

**TRANSFORMING THE MIND-SET OF THE
ORGANIZATION:
AN OWNER'S MANUAL**

by

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TRANSFORMING THE MIND-SET OF THE ORGANIZATION: AN OWNER'S MANUAL

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ABSTRACT

In this paper the processes of individual and organizational change—their characteristics and dynamics—are explored, and resemblances between personal and organizational change are highlighted. Factors such as a period of distress, a crystallization of discontent, a focal event, and a public declaration of intent are shown to play a role in both individual and organizational change. The process of working through the loss associated with change—a process that, like the process of mourning, is made up of a number of predictable stages: shock, disbelief, discarding, and realization—is outlined. Social support, locus of control, and hardiness are introduced as factors facilitating the change process. Finally, a case study showcasing a company that experienced a dramatic transformation is presented to highlight some of the critical change variables and to show how top management can use many of the levers that make for a successful transformation and change program.

KEYWORDS: Individual and organizational change; transformation; intervention; change agent; resistance; working through; hardiness; locus of control; loss and mourning; focal event.

Introduction

Only the supremely wise and the abysmally ignorant do not change.

—Confucius—

There is nothing permanent except change.

—Heraclitus—

If you want to make enemies, try to change something.

—Woodrow Wilson—

There is a story of a man who seemed normal in all respects but one: he thought he was dead. Everybody around him tried to persuade him that this was not the case, but to no avail. Finally, so the story goes, he was referred to a doctor. This doctor also tried to convince him that he was not dead. After a long, fruitless conversation, in desperation the doctor asked, “Well, do dead men bleed?” The response of his patient was, “No, they don’t.” The doctor then took his scalpel and made a little cut in the arm of the patient. “Look at that,” he said confidently. But the patient replied, “By golly, dead men *do* bleed!”

As this story indicates, change is not easy. People have a tendency to hold on to dysfunctional patterns, illogical as these may appear to others. They cannot change their perspective on life without expending a great deal of effort. The reason that people cling so tenaciously to the status quo is not easy to determine. There are many conscious and unconscious obstacles on the path toward change. To many, the rallying cry seems to be, “Better dead than changed!”

The issue of whether personality can change in any fundamental way has intrigued psychologists for decades. Indeed, the stability or changeability of personality has been

a major preoccupation of many students of human behavior: they have tried to determine whether there is a certain malleability to personality—and if so, whether there arrives a time when personality becomes frozen. In other words, is personality change possible; and if so, can that change continue throughout the life cycle?

Both developmental psychologists and dynamic psychotherapists have studied these questions from various angles (Curtis and Stricker, 1991; Heatherton and Nichols, 1994; Costa and McCrae, 1994). One school of thought has argued that personality becomes quite stable after a certain point in time. These psychologists subscribe to William James's (1890) notion that personality is set "in plaster" by early adulthood. According to them, after the age of thirty most personality characteristics have become deeply ingrained (Reichard, Livson, and Peterson, 1962; Caspi and Herbener, 1990; McCrae and Costa, 1990). Others have taken exception to this point of view, testifying about the great malleability of personality as people move through the life cycle (Mischel, 1968). Still others, recognizing that the dramatic changes of childhood and adolescence are not matched by transformations later in life, have chosen a more intermediate position. They claim that although there is a certain stability in basic personality characteristics, many maturational changes and adaptations take place as people grow older (Murray, 1938; Erikson, 1950; White, 1966; Vaillant, 1977; Levinson, 1978; Gould, 1978; Helson and Moane, 1987; Nesselroade, 1992; Helson and Stewart, 1994). They have argued that although the more central aspects of a person's personality are less likely to change than the peripheral ones (Pervis, 1994), individuals continue to learn new behavior as they mature. While we may not see in adulthood the kind of dramatic, revolutionary change that people experience in early childhood, some change is possible. During the various life stages, a gradual, unfolding developmental process occurs (Weinberger, 1994).

While developmental and dynamic psychologists have cast their net widely, looking at the individual in all his or her diversity, organizational psychologists have taken a more narrow point of view, studying the behavior of individuals in the context of organizations. Unfortunately, in spite of the existence of over one million articles on change (Van de Ven and Poole, 1995), with respect to human behavior many organizational psychologists have taken a fairly narrow, behavioral point of view,

seeing human beings as simplistic recipients of environmental determinants. In adopting this perspective, however, they deny their research subjects' possession of a rich inner world of wishes, desires, and fantasies. In these models, directly observable behavior becomes the focus of change; very little (if any) attention is given to internal and unconscious processes. According to the researchers who rely on these models, shaping and modeling will do the job in effecting change; there is no need to pay attention to what is going on in a person's head (Lofquist and Dawis, 1969). Many of these models assume that people are rational, logical beings and will change their behavior according to the information they receive and according to self-interest (Chin and Benne, 1978). Lewin's (1951) famous model depicting the change process as a force field between restraining and driving forces (whereby change depends on the ability to manage an unfreeze, change, and refreeze process) is indicative of this way of looking at the world—though with a more social-psychological slant.

Some organizational psychologists, however, having heeded the findings of developmental and clinical psychologists about the limits of personality change, have looked at the question of transformation and change in the context of these research findings. They view organizational change and transformation as embedded in the process of individual change. They argue—after all, organizations are made up of collections of people—that to be successful in instituting change, we have to understand individual reactions to the change process (Levinson, 1972; Kets de Vries and Miller, 1984; Zaleznik, 1989; Curtis and Stricker, 1991). In their opinion, a lack of attention to the inner experience of the individual person with respect to change will abort the process.

One reason people take this inner-focused point of view about the change process in the workplace is as a reaction to the often exaggerated, unrealistic promises made by change agents about the degree of change possible in cases of organizational intervention. Painful experience has taught us that oversimplistic models of human behavior come with a price. Many of the recommendations of change specialists have turned out to be of a quick-fix nature, having no enduring influence. The recommendations for getting a change process into motion—based on oversimplified models of human behavior that pay no attention to deep-seated underlying processes—

have been rather superficial. Paying heed to the rich underlying dynamics of individual change, however, can turn the process of organizational transformation into a more realistic endeavor. Such a focus helps change agents appreciate the mind-set of the people in the organization and distinguish between what is feasible and what is no more than a pipe dream.

The objective of this article is to explore the dynamics of individual and organizational change processes. We will argue that although things are ever-changing and ever-changeable—and that change is therefore infinitely variable—the underlying principles of the change process are relatively *invariable*. We believe that it is possible, by observing from a clinical perspective the different stages by which individual change takes place, to draw parallels between individual and organizational change processes (Levinson, 1972; Zaleznik, 1989; Kets de Vries, 1991, 1996). Taking this thought one step further, we suggest that by adopting the process of individual change as a conceptual framework, it is possible to induce, facilitate, and speed up lengthy organizational intervention and change processes. This seems especially useful given that such change processes often are set in motion only when the organization's situation is already critical. Thus they tend to follow the "learning by mistake" route, an approach an ailing organization in need of change can ill afford.

The organizational change literature, in spite of its wealth of contributions, is still in its infancy; there "is no one all-embracing, widely accepted theory of organizational change and no agreed upon guidelines for action by change agents" (Dunphy, 1996, p. 541). Given the confusion resulting from myriad conflicting theories of organizational change, a contribution securely anchored in the clinical theory of individual change may shed some light, offering prescriptive value for future change agents.

