

# Offensive change management with the step-by-step method

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**Johan G. Wissema**

is director of Wissema International, Management Consultants and Policy Research and professor of technology management at Delft University of Technology. He is the author of 15 books on management, many translated, awarded and reprinted. Dr Wissema advises corporations on strategy, organisational structure and management of technology.

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**ABSTRACT** The need to turn companies around can arise for defensive as well as offensive reasons. In the case of defensive reasons, such as cost reductions, one usually has to rely on rather authoritarian methods. When the driving force is of an offensive nature, as in the case of re-engineering, introduction of e-commerce or business unit management, the step-by-step method of change has proven itself powerful. This is illustrated here in a case involving the introduction of business unit management in a functionally organised multinational enterprise. An evaluation of and a speculation on the area of application of the method are given at the end of the paper

## INTRODUCTION — CARRYING THROUGH OFFENSIVE CHANGES

Companies change for three fundamental reasons. First, they have to be in balance with their environment. In order to be able to compete, products, services, production, logistics and other functions have to be up to date. If a company is negligent in keeping up or if it neglects a proper balance between income and expenses, a *strategic gap* emerges between what the company is and should be. Closing this is a defensive change strategy because when completed, the company has merely caught up with the competition, it has not obtained a competitive advantage.

The second fundamental reason for change is offensive: a company seeks to obtain a competitive advantage in terms of new technology, new marketing or distribution methods, better organisation, better motivation of personnel and so on. Hamel and Prahalad (1994) call this *strategic stretch*. It is a situation in which management — often new management — comes to the conclusion that although things are going well, they could be going much better.

The third reason for change is the *new leader* who can introduce a new management style and new tools to give a company a 'face lift'.

In an earlier article (Wissema, 2000)

Johan G. Wissema  
Wissema International B.V.,  
PO Box 96914, 2509 JH  
The Hague, The  
Netherlands

Tel: (+31) 70 3262177 or  
(gsm) (+31) 651 494396;  
Fax: (+31) 70 324 9555;  
e-mail: jgw@wissema.com

we argued that there are basically four change strategies, i.e.

- gradual (change as part of normal management)
- step-by-step (set targets and have the details designed by management)
- quick and dirty (top-down and well-defined change strategy)
- turnaround (solo act of the change manager)

The first two methods can be labelled as incremental and the second two as radical approaches to change (Collins and Hill, 1998).

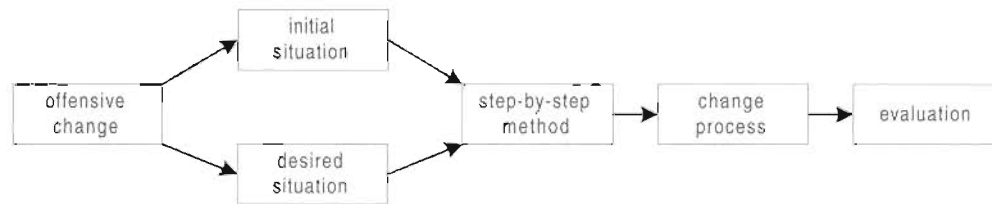
Structured methods play an important role in providing a common interface to change processes (Werr *et al.*, 1997). Therefore, the change strategies have to be linked with the three reasons for change. The *gradual strategy* is used continuously to adapt the company to (gradual) changes in external circumstances and internal objectives. It can be partly defensive, partly offensive. It does not create a significant competitive advantage; the results can be easily imitated. It is a normal business practice and its influence on the company is limited, although people often complain that 'things are always on the move'. The gradual strategy is also used to change the style of management. The *quick and dirty* and the *turnaround strategies* are used when there is a large strategic gap that the company wishes to bridge such as structurally bad results. This article argues that the *step-by-step* method is indicated when the company decides to go through a strategic stretch process, meaning a complete overhaul in order to create a significant and lasting competitive advantage. Such an overhaul is the result of a change in the *business definition* of the company, meaning that its function towards the customer will change.

