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## **The Human Side of Strategic Change**

### **Introducing a Multifaceted Approach**

The booming 1980s highlighted corporate expansion through mergers, acquisitions, and strategic alliances domestically as well as internationally. Corporate restructuring became a prevalent strategic tool to respond to financial market demands. As delayering and downsizing became the name of the game in the recession of the early 1990s, firms became increasingly aware that they also need to address strategic contraction. The ongoing strategic struggle to create and maintain competitive advantages in dynamic environments is illustrated by the proliferation of various other forms and labels of strategic changes, such as realignment, reengineering, rejuvenation, renewal, reorientation, revitalization, and transformation. The overall impression is that practitioners find strategic change difficult, yet they must try or else be left behind in the competitive race.

The practitioners are not alone in their struggles with complex and uncertain strategic change. Researchers are also having a hard time grasping this multifaceted phenomenon. There are numerous types of strategic changes occurring at multiple levels, in various industrial contexts and phases of the business cycle, and involving a multitude of strategic, marketing, economic, financial, organizational, human resource, and other management issues. However, studies of strategic change are typically limited to a single (more or less broad) type at a single level of analysis in no surprise that the research field of strategic change suffers from conceptual as well as empirical fragmentation in trying to understand and explain this multifacetedness.

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For example, the research on mergers and acquisitions has been fragmented into more or less isolated economic, financial, strategic, organizational, and human resource issues. The most significant contributions have typically been those few attempts to bridge the gaps between various issues and fields (e.g., Lubatkin, 1983; Haspeslagh and Jemison, 1991; Chatterjee et al., 1992). A case survey found that merely studying one category of strategic, organizational, or human resource factors would have accounted for approximately 20 to 30 percent of the variance in synergy realization, while all were actually significant and explained more than 60 percent when studied together (Larsson, 1993). It seems clear that the performance of these and many other strategic changes is affected by several factors from different fields and is therefore better understood from cross-disciplinary perspectives.

The attempts to improve our understanding of strategic change also lack systematic comparisons among the various types of change. For instance, strategic alliances consist of joint ventures, trade associations, cartels, interlocking directorates, and other forms of interorganizational cooperation (Borys and Jemison, 1989; Lorange and Roos, 1992). Rather than comparing these different alliances, research tends to focus on one type or to treat them as a largely homogeneous phenomenon. Even the more demarcated area of mergers and acquisitions goes through the trouble of labeling itself with two types—"M&A"—while not systematically investigating the extent to which they are different. Without such comparisons, the research on strategic change will continue to suffer from fragmentation between different types and more or less unfounded generalizations across types.

To simultaneously study most types, levels, contexts, phases, and theoretical issues of strategic change is obviously too much of an undertaking for individual researchers. Fortunately, there are alternatives to perpetuating the fragmentation through continued "rugged individualism." Like organizations that turn to collective strategies in the face of problems that are too complex to be solved individually (Emery and Trist, 1973), researchers can form groups that jointly address and compare more types, levels, issues, and so forth (e.g., the Warwick group in the United Kingdom). Past research efforts in different industrial contexts and phases can be utilized through various forms of meta-analysis (e.g., Datta, Narayanan, and Pinches, 1992). The publication of special issues can also contain broader treatments of strategic

change than isolated articles, as illustrated by the *Strategic Management Journal* issue on strategic processes (Pettigrew, 1992).

The present issue is dedicated to the human side of strategic change. This is one of the most central and broad issues since strategic changes are planned, negotiated, implemented, interpreted, reacted to, and continuously altered by people. The human side is relevant to all types of strategic change, and it spans all the way from individual to international levels of analysis as illustrated by the multilevel management framework of Bartlett and Goshal (1993). It has been primarily addressed from human resource management and organizational perspectives, but has important strategic, economic, and financial antecedents as well as implications.