Procedure

Our database for exploratory conceptualizations concerning the process of organizational transformation and change is twofold. First, field data has been obtained in the course of a large number of interventions in a variety of organizations in the

private sector. Because INSEAD is involved in many corporate renewal programs, on many occasions we have been asked to play a role in the change process, and we have been able to make some generalizations from those specific interventions. Abstracting ideas and developing grounded theories from case observations, as we have done in the organizations we have been affiliated with, is a well-established tradition in management (Glaser and Strauss, 1967; Geertz, 1973, 1983; Schein, 1987; Kets de Vries, 1991). The richness of the data, from a behavioral mode of explanation to one of psychoanalytic inference of the underlying dynamics gives credibility to this kind of exploratory presentation by furthering the understanding of the process of transformation and change.

This field portion of the database was augmented by multiple in-depth interviews with 160 senior executives, operating mainly in the chemical, banking, and information-technology sectors, who participated during the last couple of years in a seminar given regularly at INSEAD entitled "The Challenge of Leadership." This seminar has as its objective providing these people with a better understanding of their leadership style.

During these open-ended interviews, we asked questions based on psychiatric, clinical psychological, and organizational diagnostic interviewing techniques (Levinson, 1972; Malan, 1979; Mann and Goldman, 1982; Gustavson, 1986; MacKinnon and Yudovsky, 1986; Shea, 1988; Leon, 1989; Basch, 1992; Morrison, 1993; Bellak, 1992; Sperry, 1995). The interviews with individual participants were structured around a verbalization of each executive's life history, major relationships, key events, and primary organizational complaints. Because a main part of this INSEAD seminar centers around the issue of personal and organizational change, valuable insights were obtained about the dynamics of the change process.

Because of the nature of the INSEAD seminar, and the amount of time we spent with the senior executives participating (three periods of five days in groups of twenty), it was possible (in contrast to more traditional interview formats) to engage in a deep analysis of each individual's motives, drives, needs, wishes, and fantasies. Since participation in the leadership seminar was voluntary, most of the participants were highly motivated to engage in mutual inquiry about the change process.

The challenge during these interviews was to find out what had been happening in the “inner theater” of the executives involved. Because this inner theater organizes the way information is processed and acted upon in interpersonal situations, we had to be organizational detectives in our efforts to decipher “deep” structure (Geertz, 1973, 1983; Luborsky, 1984; Luborsky, Crits-Christoph, Minz, and Auerbach, 1988; Horowitz, 1991; Kets de Vries, 1991). In playing that role, we had to be alert to underlying themes, hidden agendas, meanings behind metaphors used, reasons for the selection of certain words, and deeper implications of the behaviors and activities of the individual in question.

Deciphering these deeper motives—teasing out the emotional, cognitive, and experiential components of the inner script of an executive—requires the capacity to “listen with the third ear.” This capacity in turn requires a certain level of emotional intelligence—that is, an awareness about one’s own feelings, the knowledge and skill to handle those feelings, and an appreciation of emotions in other people (empathy). It also implies the ability to recognize affective contagion (how feelings and ideas become transmitted to others) and make sense out of these elusive, transferred, nonverbal signals. Moreover, it requires the capacity to deconstruct and find the deeper meaning in the complex relational processes that take place in any human encounter.

The Psychic Theater of Change

The comment by one wit that “the only person who likes change is a wet baby” contains a substantial amount of truth. One of the recurring points in the vast scope of change literature is that people possess a pronounced inner resistance to change (James, 1902; Freud, 1966; Kelly, 1955; Greenson, 1967; Watzlawick, Weakland, and Fisch, 1974; Wachtel, 1982; Argyris, 1985; Pervis, 1994). There are forces within each individual that oppose change. Social and psychological investments in the status quo make it very difficult to weaken that opposition. Anxiety associated with the uncertainty of engaging in something new or becoming once again exposed to old dangers and risks, for example, often prompts people to resist change. In an effort to

reduce such anxiety, people allow avoidance behaviors—those means by which we keep ourselves out of frightening situations—to become deeply ingrained. Furthermore, repetition compulsion—the inclination to repeat past behavior in spite of the suffering attached to that behavior—is an all too human tendency (Freud, 1920). In addition, fear of a narcissistic injury, of having to acknowledge that the present state of affairs is not good enough, can contribute to a frozen stance. Ironically, in many instances we seem to prefer the familiar “bad” to the promising unknown.

It is impressive to see the degree to which people make an effort to preserve dysfunctional patterns of operating. They are often willing to put up with extremely unsatisfactory situations rather than take steps toward the unknown in order to improve their situation. Given the pain that continuing in dysfunctional ways entails, we can surmise that there must be a certain amount of pleasure as well. Indeed, in each individual’s adherence to the status quo, there is more than meets the eye; there are unconscious processes that, when understood, explain that person’s frozen stance—resistances that have some kind of protective function. In other words, people resist change in part because of the “secondary gain”—the psychological benefits (such as sympathy and attention)—that they gain by manipulating the external environment so as to continue in the same way (Fenichel, 1945).

Prerequisites of Personal Change

A number of prerequisites of personal change can be listed: the crystallization of discontent, the focal event, and the public declaration. Each of these of these prerequisites plays an important role in facilitating the process of transformation.

The Crystallization of Discontent. If the human tendency is to *resist* change, how does the process of change ever get underway? Why does a person’s resistance start to weaken? What makes it happen? Given the relative stability of personality, getting the process of change into motion requires a strong inducement indeed—an inducement in the form of pain or distress. In short, some form of discomfort is usually the catalyst for change.

Studies of personal change support this notion; they indicate that a high level of stress is a major inducement to individual change (Klingemann, 1991; Heatherton and Nichols, 1994; Miller and C'deBaca, 1994). Among the stressors isolated by these studies are such factors as family tensions, health problems, negative social sanctions, feelings of isolation leading to a sense of helplessness and insecurity, problem behavior, and even daily hassles and frustrations. In addition, accidents or special incidents of some kind (such as something drastic happening to important others) frequently precede the change process (Stall and Biernacki, 1986; Stewart, Franz, and Layton, 1988; Klingemann, 1991). Among those of our interviewees who reported to researchers that they had changed, most mentioned the experience of a high level of negative affect in the period just prior to change, generally precipitated by a stressor such as those listed above. This negative affect brought to awareness the serious negative consequences that were to be expected if dysfunctional behavior patterns were continued. Individuals who reported major change said that they found the status quo increasingly difficult to maintain. They found themselves deadlocked in situations that unsettled their psychological well-being. Their negative emotions—and the consequences they anticipated if those emotions continued—led to a weighing of the pros and cons of the existing problem in an effort to find a solution. Something had to be done to break the stalemate, to change the situation, although as yet they had not made a commitment to take action.

When the study subjects realized that their bad days had turned into a bad year—in other words, that the isolated occurrence of occasional discontent had changed into a steady pattern of unhappiness—they were no longer able to deny that something had to be done about the situation. From this point on, every new disturbance was recognized as part of the general pattern of dissatisfaction. A certain amount of “crystallization” occurred, turning the complaints into a coherent entity (Baumeister, 1994). Gradually, all the undesirable features of life’s circumstances compounded to create a clear picture of the situation. Many people reported then having a kind of “aha!” experience, a moment when they were finally able to interpret correctly what was happening to them. They saw clearly that neither the passage of more time nor minor changes in behavior would improve the situation—indeed, that the situation was likely to become even worse. Something drastic had to be done.