Our argument for this is as follows. One of the obstacles to implement offensive types of change is the lack of a visible need to change and the consequent risk of a shallow commitment from management and personnel. Change means uncertainty and can threaten the positions of middle and lower managers who therefore tend to react conservatively. This is all the more serious as they usually have the ear of the workers. The need for changing the 'business definition' of a company may also appear 'theoretical' to many. Things are still going well, why change?

It takes a determined and cautious top manager to carry through offensive changes. And he must employ the right method. Too much muscle risks scaring those involved and raises barriers. A too soft approach is gratefully employed to postpone or sabotage projected changes. The step-by-step method simultaneously invites the creativity of the company's community while focusing it on the objectives of the change. In so doing it concentrates all forces on the objective, while reducing resistance to a minimum. It has proven an optimum change strategy. It provides for a good balance between firmness and flexibility by being rigid in the application of time schedules while inviting the commitment and initiative from all concerned parties. Finally, by synchronising design and implementation, it is very powerful in combining change in culture with change in structure.

Below is an actual case of this method in a company called Agricult. We describe the initial situation, the reasons for change and the main headlines of the desired situation. The choice of the change method and the actual change process are then described. We conclude with an evaluation of the method and speculation about its applicability (Figure 1).

Figure 1 Outline  
of this article



## AGRICULT – THE INITIAL SITUATION

Agricult was created by a series of mergers of small plants converting potatoes into potato starch and derivatives. These operations, based in Holland and Germany, had mostly been cooperatives, owned and governed by farmers. Over its history, Agricult had closed down most to replace them by larger and more efficient production centres. The company had also acquired starch factories in the US, other European countries and Asia. The products were largely sold through a network of some 25 company sales operations around the world. Part of the starch was converted into products with a higher added value, a process supported by the company's substantial and sophisticated R&D capability.

As potato starch began to face increasing competition from starch from other sources, it was felt that more value should be added to the basic starch and existing derivatives. This should lead to competitive, high performance products for the various specific industrial outlets such as the paper industry, the food and feed industries, the oil and gas exploration industries, and so on. At the same time, it was felt that the simple upgrading of the product range would miss its effect unless the company was 'tilted' more towards its customers. By tradition, the company was very much internally oriented. It was organised in a traditional, functional way, with the major corporate functions of marketing

and sales, research and development, production, logistics, finance and administration and human resource management. The four-member Board was structured along these lines. This model had been quite successful in carrying out efficiency increases over the past; current production and logistics were excellent. This had all reinforced the internal focus of the corporate culture, however. Contacts with customers were the job of the sales department and customer awareness was low in the remainder of the company. Although the functional structure had been successful, it had the well-known imbalance of good communication within the functional sectors and poor communication between them. The company was hierarchically structured with many management layers, rules and formal responsibilities — often in mutual conflict. 'Moving around' in the company required considerable diplomatic skills and intrigues were the order of the day. Being an old industrial firm, the company was highly unionised. The Works Council had made substantial contributions to progress in the past and had thereby obtained a unique and powerful position in the firm, independent of both unions and management. This position was enhanced by the council's thorough work ethic, making them a factor to be reckoned with.

The conclusion was reached to change the business definition from a

product-driven, low cost commodity manufacturer with emphasis on efficiency, to a market-driven, innovative company serving niche markets with high added-value products and emphasis on the effectiveness of the products for the customer.

It was obvious that such a change would be monumental. Not only would the organisational structure need to be adapted from product driven to market driven, but also the culture of the company would require a complete overhaul. And such a change would involve all departments. At this stage, senior management contemplated what the future situation should look like and which change strategy should be adopted. The first question resulted in the choice of the principles of business unit management as guidelines for the desired culture and structure. The second led to the choice of a form of the step-by-step method of change.

#### THE DESIRED SITUATION — BUSINESS UNIT MANAGEMENT

Unit management is a management style and an organisational form oriented towards decentralising entrepreneurship within organisations (Wissema, 1992). This is achieved by assigning integral business responsibility for groups of product/market combinations (PMCs) to sub-organisations called business units. These are responsible for serving different customer groups; they report directly to top management. Though not a hard and fast rule, business units are best managed by a single person.