### **The human challenge of strategic change**

Research on strategic change often indicates severe problems in bringing about actual, lasting, productive, and satisfactory change. These difficulties are consistently attributed to the human factor, typically in terms of prevalent employee resistance to change (Lawrence, 1969; Argyris, 1985; Blake and Mouton, 1985). The common cultural clashes in mergers and acquisitions (Buono and Bowditch, 1989) and negative career implications of downsizing and delayering (Hirsch, 1987) constitute powerful sources of employee resistance. Resistance does not seem to be limited to these more obvious occasions, but instead tends to be so widespread across different types of strategic change that it is viewed as a general pattern.

Strategic change can be defined as the realignment between the organization and its environment that affects the achievement of the organizational goals (see Gray and Ariss, 1985). Given that it is intended to improve the organization's ability to survive by better fulfilling its goals and satisfying its stakeholders, it would be strange indeed if employees in general tended to resist strategic change. Different types of changes are likely to vary in terms of the extent to which they threaten corporate cultures and careers. Comparisons between these types could refine our knowledge of where, when, and why employees resist and thereby also how they can be better managed.

It is possible that the prevalence of employee resistance stems from the fact that managers and researchers may still retain theory X assumptions about employee reactions and these become self-fulfilling

prophecies when implementing and studying strategic changes. McGregor's (1960) classic book *The Human Side of Enterprise* taught us thirty-five years ago that managerial behavior depends on our assumptions of people and if we view them as inherently disliking work, we will attempt to coerce them toward adequate performance. Translating these theory X assumptions to the dynamic situation of strategic change, people are viewed as stability-prone and therefore will fear and resist most changes.

Research shows that individuals differ in their preferences for more or less stability versus change (Derr, 1986; Driver, 1988). Consequently, the stability-proneness assumption needs to be balanced with dynamic theory Y assumptions, namely, that if provided with adequate responsibility, freedom to act, rewards, and other support, people will drive and be empowered by strategic change.

To the extent that more participative theory Y and cultural theory Z approaches have been used in relation to strategic change, they have tended to emphasize the human side at the expense of the business side (e.g., Beer, Eisenstat, and Spector, 1990). The answer to whether hard X or softer Y and Z approaches are more appropriate is "neither." While the hard implementation of a strategic change can be undermined by the resistance the approach generates, the sacrifice of business considerations in favor of soft people-oriented approaches is no more likely to produce positive results. The human challenge of strategic change therefore is to integrate the business and human sides toward strategic empowerment rather than coercion or mollification of employees. Empowerment has previously been largely an organization development concept for enabling employee motivation (Thomas and Velthouse, 1990). A strategic concept of empowerment is more than mere avoidance of powerlessness; instead, it is the competitive advantage that a company can gain through developing and being developed by its people.

### **A multilevel, multitype approach**

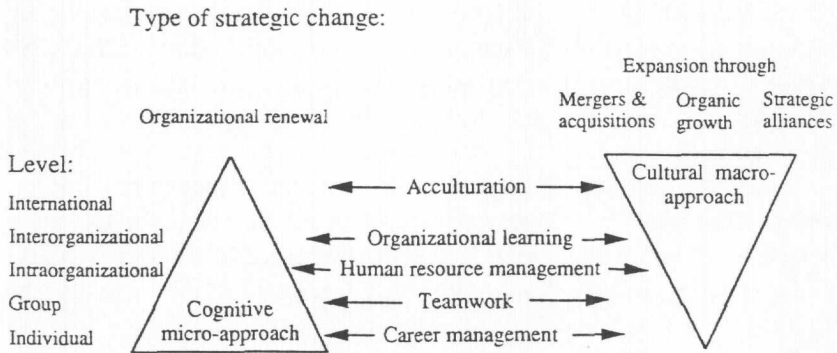
Different change types can be expected to vary substantially in terms of how much they inherently promote or hinder strategic empowerment. Organizational renewal and other strategic changes aimed at reorienting the organization's direction refer mainly to learning new perspectives and competencies. While old habits may be hard to un-

learn, there should not be inherent resistance to such cognitive development, at least not to the extent of threatening downsizing. Expansion of the organization's boundaries through organic growth, mergers, acquisitions, and strategic alliances also ought to be less threatening.