While this clarification of the problem, this process of self-assessment, did not automatically compel people to take action, it usually set into motion some kind of mental process whereby they were willing to consider alternatives to the adverse situation. When people finally made the transition from denying to admitting that all was not well, they found themselves at the beginning of a reappraisal process. This was likely to be accompanied by strong feelings of confusion and (at first) even protest. Every alternative to the troubling situation was likely to appear more frightening than the status quo. Gradually, however, a preferable alternative to the stalemate began to crystallize, although the hurdles still seemed insurmountable.

The Focal Event. Among research subjects, accepting the need for change was generally not enough to get them to take an active step toward changing their situation. They needed a push, in the form of something that can be described as a “focal event” (Heatherton and Nichols, 1994). While the expression “focal event” signals a significant happening that triggers change, the reality is frequently somewhat different: often the focal event is interpreted as a milestone only retrospectively.

This focal event can be described as the straw that broke the camel’s back. That metaphor is very appropriate, because it indicates that the triggering event can be minor—the final additional element (one among many) that puts matters into focus. When latent dissatisfaction has built up to such a degree that a person is prepared—if not actually *ready*—to take a decisive step, not much is needed for something to be interpreted as a focal event, an episode serving as a “starting shot” for change. Experience suggests that while major events certainly can be focal, it is often minor occurrences that are seen as focal simply because the person is ripe for initiating change. And indeed these minor occurrences *are* focal: they are facilitating factors—factors that enable a discontented person to take that long-delayed first step. For that reason, they have important symbolic meaning.

Among our interviewees, this focal event was often an incident that happened to someone important to the person in question—an incident that, because it was perceived as a threat, led to a reevaluation of the behavior that caused distress. One

woman, for example, remembered as her focal point (in this instance major event) the sudden death of her boss and mentor; she saw in that death a judgment of her own overdedication to the workplace. The crystallization of her discontent centered around this focal event, which symbolized and called attention to the existing problem and provided the impetus for change.

A person's focal event can also be seen as a kind of "screen memory": while the incident may seem trivial at first glance, it is actually an indicator of a whole range of incidents that are symbolic of the experienced problem. Although *objectively it may be perceived* as minor, it is *subjectively experienced* as significant, because it calls attention to a problem that has existed for a long time. It precipitates a moment of insight and leads to a reinterpretation of the person's life history. (Of course, some focal events are objectively as well as subjectively significant—events of a very serious nature, such as the death of a co-worker, as in the above example, or one's own illness).

At this point in the process—with a focal event securely under his or her belt—the person in question is ready to take action. He or she has acquired the inner strength to make a change; the resistances to change have been overcome. New possibilities are seen where before there was only a sense of hopelessness. Emotional energy has been transferred from "objects" of the past (such as dysfunctional behaviors) onto aspects of the present and the future. The person feels as if he or she has received a new lease on life.

The Public Declaration of Intent. Interviews with people who have undergone significant personal change suggest that a good indicator of a high degree of commitment to change is a public declaration of the *intent* to change (Maxwell, 1984; Stall and Biernacki, 1986). Telling others, in a more or less public context, what one plans to do indicates a certain degree of acceptance of the problem. It signifies that the speaker is willing to defend his or her position. It indicates that traditional defense mechanisms (such as denial and projection) have run their course. The person is ready to take new initiatives.

Public commitment works in two ways: by influencing the environment and by influencing the speaker him- or herself. In the very act of making other people aware of a desire for change, people in the throes of change become aware that the old conditions are not valid anymore and that they need to adapt their attitude to new ones. At the same time, by pronouncing their wish (and intention) to change—by taking a *public* stance—they give themselves an ultimatum: go through with it (whatever the change may be), or lose face. Take smoking as an example. If a man states the wish and intent to give up this addictive habit acquaintances who see that decision as positive and stand behind it are less likely to offer him a cigarette and will most probably, if they notice that he intends to light up, look at him in a disapproving way. Thus going public with one's intentions is a good way of enhancing one's own determination and enlisting the support of the environment.

Furthermore, a public declaration of intent to change the present situation means a willingness to take a more vulnerable position, a willingness to move the problem from a private to a public stage. The public declaration expresses a wish to establish a “new identity,” a different way of behaving. The person wants to distance him- or herself from the former, less desirable self.

The Stages of Change

These elements of successful personal change—a crystallization of discontent, a focal event, and a public declaration of intent—are generally accompanied by emotions that follow a rather predictable sequence. As people progress through this sequence, they show an increasing ability to give up their old identities and roles and to adopt new ones. They begin to reorganize their phenomenal world in a significant way. They reevaluate their life's goals and meanings, letting go of the old and accepting the new.

The fact that what is old and familiar is left behind creates a feeling of privation. Letting go brings to bear memories of separation and loss, themes that touch upon the core of an individual's personality. After all, separation anxiety is a very basic form of anxiety—unconsciously, abandonment is equated with death—that has a unique set of dynamics and follows a specific course. The original model for separation and loss is

found in early mother-child interaction patterns. The separation between mother and child becomes the template on which all other experiences of loss are modeled.

From child development studies and related research, we have learned to expect a fairly predictable sequence of emotions in cases of loss. Although the number and nature of the emotions included varies somewhat by researcher, the core sequence remains constant (Spitz, 1965; Bowlby, 1969, 1973, 1980; Kübler-Ross, 1969; Pollock, 1961; Parkes, 1972; Marris, 1974; Mahler, Pine, and Bergman, 1975; Prochaska, DiClemente, and Norcross, 1992). This process of mourning—the familiar pattern for dealing with stressful experiences, whether the loss is big or small—begins in early childhood and is repeated throughout life. In every experience of loss, variations on this theme can be observed. Recognizing this pattern will help us understand the intrapsychic dynamics of the change process, revealing the logic behind the sequence of crystallization of discontent, focal event, and public declaration of intent. It will also help us in making sense of successful change efforts in organizations. In those firms where change has taken place without major hiccups, we can conjecture that the catalysts of change paid attention to this mourning process.

In his review of the literature on mourning, psychiatrist John Bowlby (1980, p. 85) was able to discern four general stages that seem quite universal. He noted the following:

Observations of how individuals respond to the loss of a close relative show that over the course of weeks and months their responses usually move through a succession of phases. Admittedly these phases are not clear cut, and any one individual may oscillate for a time back and forth between any two of them. Yet an overall sequence can be discerned.

The four phases are as follows:

1. Phase of numbing that usually lasts from a few hours to a week and may be interrupted by outbursts of extremely intense distress and/or anger.

2. Phase of yearning and searching for the lost figure lasting some months and sometimes for years.
3. Phase of disorganization and despair.
4. Phase of greater or less degree of reorganization.

From our investigation of successful change processes, we recognize that this basic emotional sequence of mourning and loss can be applied to the context of personality change as well. In the case of individual change, a conflict takes place between the acquisition of insight into the problem (a necessary precondition for change) and the forces of resistance (in other words, the defenses used by the individual to maintain the status quo). However, in order for a person to change, to move from one state to another, these insights into the dysfunctional situation have to be “metabolized”; resistances have to be dealt with. This brings us to something called the “working-through process”—the various steps the individual has to take to arrive at successful transformation.