*Integral business responsibility* combines the responsibility for profits and the long-term competitive power of the unit. It incorporates responsibility for the unit's strategy as well as for all operational areas. Put simply, the unit draws up the business plan for its PMCs and carries it

out after receiving approval from top management. The strategic plan, with its profit and market share objectives, is the 'management contract' between unit and top management. The unit manages as many operational activities as possible for its PMCs. If scale effects require that these activities be carried out by central services, these then act as internal suppliers to the business units and have to compete with external suppliers.

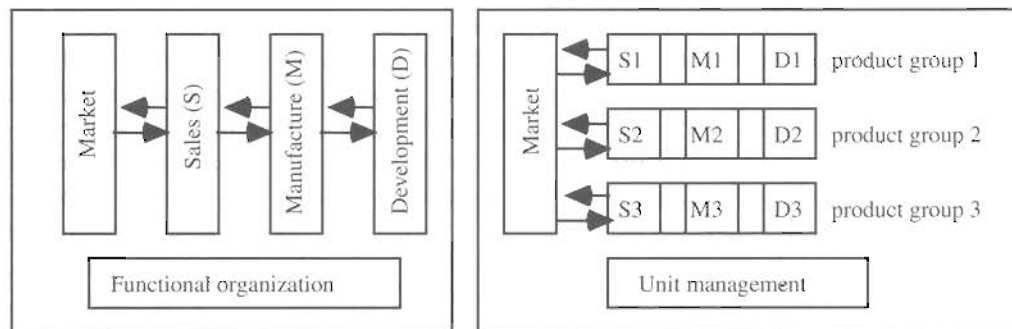
By choosing the units in such a way that one-to-one relationships with customer groups are established, the sales, purchasing, production and R&D activities can be synchronised with marketing policy. As far as innovation is concerned, technology-push and market-pull are brought together in the unit, effectively synthesising them. The creation of business units decentralises the operational tasks of top management, liberating key individuals for their corporate tasks. Unit management thus accomplishes three goals:

- one-to-one customer relations;
- entrepreneurship and innovation;
- effective internal governance and focus on corporate expansion.

Experience has shown that the conditions for the successful application of unit management are that there should be:

- no intermediate levels between unit and top management thus short lines of communication;
- a clear purpose of the unit (objective and task definitions);
- freedom to make business contracts;
- autonomy in the operation of primary functions (sales, manufacturing, development in an industrial enterprise);
- autonomy to hire in-house or external staff services;
- a large degree of control over the

Figure 2 Transition from functional to business unit structure



choice of the managers within the unit and complete control over the choice of other personnel, all this within the framework of corporate compensation schemes;

- a well thought-out management information system, and in-unit controllers operating within the corporate administrative guidelines;
- dispute procedures to solve difficulties which might arise between units and between a unit and central management.

True unit management is radical. Any half-hearted relinquishing of authority on the one hand and attempts to control details on the other is damaging. The relationship should be transparent — there should be a clear, positive position taken by top management with regard to the autonomous sub-enterprises or operating units.

The change towards business unit management is illustrated in Figure 2. The functional structure with coordinating links towards customer groups is replaced by a customer-oriented structure with functional coordinations. This is indeed a radical adaptation of an organisation. Invisible in Figure 2 is the change of culture.

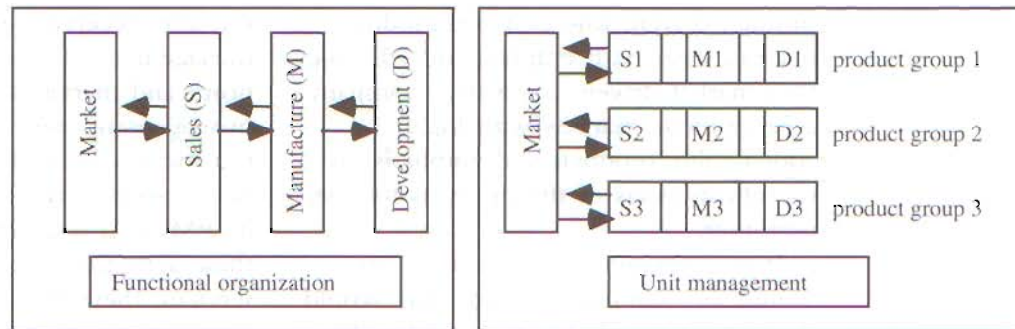
## CHANGING CORPORATE CULTURE

In order to implement the required change in culture, three lessons were considered:

