broadcasts. “To me, there’s poetry in baseball on the radio,” she said. “It’s magical.” There were also clear standards for what could be advertised during baseball games, standards set not by the local stations but by Major League Baseball. “They [Major League Baseball] won’t even take liquor ads,” she noted.⁴⁴ After being promoted to vice president, Kahn became general manager of WEEI as well as continuing to serve as general manager of WAAF-FM. In 2003 she was named one of the 50 Most Influential Women in Radio and one of the Best Managers In Radio.⁴⁵

Radio Regulation

In response to the rapid growth of the new medium of radio, the U.S. Congress created the Federal Radio Commission in 1927. The Commission’s primary task was to issue licenses and assign frequencies, although they were also expected to be sure that the “public interest” was served by local programming.⁴⁶ Seven years later, Congress replaced that commission with the Federal Communications Commission. The FCC operated as an independent federal regulatory agency whose members were appointed by the President and approved by the Senate.

The Communications Act of 1934 specifically prohibited the FCC from exercising censorship over broadcast stations. U.S. criminal code, however, simultaneously barred obscene or indecent language from the airways. In 1937 the FCC responded to protests over what was then deemed to be a racy bit of dialogue aired by one of NBC’s radio networks on the *Chase and Sanborn* show (a puppet snake says to Eve, played by Mae West, “Adam’ll never eat that forbidden apple,” and Eve responds, “Oh yes he will—when I’m through with it”). The FCC chairman sent a letter of condemnation to NBC, saying, in part, “You know as well as the members of the Commission what is fair, what is vulgar, what is profane, what will probably give offense. It is your duty in the first instance to guard against these. It is the Commission’s duty in the last instance to determine fairly and equitably and reasonably whether you have lived up to the high duty that is yours.”⁴⁷

◆ 20**CHAPTER 1 Strategic Renewal and Change**

Over the ensuing decades, the FCC engaged in content regulation only gingerly and erratically. A 1970 radio interview with Grateful Dead member Jerry Garcia involved Garcia's frequent use of profanity, and the FCC fined the station for indecent speech. A 1973 Supreme Court ruling held that obscene material had no First Amendment protection and suggested that obscenity be defined as what an "average person" applying "contemporary community standards" would find to be "prurient." The FCC adopted that standard, prohibiting material that "describes, in terms patently offensive as measured by contemporary community standards for the broadcast medium, sexual or excretory activities and organs, at times of the day when there is reasonable risk that children may be in the audience."⁴⁸ Still, many in the industry found that definition of indecency both vague and fluid.

The Current Climate. During the 1980s, the Republican administration of Ronald Reagan moved to extract the government, as much as possible, from the regulation of all commercial enterprise, broadcast enterprises among them. In practice, that deregulation weakened the FCC's previous battle against the creation of monopolies in the broadcast industry. The loosening of regulations impacted on-air content in unforeseen ways. The industry went through consolidation, as a few large companies purchased dozens of radio stations. Because these companies—Clear Channel, Viacom, and Entercom most prominently—were publicly held, they became quite sensitive to public pressure and criticism, keeping a close watch on the impact of negative publicity on stock prices.

At the same time, several cultural trends brought greater pressure on the FCC to examine broadcast content. First was the popularity of rap music. Explicit sexual language, mixed with images of violence against police authorities and women, led to numerous complaints to the FCC. Additionally, the increasing popularity of so-called shock jocks on the radio, most notably Howard Stern, brought an entirely new level of sexual frankness to morning drive-time broadcasts. Complaints and fines piled up. But since both rap music and shock jock programming seemed to attract large audience and advertising dollars, many stations considered the occasional fine—ranging from \$2,000 to \$10,000—simply the cost of doing business.

The so-called indecency of some music and shock jock talk was matched on the radio by increasingly

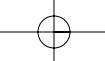
uncivil political discourse. Rush Limbaugh and Michael Savage, in particular, pushed limits of political expression. Nationally syndicated host Michael Savage, for instance, applauded the prisoner abuse that was exposed in the U.S.-run prison in Iraq, calling for even more brutal methods. Occasionally, crude or insensitive comments brought strong reaction from station owners. An Oregon radio station owned by Entercom fired two morning drive-time disc jockeys after they joked about the recent beheading of U.S. reporter Nicholas Berg. The station manager issued an apology, calling the on-air personalities' actions "insensitive, inappropriate, and repulsive."