However, less threatening types of strategic change often still involve more resistance than empowerment. One reason for the mere selection of more "harmless" types being insufficient is that these changes span multiple levels. Sources of employee resistance can be found at organizational and international levels of cultural inertia, as well as at the individual level of negative career implications. In other words, attempting to understand and manage employee resistance at one level does not preclude resistance unexpectedly arising as a result of issues at another level.

It is possible to distinguish between a culturally oriented macro-approach to the collective human side and a cognitively oriented micro-approach to the more individual human side of strategic change. Culture refers to the intersubjectively shared meanings of societies and organizations (e.g., Smircich, 1983). Attempts to understand collective reactions of employees to strategic change have typically been made from cultural perspectives, where culture often is viewed as a constraint on change (Schein, 1987). Expansion of the organization's boundaries tends particularly to be studied from the cultural macro-approach in terms of clashes between organizational cultures in domestic corporate combinations and societal cultures in international expansion.

On the other hand, strategic change is also viewed from a micro-approach of cognitive development and reorientation. Research focusing on top managers' mind sets, perspectives, and attitudes addresses change processes as interpretive shifts from one orientation to another (e.g., Galbraith, 1988). The cognitive transformation and reorientation of key actors lie at the core of many studies of organizational renewal. Alternatively, the individual human side of strategic change is addressed by how the careers of employees are affected in terms of job security, advancement opportunities, stress, and so forth. Given that individuals interpret these career implications differently, there are also substantial cognitive components in career studies of change. The cultural macro- and cognitive micro-approaches are contrasted in figure 1.



**Figure 1** Bridging Cognitive Micro- and Cultural Macro-Approaches to Strategic Change

### Cultural and cognitive intersections

As also illustrated by figure 1, the distinction between the cultural macro-approach and the cognitive micro-approach is partly artificial and unnecessarily limiting. Culture can be viewed as a collective form of cognitive programming (Hofstede, 1991). Cross-cultural interaction at the corporate and national levels involves assimilation, integration, and rejection of norms, values, and other shared cognitive meanings through processes of *acculturation* (Nahavandi and Malekzadeh, 1988). Expansion through mergers and acquisitions in particular can thus also result in cultural renewal of the joining organizations.

Such *organizational learning* of new cultural traits and other meanings is central to the cognitive reorientation of organizations that attempt to renew themselves. While some researchers acknowledge environmental influences on organizational learning, others often tend to neglect its cognitive foundations and limitations (see Senge, 1990). It could be argued, however, that the cultural and cognitive phenomena together create the interactive dynamics as well as the macro- and micro-boundaries of organizational learning.

*Human resource management* can be seen as somewhat of a conceptual hub around which much of the cognitive micro-approaches and cultural macro-approaches turn. It consists of selecting, rewarding, appraising, socializing, and developing individuals to contribute as much as possible to the achievement of organizational goals (e.g., Fombrun, Tichy, and Devanna, 1984). While the selection and development of

individuals are often based on the evaluation of their cognitive abilities, socialization, reward, and appraisal systems have strong impacts on the corporate cultures by affecting the norms and values of the employees.

*Teamwork* constitutes a similar bridge at the group level with cognitive dynamics, such as learning from others, social identity, and group-think (Janis, 1982), and development of subcultures through group cohesiveness, social conformity, and other informal group structures. *Career management* refers to how individuals pursue what they view as desirable working-life paths. At the same time, the satisfaction of individual career motives is closely linked to the organizational career culture of the particular set of strategy, structure, appraisal, rewards, and norms in which the person works (Brousseau and Driver, 1994).

While some acculturation, organizational learning, and career issues have been studied in strategic change research, this dynamic side is conspicuously missing in human resource management and especially teamwork research. The literature on these two latter issues tends to be largely of a textbook character, addressing how personnel and groups are effectively managed. Their key role of bridging the individual and collective sides of the broader change processes has unfortunately not been given sufficient attention, despite that this part versus the whole relationship is “[p]erhaps the most significant structural problem in managing complex organizations today” (Van de Ven, 1986, p. 598).

### **Bridging the human side of strategic change**

The following five articles bridge the individual and collective human sides of strategic change. They focus on different change phenomena and use different quantitative and qualitative methodologies. The multicultural treatment is emphasized by the fact that the authors come from six nations and have extensive international experience.