1. First, changes in culture develop top-down. Managers rarely realise how much the example they set influences the behaviour of their subordinates, to a certain extent in the same way parents and teachers influence the behaviour of children. The top manager especially is watched with the feeling: 'This is what you have to do in order to reach the top.' If top management does not or does not sincerely adopt and lead the change in culture, and if this is not visible in the company, than any attempt to change the culture is bound to fail.
2. Secondly, changes in culture have to be implemented at the work situation. However useful and enchanting training and awareness sessions in outside resorts can be, they will not enhance a lasting change in culture. Indeed, people come back from these sessions only to fall back to their old habits. If, in contrast, the new culture is exercised in or close to the normal work environment, people realise 'I've



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Table 1 Characteristics of the step-by-step method of change management

<i>Characteristics of the step-by-step approach</i>
<ul style="list-style-type: none"> <li>— thorough preparation of the process, with a clear timetable with fixed dates for the completion of the respective phases</li> <li>— the change process is split up in phases</li> <li>— after each work phase, intervals are planned to accommodate for communication, decision making and preparation for the next phase. This way, the next step is taken when the previous one has been completed and 'digested'</li> <li>— the work/design during each phase is carried out by managers who will be responsible for the situation after the change</li> <li>— these managers are appointed at the start of the next phase, the higher managers after Phase 1, the others at later phases</li> <li>— the detailed preparation for the next phase starts when the previous one is finished</li> <li>— the actual change takes place when the last phase is completed, ie during the change process the old situation is still prevalent</li> </ul>

- done it again' and this awareness triggers the change in attitude.
3. Finally, like radio waves requiring a carrier wave to transmit the signal, 'soft' cultural changes require 'hard' structural changes which means that changes in structure and culture should be carried out in a synchronised manner. In change processes, there is first a defreezing phase, then the actual change and finally a refreezing in which the change is consolidated. Training sessions generally do not succeed in accomplishing a real defreezing; structural changes do. Many companies lose the opportunity for cultural change by focusing on structural change, and trying to change the culture after the refreezing has already taken place.

#### CHOICE OF THE STEP-BY-STEP METHOD

The above principles are employed in the step-by-step approach, which is characterised in Table 1.

In their much-quoted article, Pascale *et*

*al.*, (1997) comment that 'the whole burden of change typically rests on so few people ... More employees need to take a greater interest and a more active role in the business ... This type of fundamental change is what more companies seek but all too rarely achieve'. Or, as Bonvillian (1997) puts it: 'Leaders who merely champion change and fail to consider its pragmatic implications on the operational elements and players of the organisation are likely to end up with shallow initiatives'. The step-by-step method tries to involve more people more deeply. It is an innovative and powerful method, based on research on behaviour in change processes and actual experience with many such processes. It was chosen by Agricut after careful consideration of many competing factors. The gradual change method would not carry enough sense of urgency, while the situation was not bad enough to drum up support for the more radical turnaround approach. The quick and dirty method could be employed, but this would carry the risk of a communication deadlock between top management and the rest of the



company. The influence of workers, both through a high union membership and an active works council was strong. When one of the large factories was closed prior to the start of the change process, it created distrust between workers and management, and clearly indicated the need for a communicative and participative method of change. In addition, as a cooperative owned by 6,000 farmers, intensive communication was equally essential. A disadvantage of the step-by-step method is that it takes rather more time but it was felt this was balanced by a lower risk of deadlock. With the fixed time schedule, an important characteristic of the method, it was felt that the choice for the step-by-step method provided a good balance between effective action and stakeholder support.