Extrapolating the conceptualizations derived from theories on mourning, we can discern four phases in this working-through process: shock, disbelief, discarding, and realization (Kets de Vries and Miller, 1984). We should understand, however, in considering this kind of sequencing, that this succession of stages indicates a *successful* process. When the change process is less than successful, developmental arrest may be responsible—in other words, the inability to proceed from one stage to the next. Such an occurrence can produce dysfunctional and sometimes painful symptomatology.

- In the first phase—that of *shock*—the individual is not prepared to consciously acknowledge that something is wrong. Vague feelings of discontent surface, however. These feelings may be ignored or explained away until they grow so strong that this is no longer possible. During this stage, the person may also experience a sense of numbness, which can be interrupted by feelings of panic and outbursts of anger.
- Soon the person enters the second phase of the working-through process, which can be described as a phase of *disbelief*. Denial of what is happening is a common reaction at this stage. A state of disarray, confusion, and disorientation prevails, along with a yearning and searching for what has been lost. Irrational anger,

sadness, and self-reproach may follow. The person takes a reactive posture; a past orientation is the norm.

- In the third phase—the *discarding* phase—old patterns of thinking, feeling, and acting are slowly abandoned. Tentative explorations are made toward finding new opportunities and establishing a new equilibrium. The individual in the pangs of change is trying to redefine him- or herself through a process of self-examination. Gradually, that person gains an acceptance of the new situation. He or she experiences a growing sense of hope; new choices seem possible. A more proactive attitude and an orientation toward the future emerge.

- Discarding prepares the individual for the next stage of the process: the *realization* of a new identity. This fourth stage implies a reshaping of the person's internal representational world, the acceptance of a new reality. A proactive posture is now taken. Past patterns of thinking, feeling, and acting are discarded as the person adopts a more future orientation. This shift in attitude and behavior leads to the redefinition and even reinvention of the self and one's psychic world.

Driving the Wheels of Change

How can we apply what we know about the dynamics of personal transformation to the organizational setting? How can we proactively drive the process of organizational change? How can we be most effective as change agents? These questions are critical now that change has become the rule rather than the exception for those seeking corporate survival and success (Tushman, Newman, and Romanelli, 1986; Van de Ven and Poole, 1995; Nadler, Shaw, and Walton, 1995). Companies that last through the coming decades will be those that can respond effectively to the changing demands of their environment.

As we look at change in a larger context, we can draw a number of parallels from what we have learned about the way individuals change. As with individual transformation, organizational change is a sequential process, and that process requires the impetus of a period of stress. In other words, people in the organization have to become mentally prepared for the fact that change is inevitable.

Stress in the system can be seen as the lever that gets the change process on its way. But pushing that lever is easier said than done, because—as in the case of individual change—there are a lot of resistances to deal with. Organizational participants may not see, at first glance, that the change process is in their self-interest. Even those who are aware that all is not well can find infinite ways of avoiding the issue of change. The fear that the proclaimed benefits of a particular change will not outweigh the costs involved sets many unconscious defenses in motion. The challenge inherent in this dilemma prompted one observer to comment that creating organizational change evokes the same resistances as moving a graveyard.

Organizational Resistance to Change

For many people in an organization, change implies a loss of the security that goes with a specific job; they fear the unknown. Insecurity causes them anxiety, resulting in the wish to hang on to old patterns of behavior. Other people—those who expect that change will require them to learn a new job or work harder—may fear that they lack the skills and stamina needed for change. Still others may be afraid that good working conditions or a sense of freedom will be taken away. Some employees may fear that change implies a loss of responsibility and authority, with concomitant status implications. They may dread the perceived loss of status, rights, or privileges that they expect the change to bring. Other people may interpret change as an indictment of previously taken actions; they may see a proposed change as an attack on their previous performance and react defensively. Furthermore, change sometimes threatens existing alliances, implying the loss of important friends and contacts. The fear of having to leave friends and familiar surroundings can arouse many resistances. For those workers who deal with budgets, there is also the question of sunk costs: they may be reluctant to accept a change that entails scrapping certain costly investments. Finally, change may be resisted because of something so pedestrian as a feared decrease in income.

All these resistances have to be dealt with and overcome in some way. The trick is to make clear that hanging on to the present state creates more problems than diving into the unknown. Unless those directing the change effort manage employee resistances, it

will not be successful. People have to realize the implications of not doing anything. They have to be made aware of the personal costs—to them individually—of not changing. In other words, they have to be prepared. And, perhaps most important, they have to experience a certain amount of discomfort. As in the case of personal change, pain is an important lever in the process.

Stress in the system, while necessary, is not sufficient, however. (Indeed, *too much* stress leads to feelings of despair and depression, which in turn solidify resistances.) In addition to pain, people also need hope; they need to have something to look forward to. Thus hope becomes the bridge between preparation and transformation.

Fomenting Dissatisfaction

We have all heard the saying, “There’s no gain without pain.” There is considerable truth to those words in the context of personal change: as we have noted, the willingness to change usually presupposes a high level of stress. Just as discomfort with the status quo is the engine that drives the individual change process, so too does stress drive organizational change. Studying organizations that are prepared to undergo change, we can usually observe a high level of discomfort. There are pressures on the organizational system indicating that some kind of adaptation is needed. In spite of the “pain,” however, many necessary organizational change processes get stalled because of defensive routines.

If such routines continue to be manifested throughout the organization in the face of extreme discomfort, we can assume that the resistances of the key powerholders are still intact, that the necessity for change still escapes organizational leaders. Locked in behavior patterns that have previously proved to be quite effective, these leaders have not realized yet that circumstances have changed, that adaptation is needed, that what once was a recipe for successful performance has become a recipe for disaster, that what once were good practices—a perfect alignment with the economic environment—are no longer viable. As someone once said, “There are two tragedies in life: one is to be unsuccessful; the other one is to be successful.” But changing the mind-set of key players in the organization is never easy. It generally requires a strong jolt of some kind. Those favoring change must pressure the skeptics into believing that

the present state is no longer viable, that the alignment of organization and environment is off.

The best kind of pressure for creating awareness of the need for change is pressure that comes from both inside and outside the organization. Among some of the external factors that can cause discomfort in organizations are threats from competitors, declining profits, decreasing market share, scarcity of resources, deregulation, the impact of technology, and problems with suppliers and consumer groups. As examples of internal pressures we can mention ineffective leadership, morale problems, high turnover of capable people, absenteeism, labor problems (such as a strike), increased political behavior in the company, and turf fights.

All these factors inevitably negatively affect the mind-set of the people in the organization. The resulting malaise affects the corporate culture and has an impact on patterns of decision making. Eventually, as these stressors cause increasing daily frustration, they can no longer be ignored; an overwhelming dissatisfaction with the status quo results in person after person. Gradually, the majority realize that something needs to be done or the future of the organization will be endangered.

Engendering Hope

To break this vicious circle of organizational despair, hope offered through the role of a change agent is essential. In the best of all worlds, such a person holds a key power position; ideally, it should be the CEO (or some equivalent) who makes the case for change. Although people at other levels of the organization can (and sometimes must) take the initiative, given the reality of power dynamics it is members of the dominant coalition (particularly the CEO) who are most effective at getting the change process on its way. After all, the ability to effect change depends to a great extent on hierarchical authority, resource control, charisma, and dependency relationships within the organization.