#### ***Organizational renewal: Deinstitutionalization and loosely coupled systems***

The cognitive revolution leads us to treat an organization’s culture as a principal impediment to its change and renewal, and, thereby, as a principal factor determining its competitiveness. J.-C. Spender and P.H. Grinyer expand this view to consider the interpenetration of the

organization's internal institutions, such as its culture, and those in its environment that determine the organization's legitimacy. Empirical evidence leads them to doubt that these institutions provide homogeneous patterns of shared values and beliefs, or that organizational change means the deinstitutionalization and the replacement of one pattern of institutional commitments (or CEO) by another. They argue that the organizational substance is fundamentally heterogeneous, and that organizations are loosely coupled institutional systems. Renewal means the orchestrating of the organization's distinctive components into new systems of activity rather than their replacement.

***A human-information-processing approach to strategic change:  
Altering managerial decision styles***

The information-processing view of organizational design provides a unifying model for how an organization aligns itself with environmental and technological factors by matching information-processing requirements and capacity. Previous studies have focused mostly on the capacity of formal structural mechanisms, especially the accelerating development of computerized information systems. This neglects the fact that, by far, the largest information-processing capacity of organizations is located in the brains of the employees. Rather than merely resorting to formal redesign of the organizational structure in order to realign strategically the organization with its environment, a human-information-processing perspective suggests that strategic changes can involve reengineering and harnessing the powerful human-processing capacity of the employees. Michael J. Driver, Katarina Svensson, Roy P. Amato, and Larry E. Pate use a decision style model to address fundamental differences in information-gathering and information-use tendencies among individuals. They examine the decision styles of forty-eight senior managers who participated in a management-intervening effort that was designed to encourage the managers to be less controlling and more participative in their decisions and interactions with others. Two measures of decision style were administered before and roughly one year after the intervening effort. Results suggest significant change in decision styles from pre- to post-measures, thereby indicating a strategic change in the organization's human-information-processing capacity.



***A cross-national assessment of acculturative stress  
in recent European mergers***

The cultural side of mergers and acquisitions has been highlighted during the last ten years as one major reason for employee resistance and poor joint performance. Surprisingly, the focus has been almost exclusively on clashes between organizational cultures in domestic combinations, even though one would expect more severe cultural clashes in cross-border mergers and acquisitions that also involve different national cultures. Philippe Very, Michael Lubatkin, and Roland Calori not only address the impact of national cultures but also question the conventional view that cultural differences necessarily result in negative acculturative stress. They surveyed top managers of British and French firms that were recently acquired by British, French, or American firms, regarding their perceptions of acculturative stress and their firm's performance since the merger. From this 2x3 sampling design, they find that the financial performance of acquired firms is influenced by cultural differences; that the differences may emanate from national culture, organizational culture, or both; and that the direction of the influence may be country-specific.

***A strategic human resource perspective applied to  
multinational cooperative ventures***

Strategic alliances constitute alternative means for corporate growth, especially across borders. Rather than being limited to one firm's resources for expansion through organic or acquired growth, cooperative ventures enable risk-sharing, more flexible, and often less threatening combinations of complementary resources. However, as in mergers and acquisitions, high failure and disappointment rates have highlighted the importance of the human side of strategic alliances. Peter Lorange outlines a conceptual scheme for comparing various forms of cooperative ventures and their human resource management. Based on his extensive experience of international cooperative ventures, Lorange emphasizes the practical implications of a strategic human resource perspective through normative arguments regarding the assignment, transfer, control, time allocation, performance evaluation, and loyalty issues in four different types of alliances.