WEEI had several of its own incidents. In 1999, the *Boston Globe* announced that it would no longer allow its columnists to appear on two shows: the *Dennis and Callahan* morning show or the afternoon *Big Show*. The *Big Show* relied on regular appearances by local sports personalities and writers to engage in conversation with host Glenn Ordway. The talk often became racy and sexually oriented. Although never approaching the explicitness of Howard Stern, Ordway and his guests frequently engaged in what critics called "gutter-level locker-room humor"⁴⁹ and what Kahn herself labeled "sexual innuendo." But what offended the *Globe* most immediately was an ethnic slur used in reference to a ballplayer.⁵⁰

Then, in September 2003, John Dennis and Gerry Callahan made jokes that were interpreted as racially biased. Blue Cross and Blue Shield of Massachusetts immediately pulled \$27,000 of advertising from the station. Dennis and Callahan both received a suspension, and Entercom agreed to contribute to a local scholarship program. Julie Kahn assumed management of WEEI just as that response was occurring and sent the two on-air hosts to sensitivity training seminars. Twice. "Three times if they have to," added Kahn. "It gave us some guidelines, and it scared the bejesus out of the offenders, and it should have, and I don't have a problem with that at all."⁵¹

It should be noted that in none of these cases of politically inappropriate speech did the FCC intervene. The Oregon station as well as WEEI both took actions on their own.

Super Bowl Fallout. During the halftime show of the 2004 Super Bowl between the New England Patriots and the Carolina Panthers (final score—Patriots 32, Panthers 29), Justin Timberlake and Janet Jackson performed together. At the end of their final duet, "Rock



Your Body," Timberlake tore off a part of Jackson's costume, exposing a breast. The performers called the incident an inadvertent mistake, Timberlake specifically blaming a "wardrobe malfunction." MTV, which produced the halftime show, and CBS, which televised it, both issued apologies, but the FCC was not mollified. FCC chairman Michael Powell (son of then Secretary of State Colin Powell) labeled it a "classless, crass, and deplorable stunt," adding, "I have instructed the commission to open an immediate investigation into last night's broadcast." A spokesman for President George W. Bush added his own condemnation. "I think our view is that it's important for families to be able to expect a high standard when it comes to programming."

Within days, fallout from the wardrobe malfunction escalated. Without even pausing for debate, the Senate passed a law that, while making no change in the definition of indecency, did allow for fines as high as \$3 million a day to be levied against broadcasters, technicians, and on-air personalities. "People are tired of this indecent material on over-the-air public broadcasts, particularly during prime time when people's families are watching," said bill sponsor Senator Sam Brownback (R.—Kans.). "We're going to have to take action because the broadcasters won't police themselves."⁵² The bill passed the Senate by a vote of 99 to 1.

By the following April, the FCC had imposed more fines for indecency than in the previous 10 years combined. Ironically, although the public outcry occurred in response to a televised incident (of the 530,885 complaints received by the FCC, 530,828 related to the halftime show⁵³), the main targets of the FCC's regulatory ire were radio shows, Howard Stern's immensely popular national morning show in particular. Clear Channel Communications, the country's largest owner of radio stations (Entercom is number three behind Viacom's Infinity division), received a fine for nearly half a million dollars because of alleged indecency on Stern's show and responded by dropping Stern from its six stations that had previously carried the program. For that and other threatened FCC fines against Clear Channel, its management reached a \$1.75 million settlement with the Commission. Viacom's Infinity, which generates \$100 million selling advertising on Stern's show carried by its station, announced that it would stand by the controversial personality. "The format of choice at Infinity," Viacom president Mel Karmazin had conceded years before, "is the one that has the largest cash flow."⁵⁴ (No Entercom station carried Stern.)