The step-by-step method of change is characterised by a kind of to-and-fro system in which work phases intersect communication phases. In other methods, a detailed plan for the new organisational structure is designed at the start of the process. After this, managers and workers are trained in how to operate in the new structure; then the structure is adopted. In the step-by-step method, only a very rough outline of the structure is designed at the start. After having communicated this basic structure, work groups are set to detail the structure for the various organisational units. This design work is accompanied by training in the new culture. The principle is to let managers and to a certain extent workers 'make their own bed', using the participation of as many people as possible through work groups during the work phases and through communication sessions during the communication phases. This approach leads to:

- maximum consensus for change in the company;

- more practical solutions as far as the organisational design is concerned;
- in-company training in the new culture in the 'defrozen' phase;
- no need for instruction on how to handle the new structure as the managers and workers have designed the new structure themselves;
- design and implementation go hand in hand.

Naturally, the design is not a free-for-all system and guidelines from top management are given at the start of the process. After an initial strong visibility of top management — in order to show that they mean serious business — they retire after Phase 1 into the Steering Committee, which guards the guiding principles and solves conflicts between working parties (compare Beer *et al.*, 1990). One should notice that this way of working is in line with the decentralisation principles of unit management and, indeed, the beauty of the method is that the design process is simultaneously an exercise in the new management style and the new culture.

## THE CHANGE PROCESS — THE INITIAL PHASE

After the decision to change had been made and the principles of the desired situation as well as those of the change method chosen, an initial phase was organised in order to ensure unanimity in top management and to work out the change procedure in detail. In this phase, top management had to agree on four items:

1. the strategic plan and the need to change;
2. the principles of the desired situation, in this case the principles of unit management;
3. the change method;



4. the composition of the Phase 1 Work Group (In this case the human resource manager (HRM) — plus present or future responsible managers, in this case the potential unit managers);

and it would have to be communicated widely within the company.

These items were discussed in a number of work sessions of the future Steering Committee, consisting of the board members plus HRM and the lead consultant. The outcome was a document in the form of a job assignment for the Phase 1 Work Group. The initial phase would last 2–4 months, depending on the availability of a strategic plan at the start.

### PHASE 1 — PREPARING THE OUTLINES

The Phase 1 Work Group was responsible for preparing the Phase 1 Report, which gave the design of the new situation in general terms, in this case, the culture and structure in the new situation. In our earlier paper (Wissema, 2000), we mentioned that *people don't mind changing, they don't like to be changed*. They therefore need information about the need to change; without this, they are not likely to be motivated. The need for the change always stems from the strategic plan; it is true indeed that structure follows strategy.

All stakeholders of the company, in the case of Agriculc especially the workers and the members (farmers) of the cooperative, needed to:

- understand and agree the strategic plan;
- understand the need of the change process as implementation of the strategic plan;

- understand how the change process would be carried out.

The Phase 1 Report therefore consists of five chapters, i.e.

1. the company in perspective, mission, objectives, external and internal developments, the need for change;
2. the desired culture, preferably in not more than five non-overlapping key words; long descriptions are not communicative to a larger audience — they can easily betray disagreement over the desired culture;
3. the desired structure in terms of the organisational elements that report to top management, leaving open the question of how these elements are to be designed internally. The product/market combinations (PMCs) have to be combined into business units in such a way that one-to-one relations with customer groups are created. In addition, the units for common services and the nature of the corporate office have to be designed. The major roles, reporting and communication patterns between top management and unit managers have to be drafted and the job descriptions of the first level management have to be described;<sup>1</sup>
4. description of the change process, the roles of various parties in it and the time schedule;
5. the next step in detail.

The time schedule sets the dates of each working phase or communication phase and the dates when top management decides on each phase. The step-by-step method is characterised by maximum flexibility within each phase and absolute rigidity as to the dates set. Work groups are always short of time. If one gives in to pressures to postpone deadlines, the good managers are punished and the bad

ones rewarded. As expressions like: 'to work on time', 'to keep promises' etc., are usually part of the formulation of the desired new culture, shifting deadlines signal that these commitments do not have to be taken seriously. We recommend creating realistic, even luxurious deadlines and then sticking to them, whatever happens.