It is the role of leaders to identify the challenges the organization is facing. Leaders should point out the source of the distress and clearly present the negative consequences of a failure to act. They should develop and articulate a clear picture of

the future under the current direction. By articulating the reality of the situation, they focus the existing state of discomfort. That level of discomfort has to be kept within tolerable margins, however; otherwise, people will tune the problems out. To buffer against excessive stress, leaders must present a viable alternative to the present situation. That change program should be—and be perceived as—a doable proposition.

In proposing change, leaders need to reframe the cultural guidelines that people in the organization have gotten used to; they should also make an attempt to reframe the positive aspects of the change effort. They need to create pride in the organization's history but also point out how this pride in tradition can anchor the organization to the past. By referring to the organization's greatness but also presenting a new way of doing things, leaders create a sense of hope; that dual approach makes for a sense of new beginning.

It is also important that leaders articulate and address people's worries about career advancement. To do so, they must first emphasize the personal implications of continuing as before. Rather than allowing people to follow an ostrich policy, denying reality, leaders must address the likely effects on the careers of people in the organization if nothing is done about the existing threats in the environment. At the same time, they should articulate the opportunities that would be created by doing something about these threats. A new psychological contract, implying mutual obligations and commitments (explicit and implicit) between the employees and the organization, has to be established, clearly setting out the new values required to make the transformation effort a success.

Because cognition without affect cannot bring about change, leaders have to cultivate emotional commitment, thereby creating energy to support the change process. To foster that commitment, leaders should make it clear that they do not see members of the organization as mere pawns in the process; furthermore, they should require everyone in the organization to become involved in the design and implementation of the change effort. Involving all employees creates a sense of control over the process, which in turn has a major stress-reducing impact (Zaleznik, Kets de Vries, and Howard, 1977).

In attempting to garner employee commitment for the change process, leaders should use simple language that will resonate within the people who will be affected. Repetition of the message of change is also important, because people need to be reinforced as they deal with the consequences of loss that change implies. Every opportunity should be taken to get this message across verbally and visually, and leaders should also “walk the talk”—that is, be role models for the new values that characterize the organization.

As leaders provide a focus, articulate the issues in an understandable way, and seek to gain the support of their followers, the role of symbolic action—action that depicts what the new organization stands for and bridges the old and the new—becomes important (Johnson, 1990). Getting people on board needs a certain amount of “theater,” as a means both to articulate goals in an easily understandable fashion and to draw people into the process. The impact of symbolic action is illustrated by the activities of the CEO of a consumer products company who began making regular store visits during his travels and talking frequently with potential buyers of the company’s products. This interaction was his way of emphasizing that the newly espoused value of customer focus was not just another empty slogan. His obsession with customer satisfaction quickly caught on, reverberating throughout the company. Another CEO who was driving a corporate transformation effort asked all his executives to write a letter of resignation from the “old” company and a letter of application for the “new” one. This activity of rethinking what was wrong with the company and reflecting on how to make it a high-performance organization had a powerful impact.

In any communication of the change message, leaders must focus on clear, compelling reasons for change, lest employees fear that tradition is being abandoned for naught. To further guard against that fear, leaders should build on aspects of the existing culture that are appropriate for the new organization. Employees must perceive the entire change process as inspired by vision and driven by solid corporate values. They must see that it not only aims at building and maintaining a competitive advantage but also addresses the individual needs of the people who will be affected. Finally, they

must know that there are boundaries to the change process, that the proposed change effort has clearly defined parameters.

A dedication to honest, focused, and persuasive communication pays dividends to those spearheading a change effort. Eventually, most people in the organization will have at least a basic awareness that there are problems, and they will be prepared (in spite of lingering resistances) to accept the need for action.

Carrying Out the Transformation

The next step, after leaders have convinced their workforce of the need for change, is to get people committed to the new vision, to the new way of doing things. In order to move the change process forward, leaders must align crucial players behind their new view of the future; they must build coalitions with key powerholders in the organization. Those powerholders can then help to spread commitment throughout the organization.

Transfereential processes—including both mirroring and idealizing (Breuer and Freud, 1893–1895; Kets de Vries, 1993)—can play a critical role in this “recruitment.” Transfereential processes, which result in “false connections” between people, come about because there is no such thing as a completely new relationship; all relationships are based on previous relationships. This means that at an unconscious level, followers generally respond to leaders as though they were significant persons of the past, such as parents or other caretakers. In part because of that “false connection,” followers tend to identify with their leaders (a transfereential process called “idealizing”) and project on them their hopes for a new alternative. Through “mirroring,” having these projections reflected by the recipient, this process becomes reinforced. Thus followers often recognize themselves in their leaders. Consequently, they may go out of their way to please them, to make things happen. Leaders, gaining strength from this mutual identification process, reassure their followers, who in turn reassure the leaders (and give them their unqualified support). This process is responsible for the kind of “stretch” and high motivation that drives employees towards a successful change effort.

Taking advantage of the enhancing force of transference processes, leaders driving a change effort need to empower their subordinates by sharing information fully, avoiding secrecy, and delegating responsibility. Of these, the first is perhaps the most important: open and honest communication is critical. Leaders should keep surprises to a minimum, clearly delineate expectations, and maintain dialogue that is both ongoing and genuinely (rather than merely superficially) two-way. Furthermore, leaders need to communicate values by setting an example with clarity and consistency. In other words, as we noted earlier, those who drive the process have to “walk the talk.”

Employee participation and involvement are the keys to organizational commitment. People at all layers of the organization—not only those at the top—should be involved in the change effort, beginning with a joint diagnosis of the problem. And that participation should be rewarded: leaders can offer incentives, for example, to people who support the change effort, thereby signaling the benefits of change. People who do a good job with change should be rewarded, just as those with other needed skills are; they will serve as models to others.

Because small wins have a ripple effect, leaders are advised to divide a big change effort into bite-size portions, thereby making the overall task more palatable. Visible improvements—again, small wins—help convince people of the doability of the change effort. Despite striving for small wins, however, leaders should set high performance expectations. By stretching people, by offering them an opportunity to spread their wings, leaders encourage followers to rise to the challenge. Successful stretching benefits both the organization and the individual, since reaching one’s stretch goals engenders considerable personal satisfaction.

Staging a Focal Event

If leaders have been employing the techniques discussed above, most people in the organization have probably gone from contemplation of change to action; they are committed to—and working on—overcoming existing problems, changing personal behavior, and making changes in the organization’s structure, strategy, and culture. If leaders feel the need to expedite the change process, however, they can try “staging” a

focal event. (Again we see a parallel between organizational and individual change processes.)

A focal event can be staged in many different ways: it can be an off-site gathering at which members of senior management announce plans for a new organization; it can be a series of workshops, a seminar, or a meeting run by an outside consultant. Whatever the design, such a staged event should allow for—indeed, mandate and focus on—strategic dialogue between top management (particularly the CEO and members of the executive committee) and the subsequent layers.

As a forum for feedback and critique, strategic dialogue offers the opportunity for organization-wide involvement. The resistance that people feel not only to initiating change themselves but to *being* changed is lessened by such involvement, because it gives participants a sense of control over their destiny. Since strategic dialogue is based on a direct feedback loop with senior management, it permits an open and informed discussion of the challenges facing the company. Topics perceived as undiscussable in the day-to-day work context can be put forward and addressed, diminishing the level of employee anxiety (especially among those who have the will to change but are afraid that they lack the necessary skills). Furthermore, strategic dialogue offers an opportunity to mourn the old way of doing things, to be nostalgic about the past, and to tackle a new beginning.