Still, the specific question of just what constituted indecency remained unclear. What could or could not be said? In what context? Attendees at the 2004 National Association of Broadcasters convention left workshops designed to help to understand both the definition and risk and indecency on the airways in a "fog of high-stakes ambiguity."⁵⁵

For many on-air personalities, the ambiguity of the situation seemed intolerable, particularly since their jobs involved up to four hours of unscripted airtime. "How would you like to be told that if you said the wrong thing you would lose your livelihood," said one writer, "and then, when you asked for some guidance as to what the 'wrong thing' might be, they told you that they couldn't tell you in advance, but that they'd have to wait until you spoke, and if you said the wrong thing they'd tell you then. And take away your livelihood."⁵⁶ When a reporter asked Howard Stern just where the indecency line should be drawn, he replied, "Oh, dude, who cares? I don't know where the line is drawn. I don't think anybody does. I don't think the FCC does."⁵⁷

JULIE KAHN AND WEEI PROGRAMMING

The pervasive sexual innuendo and locker-room humor on both the *Dennis and Callahan* morning show and the afternoon *Big Show* failed to attract much attention beyond Boston. WEEI faced no investigations or threats from the FCC, and beyond occasional newspaper columns, those shows proved remarkably popular and profitable. In fact, in some part, the raciness of the talk was what attracted listeners. It was well known throughout the industry that those Clear Channel stations that had been told to drop the Howard Stern show suffered significant drops in both ratings and advertising revenues.

But Julie Kahn understood that sexual and political content of her programming needed to be kept within boundaries. Kahn talked to a *Boston Globe* reporter about her own feelings concerning where the line is drawn. Talking about alleged antifemale bias among WEEI's on-air personalities, she said, "They could say, like, 'Julie Kahn is an idiot. She's a doofus-head.' But 'all women GMs [general managers] suck,' they can't do that any more." The reporter pressed her, asking if personalities could call Hillary Clinton an insulting name as long as they did not use that same derogatory term to apply to "all women." Yes, Kahn, responded, that was true "It's in poor taste, but technically, it's inside the line. She [Senator Hillary Clinton, D.—N.Y.] is a public figure."⁵⁸

◆ 22**CHAPTER 1 Strategic Renewal and Change**

It was not just on-air hosts who needed to interpret the new climate. A “dump” button combined with a 10-second delay between the live interaction in the studio and the actual broadcast allowed show producers sitting in a nearby control room to keep track of what was being said and cut out what they wanted to keep from going on the air. Brett Erickson, a producer for the *Big Show*, admitted that he was using the dump button somewhat more frequently in the wake of the Janet Jackson furor: “You try not to let it affect you. Before, we didn’t hear much from management, and part of that was the ratings and stuff. Now, they come down, and you have to be a little bit more careful.”⁵⁹

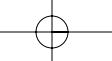
In part, the concern was that producers were also liable for new fines. “Look,” said a WEEI producer, “suppose I drop a cassette, or I’m getting something off the Internet, and I miss something and it goes out on the air. Now, not only can they fine the station, they can fine me and fine the host. It’s a different time.”⁶⁰

Endnotes

1. Information on Grand Union and its human resource strategy comes from Randall S. Schuler, “Strategic Human Resource Management: Linking the People with the Strategic Needs of the Business,” *Organizational Dynamics* 21 (Summer 1992), pp. 18–33.
2. Barbara Blumenthal and Philippe Haspeslaugh’s definition of strategic renewal is from Michael A. Mische, *Strategic Renewal: Becoming a High-Performance Organization* (New Jersey: Prentice Hall, 2001), p. 23.
3. *Ibid.*, pp. 26–27.
4. www.gapinc.com/public/About/abt_milestones.
5. Gary Hamel, “Radical Innovation,” *Executive Excellence* 20 (May 2003), p. 11.
6. Mische, *Strategic Renewal*, p. 24.
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The other side of the pressure, however, concerned ratings. If the sexual innuendo were to disappear entirely, what would happen to the ratings? “If we do a completely sanitized show and the ratings go down,” observed Erickson, “I’m going to be the first one fired.”⁶¹ Station program director Jason Wolfe seems to agree: “Our goal across the board is to push the envelope.”⁶²

To make Kahn’s task more complicated, many of the comments that seemed to come closest to the “line” of indecency came not from the on-air hosts, who were full-time employees of the station, but rather from their sports personality guests, who worked on a per diem basis. Fred Smerlas, a former National Football League player, appeared regularly on the *Big Show*, offering a mixture of professional insight, locker-room humor, and political barbs. On a recent broadcast, he referred to Senator Clinton with an obscene epithet. No one pressed the dump button. The host laughed.⁶³ Ratings remained high. ■



CHAPTER 1 Strategic Renewal and Change

23 ◆

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◆ 24 CHAPTER 1 Strategic Renewal and Change

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