The Phase 1 Report can be prepared in two to three months. After completion, it is discussed during the first Communication Phase as a draft on which every employee or group of employees can issue suggestions. For the latter, an operational Project Bureau is created, headed by the HRM and staffed by the Manager for Internal Communications, the consultants who support the change process and administrative staff. Prior to the publication of the draft report, it is discussed with the Works Council and middle management. It is essential for the success of the operation that these people have prior knowledge about the contents of the report in order to allow them to answer questions from the workforce. Prior knowledge also underlines their authority and binds them to the objectives of the change.

During the first communication, it is essential that all employees hear from the President *personally* why the change is necessary and what it is all about. For companies with many employees, working on different locations and in different shifts, this comes down to organising a kind of a 'road show'. During this road show, presentations are given on each occasion by the President, the Manager P&O, the Chairman of the Works Council and the Lead Consultant. In addition to the road show, a special issue of the personnel magazine is devoted to the change process. People can read here what they missed during the road show sessions. Special issues

appear at regular intervals to give further information about the process. It is important to keep personal as well as formal links during the change process.

The Communication Phase ends at the predetermined moment. By now all who have sent in suggestions should have had a reaction, most of all the Works Council and the middle managers. Based on the draft report and the suggestions, the Steering Group makes a decision about the contents of the Phase 1 Report. After this, it appoints the first-line managers, in this case the future business unit managers and service unit managers. These managers will only take their new positions after completion of the last phase of the operation. For the time being, they chair the Phase 2 and 3 Work Groups installed for each organisational unit. Members of these groups are the likely second-level managers. A management consultant is assigned to each working group.

## PHASE 2 — DETAILED DESIGN

Phase 2 kicks off with an instruction day for the members of the Phase 2 Work Groups. It should be apparent that by now the entire company is aware of the nature of the change to come and the reasons for it. With the appointment of the first-level managers and the Phase 2 Working Groups, the company has signalled that 'management means business'. This effect can be reinforced by issuing an in-company journal with the photographs and résumés of the first line managers, as if they were new to the company. In cases where plans for change are as easily withdrawn as they are announced, workers become indifferent and even cynical to such announcements. With the preparation as described, the community has the feeling that something serious is going on, while at the same time, the real work still has to begin.



In Phase 2, all work groups have roughly the same programme. There are special programmes for the Board of Management and for the Works Council. These groups also have to change their structure and culture as part of the total change process and it is well advised to allow a good preparation for this.

The Phase 2 Work Groups proceed through a programme to describe:

- mission and strategy for their organisational unit;
- the work processes of the unit;
- based on these: the detailed organisational structure within the unit;
- the required manpower of the unit and the required inputs from other organisational units;
- the desired organisational culture as part of the overall culture;
- the relationships with top management and other units, to be described as contracts;
- the job descriptions of the second-level management.

The six or seven work sessions required to prepare the Phase 2 Reports typically take a full day, half of which is devoted to training in the new culture and half to the analytical and design work. This makes the change of culture an integral part of the design process. The work of the Work Groups is a good exercise in the future operation, as the managers chair the sessions and as the members are invited to show initiative and creativity, sticking to the framework of the Phase 1 Report.

During Phase 2, the Project Bureau compares interim results from the Work Groups in order to identify deviations from the Phase 1 Report and differences in views on, for instance, future relationships between organisational elements. *Ad hoc* meetings between work

groups are then arranged to settle the discrepancies as far as possible. In addition, the Project Bureau is responsible for communications during the work phase.

Each Work Group prepares a Phase 2 Report that again is to be finished at a pre-set date. After this date, the Second Communication Phase starts with a market-like presentation of the results of the Work Groups. The chairpersons of the groups, i.e. the future first-line managers, now take the floor while top management remains in the background. During the Communication Phase, all kinds of communicative actions can take place and workers can send suggestions or comments to the Project Bureau. At a pre-set date, this Communication Phase ends and the Steering Group take a decision about the contents of the various reports. In general, the Steering Group only makes changes if the reports deviate from the Phase 1 Report or if a choice has to be made between differing suggestions from work groups. After having established the final version of the reports, the Steering Group appoints the future second-level managers. At the end of Phase 2, the detailed structure has been designed including job descriptions and reporting procedures between top management and the organisational units respectively, among these units. In addition, a start has been made with training in the new culture, and the future roles of the Board of Management and the Works Council have been clarified.