In the course of the strategic dialogue that takes place at a staged focal event, a number of issues need reiteration. First, even if most people seem to have bought in to the notion that the organization's present state is unsatisfactory, leaders should reemphasize that crucial point. Second, leaders should work to build and reinforce company-wide commitment to a redefined corporate vision and mission, to shared goals and expectations. Third, leaders should work with focal-event participants to determine whether the appropriate organizational design, systems, and workforce are in place. Having achieved clarity about vision and mission, they must ask themselves and their followers these questions: Are the existing structure and processes still in alignment with the marketplace? Have the steering mechanisms of the organization become obsolete, outlasting their usefulness? Given the need for change, does the

company possess the right mix of competencies? If not, is a training and development program designed to help employees acquire the necessary competencies (and thus reinforcing their belief in their own skills to change) adequate, or do outsiders with specialized expertise need to be brought into the organization? Do performance appraisal and reward systems need to be modified to encourage alignment of behavior with the new circumstances?

Encouraging individuals to make a public declaration of their intent to change during these dialogues can also have a powerful effect. As in the case of personal change efforts, a public declaration strengthens commitment to the organizational change effort; it reinforces the intent to change simply by making it highly visible. A public declaration of intent alone is not good enough, however. It has to be backed up with a way of measuring what has been announced. In other words, a follow-up procedure, perhaps in the form of an individual action plan, has to be tied to each declaration. After all, what is not measured rarely gets done.

It is important during staged focal events to drive the notion deep down in the organization that “the enemy is us,” that blaming others for existing difficulties is unproductive. These sessions offer the opportunity to explore the extent to which problems can be traced back to what were originally good practices but now are out of alignment. Strategic dialogue should not be overwhelmingly negative, however: focal-event workshops should facilitate a process of self-discovery of *both* the good and the bad, allowing people the opportunity to reflect on what made the organization great, but emphasizing that what was good in the past may no longer be appropriate (given the changing circumstances). Because the opportunity to reminisce, to mourn the past, allows people to build on the old and create the new, strategic dialogue should permit expressions of nostalgia and grief for the past; in doing so, it will encourage expressions of excitement for the future. But this is a slow process: it takes considerable time for a new conception of the organization to be fully metabolized, to go from superficial adoption of a new state of affairs to deep internalization.

Before attempting a staged focal event—often a make-or-break endeavor in the change process—company executives must wrestle with the delicate question of leadership for change. This issue is particularly difficult if questions are raised about the capability of the CEO to drive the change effort. Yet if we look at organizations that have experienced successful dramatic change, we see that an outsider has generally been brought in to make the process happen (Tushman, Newman, and Romanelli, 1986). Insiders have to overcome much more in the way of conscious and unconscious resistances than outsiders do in getting the change process on its way.

Changing the Corporate Mind-Set

As we have reiterated, letting go of the old ways of doing things is not only (or primarily) a cognitive process; it is, first and foremost, an emotional process. For that reason, to be successful at organizational transformation we must see the similarities between the individual and organizational change processes and learn what lessons we can derive from the emotional challenges of personal change.

We outlined earlier the mourning process that individuals confronted by change go through. The same stages of mourning are applicable to change that takes place in a group setting. People who are asked to change themselves to accommodate a changing organization need time to digest what faces them, to mourn what no longer can be.

As in the case of individual change, corporate change, when first proposed, often engenders a state of turmoil. With the anxiety level rising, sometimes to the point of panic (among those who fear for their jobs, for example), normal organizational processes generally come to a halt or become ritualistic. People fall back to familiar routines, going through motions they know well as they try to deal with the announced change. This early in the game, few people are ready to accept that a new way of doing things has become necessary.

Due to the shock of what is happening to and around them, people in the organization may regress into a dependency or a fight or flight mode (Bion, 1959). Those in the dependency mode may wish for (and imagine that they have) an omnipotent leader who will set things right. Their dependency may also manifest itself in passivity, in a

lack of initiative. Fight behavior, on the other hand, may be symptomized by a displacement of anger—that is, by blaming or scapegoating others for what is happening. People regressing to fight behavior often exhibit a great deal of irritability and bitterness. However, those emotions are often directed not toward the corporation itself, and the people and practices within it, but toward “others” who might be to blame. Customers, suppliers, the government, and competitors typically fall into that category. People turning to fight behavior are not yet ready to look at themselves in this difficult equation. Instead, they waste their energy on internal politics, engaging in turf fights rather than facing their real problems. Still other people regress not to dependency or anger but to flight behavior. Some actually leave the organization at the first signs of stress. Others simply withdraw; no longer participating in the activities of the office, they place their interests elsewhere.

These three modes of behavior cannot go on for long without dangerous corporate consequences. If people in the company refuse to look at their own role in the declining spiral, the organization will soon find itself in receivership. In organizations that are fortunate—and whose change drivers have been astute and skillful—employees reach that realization themselves in time to act on it. They understand that no miracle waits around the corner, that positive things happen to people who help themselves, that the steps needed to reverse the situation must be taken not by others but by them, that fighting change is of little use. As an increasing number of people in the organization share such thoughts, the corporate mind-set begins to change. Resistances are worn down, and the first tentative explorations of the new reality take place, even as—during the period of adjustment—people mourn what they have to leave behind.

In the final phase of organizational transformation, with that adjustment complete, people in the organization have redefined themselves. They have accepted the new way of doing things, recognizing its advantages, and they now collaborate. New values, beliefs, and thoughts have been internalized. People have a positive attitude toward the future.

In an organization hoping to effectively steer this mourning process and regenerate itself, the role of astute leadership is essential. Leaders must recognize that it takes time to give up the old and embark on the new; that people facing organizational change, like those in personal change situations, need time to mourn the past. Effective leadership is a balancing act, especially during periods of change. Leadership that acknowledges the importance of the roles of envisioning, empowering, and energizing—and that also takes on an architectural role in setting up the appropriate structures and control systems—will go a long way toward revitalizing the organization (Kets de Vries, 1995).

Primary Factors Facilitating Change

Now that we have looked at the psychodynamics of the change process, a few observations are in order concerning factors that facilitate change. Studies of successful personal change efforts indicate that there two primary factors that help the change process and that may even, in certain cases, determine whether the transformation effort succeeds or fails: the presence of some kind of social support system to ease the process of change and transformation, and a personality style described in the literature as “hardy” (meaning that one’s locus of control is more internal than external). Let us look at each of these factors in turn.

Social Support

Individuals who feel alone in their efforts to change behavior patterns have a difficult time changing. Without the support of their environment, their resistance to change is harder to overcome. Moreover, there is a link between the existence of social support and health maintenance (Bjorksten and Stewart, 1985; McCubbin and Thompson, 1989; Sperry, 1995). Given the stresses and strains associated with change, social support takes on a crucial buffering function. Indeed, social support is often the single most important factor in helping an individual overcome the barriers to change. People seem to sense this intuitively: those who decide to embark on a journey of transformation often seek out people in their environment who can give them the support they need, whether instrumental or emotional.