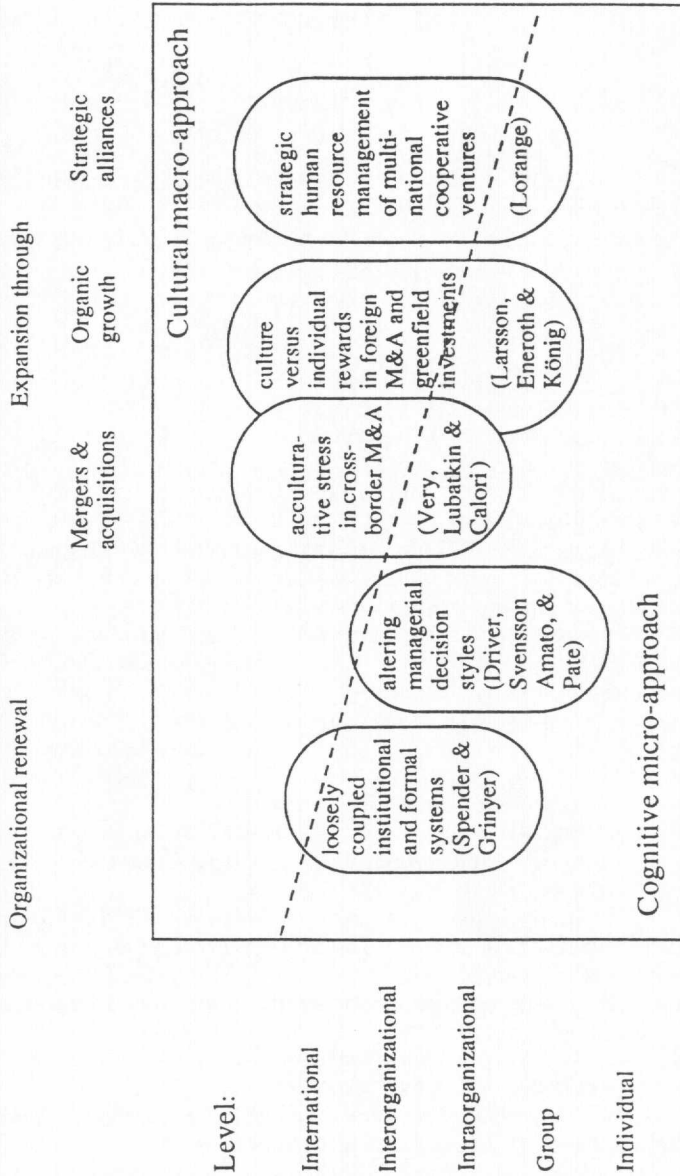
***On the folly of rewarding domestic stability while hoping for international expansion***

The common cultural explanations of employee resistance can be contrasted with the alternative or complementary explanation of stability-inducing reward systems. Rikard Larsson, Kristina Eneroth, and Ingo König develop a change-launching reward framework based on the inducement-contribution model. Using a case-cluster method, they study five international expansions to explore how reward systems distribute inducements during change processes. The disruption of the inducement-contribution equilibrium is found to be more consistent with differences in resistance than cultural explanations. They identify ethnocentric, polycentric, and geocentric reward policies for international expansion and present a change-related typology of reward systems with different proposed employee outcomes. Their comparative analysis also indicates that the three cases of cross-border acquisitions experienced more employee resistance than the two greenfield investments, thereby highlighting the human side of the traditionally strategic and financial question of making-versus-buying internationalization.

Figure 2 compares these five attempts to bridge some of the fragmentation among different levels, types, and approaches to strategic change. Each article focuses on a varying set of organizational renewal and expansion types. Still, the reengineering of the human-information-processing capacity of a company represents one form of reconfiguration of corporate competences that overlaps with other forms of cognitive reorientation. The various expansion forms also involve other types of cultural and cognitive renewal. Consequently, various types of strategic changes typically overlap, follow each other sequentially, or otherwise interact with one another. The multifacetedness is further highlighted by this complex interaction among change types. Researchers may find themselves having to understand preceding, parallel, and subsequent changes in order to more fully understand the focal change process.

Although the articles have varying emphases, they all span several levels of analysis. Thus, the human side of strategic change may be better understood by combining the cognitive micro- and cultural macro-approaches. The interpenetrating character of these individual and collective sides suggests that a key to study as well as to manage strategic change is to address both cultural and cognitive issues at

Types of strategic change:



**Figure 2** A Set of Articles Bridging the Collective and Individual as Well as Cultural and Cognitive Sides of Strategic Changes

multiple levels, and how they interact, in order to not be surprised by unexpected employee reactions.

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