### PHASE 3 — FINALISATION AND SWITCH TO THE NEW STRUCTURE

The tasks of the third phase are:

- to train all workers in the new culture;
- to appoint all workers in the new



structure and to prepare their job descriptions;

- to amend the administration, housing and other support functions needed before switching to the new structure.

The training in the new culture uses the same exercises as the training in Phase 2. In Phase 3, it is the first-level managers who give the training. This serves two purposes:

- training by their future managers is far more effective than training by consultants;
- by giving training, the first-level managers deepen their own understanding of the new culture and exercise this new culture in practice.

Though many managers are not educated to be trainers, with good preparation and support from consultants, they can produce remarkably effective results.

At the end of Phase 3, all workers have been familiarised with the new structure and culture and therefore the Third Communication Phase can usually be short. After this, the new structure becomes effective, preferably during a festive event in which every worker participates. Contrary to what this article suggests, not everything will run smoothly after the switch and many items will still require resolution. It is advisable to conduct an internal evaluation of the new structure and culture after six to nine months of the switch in order to identify remaining gaps. Until that time, the Project Bureau and the Steering Group remain operational.

## EVALUATION AND AREAS OF APPLICATION

The method as outlined above has been frequently used by the author and his

company in organisations as varied as industrial and trade companies, universities, hospitals, banks and insurance companies, professional societies and research institutions. For each project, a customised method had to be designed but the principles of the step-by-step method were used unchanged. Results clearly suggest the method is effective independent of the type of organisation in which it is used. The method basically covers the ten 'keys to successful change' as defined by Pendlebury *et al.* (1998).

The method was also applied in cultural settings as different as Europe, Mexico and the Russian Federation. The basic principles of the method were used effectively in these very different national cultures, though sometimes with slight adaptation. In the description above, the Works Council played an important role, as facilitator and 'co-owner' of the change process and the body that has to give formal approval. The role of the Works Council is much more prominent in Northern Europe with its 'Rhineland' model of consensus than elsewhere. In some places, training in the new culture was not considered necessary for all staff, only top and middle management.

Although adaptations proved advisable in applying the method in non-Rhineland cultures, the basic principles are universally valid. Taking care of the human resource issues is one of the keys to successful transformation (Bainbridge, 1996). The conclusions also seem to coincide with management practice in Japan, where a sometimes tedious preparation precedes decision making and implementation of change. Unfortunately, this author has not yet had the opportunity to apply the method in that country.

Finally, the question of in which change processes the method is effective is addressed. In cases where the change



does not involve a complete overhaul and a change of culture, the method is too tedious, and changes can be accomplished without setting up an entire change organisation and change procedures. In cases where a company faces serious financial problems, the method takes too much time and a turn-around procedure is generally more appropriate. In cases where there is a strong public interaction with the change,<sup>2</sup> owing to its great openness, the method is vulnerable to all kinds of disturbing influences. It is ideally suited to companies that want to create a significant competitive advantage through, for instance, new information and communication systems (e.g. e-business), advanced organisational structures and changes of culture, quality methods, advanced logistic methods, decentralised budgeting methods, and other company-wide change processes. The step-by-step method generates the positive energy required and prevents the company falling back into old habits, which so often happens with authoritarian change methods. And remember: 'There is nothing more difficult to take in hand, more perilous to conduct or more uncertain in its success, than to take the lead in the introduction of a new order of things' (Machiavelli, 1532).

## NOTES

1. We call the managers who report to the Board of Management the first-level managers and the managers who report to the first-level managers the second-level managers.
2. See the example of the truck factory case in our earlier paper (Wissema,

2000), in which labour time reduction was very much a political item and the change process was regularly on national television.

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