Instrumental support is task-directed. It involves such things as assigning another pair of hands for a job that needs to be done, obtaining specialized outside assistance for a challenging project, providing authority along with the responsibility—in short, handing over whatever resources are needed to make the change effort a success. Emotional support, on the other hand, is tied to self-esteem. This kind of support refers to ways of maintaining and bolstering a person's feelings about him- or herself. This support can be given by the spouse, other family members, friends, or colleagues at work—a network of people who offer reassurance, guidance, and an opportunity to share interests.

Sometimes both forms of support issue from the same source. Researchers have found that people in the process of change often seek out others who have gone through a similar situation (Vaughan, 1986), partly to obtain practical help that seems to have worked for the other and partly to derive some consolation from not being alone in the situation. In addition, the person in pursuit of change often derives justification for his or her efforts to alter the situation by seeing others who have done the same.

Hardiness and Locus of Control

Some researchers divide the population into internals and externals: some people possess a more internal, others a more external, locus of control (Rotter, 1966; Lefcourt, 1976; Phares, 1976). People with an internal locus of control feel that they are in charge of their own lives; they perceive their destiny as affected by their own decisions, not by outside factors. They see a strong relationship between their own actions and what happens around them. This secure belief in themselves, this independence and self-confidence, makes such people less anxious; more active, striving, and achieving; more future- and long-term-oriented. They are also more proactive and innovative (Miller, Kets de Vries, and Toulouse, 1982), though less prone to engage in risky behavior. So-called internals also possess a considerable amount of self-control. They tend to be more motivated and successful in life than their external counterparts, both academically and in their work. Their strong belief in their own capabilities makes these people difficult to influence, invulnerable to manipulation, and resistant to coercion.

Individuals with an internal locus of control find it easier than externals to take charge of and carry through major personal change. Their belief in their control of their own destiny prevents them from doubting the outcome of a self-initiated change process. Because they feel responsible for their own actions, they are aware that it is only they themselves who can orchestrate their own transformation. Once they have realized the necessity for change, they go ahead rather than wait for some outside sign or push to initiate the change. People with an external locus of control, on the other hand, often see change as a threat. Because they do not feel in control of the forces that affect their lives, they take a rather passive stand toward change, unable to take decisive steps in that direction. Such an outlook makes them prone to depressive reactions.

The term “hardy personality” has been coined to describe people characterized by an internal locus of control. There is more to hardiness, however, than the feeling of control over the events of one’s life. Hardy individuals feel a deep commitment to the activities of their lives. Deeply curious and eager to initiate new experiences, they perceive change as a positive challenge to further development. Hardy individuals have a strong commitment to self, an attitude of vigor toward the environment, and a sense of meaningfulness (Kobasa, 1979; Kobasa, Maddi, and Courington, 1981; Maddi and Kobasa, 1984; Allred and Smith, 1989). In contrast, nonhardy people feel victimized by events and have a tendency to look at change as something undesirable.

The hardy personality style has affective, cognitive, and behavioral components that make people better survivors in stressful situations. Hardy individuals’ feeling of control over what is happening to them and their lower need for security enable them to tolerate ambiguity better than others. They are said to possess an adaptive cognitive appraisal process that helps them to anticipate and internalize the changes they face. These people take charge; they make decisions; they feel that they are not at the mercy of events. They have a positive outlook toward life and face its challenges with resilience, flexibility, and adaptiveness; consequently, they show greater job involvement than others and put themselves easily into the role of catalyst.

It is that same positive outlook that makes hardy individuals more stress-resistant than others. Furthermore, hardy types are less prone to helplessness, depression, and physical illness (Seligman, 1989). Their commitment to self helps them preserve their mental health under strong pressure. With an outlook characterized by a sense of control, commitment, and challenge—and therefore buffered against stress and illness—they are effective at dealing with all of life's tasks. In particular, they have the skills to cope both psychologically and somatically with the stress caused by the change process.

The origin of a person's general attitude toward the environment—whether hardy or nonhardy—can be traced back to the kind of childrearing patterns he or she was subjected to. We can assume that the primary caretakers of hardy individuals exposed them to age-appropriate frustration and encouraged them in their childhood activities, thereby helping them to acquire a sense of control over their environment and the development of a positive sense of self-esteem.

Creating Regenerative Organizations

Given the importance of these two facilitating factors, leaders would do well to create an environment that fosters both social support and hardiness. It is in that sort of environment that change can flourish.

Making social support part of the corporate culture is a task that has to start at the top. The more effective leaders seem to have a considerable amount of emotional intelligence; they often possess what could be described as the “teddy bear factor”—the ability to create a holding environment that “contains” the emotions of others. Leaders who have emotional intelligence provide a sense of security for followers; they inspire trust and confidence. Leaders who reveal the teddy bear factor in their dealings with others let employees know that genuine attention is being paid to them, that they are being listened to. Such leaders create a facilitating environment for change and encourage other executives in the organization to behave in a similar manner.

Hardiness is a tougher nut to crack. While research indicates that innovative, proactive companies have a larger percentage of people with an internal locus of control (a

crucial component of hardiness) than other companies (Miller, Kets de Vries, and Toulouse, 1982)—confirming the desirability of that orientation—internal or external locus of control can be deeply ingrained. To change the mind-set of an external into an internal will be a major effort. Consequently, in most instances (as the key players in a corporate transformation effort usually do not have the patience to embark at such a formidable mind-set change) a company of externals cannot be cultivated, without changes in personnel, into a company of internals. However, companies subjected to a turbulent environment—those for whom change is the norm rather than the exception—can promote hardiness by selecting, rewarding, and promoting people who have an internal locus of control. Employees with this outlook will be less resistant and more receptive than others to change efforts.

Organizational Transformation: A Practical Illustration

On October 29, 1993, the chairman of the board of Bang & Olufsen (B & O) could for the first time after years of losses predict a profit of 126 million Danish kroner (DKK) for the financial year 1993/94. The company's share price had risen spectacularly, from DKK 325 in 1990/91 to DKK 1,450 in 1994/95. These figures indicated a dramatic turnaround of a long-tottering company (Balazs and Kets de Vries, 1997).

B & O was the crown jewel of Danish industry, the exclusive producer of high-tech, high-fidelity audiovisual systems and other related products. Since its beginning, the company had been at the forefront of design innovation, a philosophy promoted by the two founders of the company. However, that original philosophy stressing product design—which had earned the company much acclaim—carried within it the seeds of failure. The holiness of the design function came to reign over everything else, particularly cost and customer considerations. Saying no to a new product from the design department was a taboo, an action that would not occur to anyone hoping to stay long in the organization. Unfortunately, while the company won one design prize after the other, financially it was anything but a winner. The balance sheet had tottered around the red line for twenty-two years, an unheard-of period of time. As the present CEO, Anders Knutsen, said during a presentation to a group of his key people in the

presence of one of the authors, recalling the situation, “Bang & Olufsen was not interested in making money; it was interested only in winning prizes.”

In spite of the dismal financial figures, not many at B & O seemed to be seriously worried. Most employees were used to the fact that the company was not making a profit, but they never had serious doubts about its survival. Employment security had always been an implicit part of their contract. If ever a doubt surfaced in anybody’s mind about the company’s future, top management’s strong and confident statements reassured the worrier. In the words of the present CEO, “Every year when we had some problems, it was not our fault. It was the outer world that was so evil to poor Bang & Olufsen.”

Finally, when it became clear that the accounting period of 1990/91 would bring a deficit of 135.5 million DKK, the company’s dismal situation could not be ignored any longer. The Supervisory Board decided to pull the plug, replacing the CEO who for ten years had been allowed to run the company at his own discretion with Anders Knutsen. Knutsen had learned B & O from the ropes, starting out as a brand manager and working his way through different positions in production and product development, finally ending up as technical director.

Knutsen became CEO on July 1, 1992, facing strong opposition from both inside and outside the company. When the former CEO left, both the Supervisory Board and the Board of Directors underwent a reorganization at Knutsen’s behest. Knutsen understood that to change the company he needed all the power he could get; thus one of his preconditions for taking on the role of CEO was that he would also become chairman of the Supervisory Board. Even with that precondition, the appointment was an obstacle. However, after rallying people inside and outside the company for a number of weeks, he managed to push it through: in September of 1992, he was appointed chairman of the Supervisory Board. He finally had the power to act.

Outside opposition to changing the organization came primarily from the banks with which B & O was affiliated. From the moment of Knutsen’s appointment, the banks opposed his new ideas. Most of them never even gave him the benefit of the doubt,

canceling B & O's accounts or raising interest rates. These actions increased the crisis atmosphere that prevailed in the company.

Knutsen immediately demonstrated that he had what had been missing at B & O: leadership skills. He started by pronouncing a clear vision for the company, along with a mission statement that stated clearly how the vision could be achieved. Then he, together with the Board of Directors, elaborated a plan for the rationalization and restructuring of the organization. He called it Break Point '93.

The first step was an analysis of the company's cultural values, prepared by B & O's top executives, which centered around an intensive evaluation of the company's critical situation. In particular, the sacrosanctity of the process of new-product acceptance was placed under the microscope. Having overseen that analysis, and anticipating the difficulty of inculcating new values, the Board of Directors decided to turn to outside support. One of the authors of this article was hired as an organizational consultant. He presented a seminar centered on leadership, organizational culture, and corporate transformation. The seminar was intended as a staged focal event of the sort discussed earlier; its implicit goal was to shake people up. Knutsen opened the seminar explosively, announcing that a considerable number of people in the factories had to be dismissed because of the poor order portfolio.

What followed was, as one B & O employee described it, "an atmosphere of chaos and upheaval." People were shocked and disoriented, uncertain how the future—theirs and the company's—would look. The shock therapy seemed to achieve the desired effect, however. Participants, trying to impose order onto the prevailing chaos, threw themselves wholeheartedly into the activities of the seminar. Despite the risks, they experienced for the first time the power to do something about their own company. They were asked to engage in a strategic dialogue with top management to help restructure and refocus the company. Participating in the design for the future made for motivation, commitment, and a sense of ownership. Soon hope started to replace chaos. In addition, the seminar set the stage for a rewrite of the existing psychological contract in the organization. No longer was job security the main pillar of the contract. Instead, that pillar had become accountability and performance.

The goal of Break Point '93 was radical: it included a complete rationalization and reorganization of the company's every function. Organizationally, the changes had important impact as well. The distance between top management and the shop floor was cut by reducing the overall number of executives and by slashing two management layers entirely; a total of 712 people were dismissed. As accountability was pushed deep down the lines, employees were expected to develop a sense of ownership and personal responsibility for the company.

To internationalize the company, a new International Sales and Marketing Head Office was opened in Brussels. Product acceptance—the old Achilles' heel of the company—became much more selective. The most disturbing “culture shock” experienced during the transformation, this clearly signaled management's intent to change the company.

Over a two-year period, B & O moved from a deficit that seriously threatened the existence of the company to a surplus that exceeded all expectations. The first part of the change process had come to a successful end. From that point on, B & O has continued to be profitable until the present day.

Conclusion

The changing competitive environment, with its increasingly frequent discontinuities, requires that organizations and their people be able learn to change their behavior to sustain a competitive advantage. If an organization is unable to continuously *unlearn* behavior which, having contributed to past success, is now ineffective, it is doomed to failure. The paradox of success—that it creates complacency and arrogance—is a great challenge to organizational leaders. Heraclitus's statement that “there is nothing permanent except change” is more true now than ever. Given the environment we live in, a secure grasp of the dynamics of change is a required core competency of any leader. Executives who have a poor understanding of change processes will be at a competitive disadvantage.

In this article, we have explored the psychodynamics of change. We have shown that change—whether individual or organizational—is a complex process involving a number of phases, all of which must be completed if transformation is to be truly successful. We have also illuminated the two primary facilitating forces in this process and suggested how organizations can make use of their power. We have shown that generating a new mind-set in an organization is a procedure that takes an enormous amount of effort: initiatives designed to focus the critical issues have to be undertaken; a justification for change has to be communicated and received; conscious and unconscious resistances have to be overcome.

Unfortunately, all too often organizational change turns out to be something of a heuristic process—a series of trials and errors that can be quite costly for both the individual and the organization. To help prevent such an approach, we have made a number of specific suggestions intended to keep the change process on course. Furthermore, to illustrate an effective way of transforming an organization, we have presented an example of a successful intervention.

The challenge leaders face today is to create the kind of organization in which an orientation toward change becomes one of the core values, to instill in an organization a culture that becomes regenerative. To prevent the discomfort that accompanies full-blown change processes, organizations need continuous, gradual change—the sort of change that occurs naturally when both leaders and followers keep questioning whether their way of doing things is firmly embedded in reality. In organizations that keep themselves properly aligned with the environment via incremental change, environmental “creep” is minimized.

To create a mind-set that welcomes change, to create an organization in which people’s exploratory dispositions are fully deployed—this is not an easy proposition. All too many people in organizations can be compared to the mussel, which has to address only one major existential question in life—namely, where it is going to settle down. After that decision is made, the mussel spends the rest of its life with its head cemented against a rock. Many people resort to similar behavior patterns in the

workplace. To prevent employees from settling down too firmly at their desks—to avoid turning the organization into a psychic prison characterized by rigidification and routinization—leaders need to cultivate a culture of trust, a prevailing organizational attitude that encourages people to challenge established ways of doing things.

People in organizations with that sort of corporate mind-set will never take the recommendations of their powerholders for granted; they will question what their leaders have to say. Organizations that foster an atmosphere of candidness and constructive conflict, encourage contrarian thinking and “talking back” to one’s boss, and make strategic dialogue the rule, not the exception, will be in the best position to remain aligned with the environment, however much or often it changes. Organizations characterized by this sort of culture of constructive dialogue will kill ill-conceived projects, unearth missed opportunities, and inform top executives of the concerns of their people. When such a mind-set prevails, it serves as an early warning system of the need for change. The questioning attitude of this mind-set will make organizational preventive maintenance possible and create an atmosphere of continuous learning.

Making such an organizational culture a viable proposition takes continuous effort, since change runs counter to the built-in conservatism of human behavior. Even while old resistances are breaking down, new ones are emerging. The danger of rigidification is ever present. We would do well to heed the words of Auden (1976), who once wrote,

We would rather be ruined than changed
We would rather die in our dread
Than climb the cross of the moment
And let our illusions die.

People who understand the dynamics of change, who realize that the tremendous opportunities inherent in a proactive stance far outweigh the temporary sense of discomfort that accompanies proactivity, will be the winners in this world of discontinuities.

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