"Organizational Change from Learning Perspective"

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SECTION 2 | **Management in Firms and Organizations**

Organizational Change from Learning Perspective

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Abstract

The management challenge for the 21st century, according to Drucker (1999), is the integration of what were once several procedures into a single analysis. This paper is an attempt to combine change research with theories of learning. During the last decade Estonia has transformed from being an authoritarian, centralised, totalitarian socialist state, to a democratic country with a free market economy and different attitudes and values. This type of transformation provides members of society with a very ambiguous and uncertain period. There are connections between the institutionalization stage at the societal level and types of change within organizations. During this period only 10% of the companies studied had made no transformational changes (Alas, and Sharifi, 2002). Organizational change has been seen as an individual-level phenomenon because it occurs only when the majority of individuals change their behavior or attitudes (Whelan-Berry et al., 2003). In 2005 interviews were conducted with members of top management teams of 105 Estonian organizations about implementation of organizational changes after joining European Union. The results of these interviews are compared to the results of 137 interviews in 2001. The theories of learning from Dewey (1933), Mumford (1999), DiBella and Nevis (1998) and Probst and Büchel (1997) are applied for deeper analysis of elements of process of change. The article starts with a theoretical framework for studying organizational changes and learning followed by an analysis of the interviews about changes in Estonian companies. The author then proposes the model connecting changes and learning in organizations during societal transience.

Key words: organizational learning, organizational change, Estonia.
JEL classifications: M.

Introduction

Intensive global competition, higher customer expectations and greater focus on quality have resulted in much greater requirements placed upon employees today than decades ago (Quinn and Spreitzer, 1997). This pressure may seem especially high for employees from former soviet countries, including Estonia, because these demands are fundamentally different to those made under the Soviet regime. During this period the soviet state was responsible for guaranteeing work for everyone and so enterprises were internally overstaffed and passive and work places were oversecured (Liuhto 1999: 16). The challenge has been to internalise a new type of organisational behaviour in order to operate successfully under unfamiliar conditions. Learning, both institutional and individual, and the ensuing corporate changes are seen as a prerequisite for the success and survival of organisations.

According to Edwards and Lawrence (2000), the emergent change to processes in transforming countries can only be truly understood by examining the constitutive practices of individuals and groups at the local micro levels of the economic system. Research in countries going through transformation has shown that the transfer of knowledge from market-economy practices often

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fails because of institutional and cultural tensions and conflicts (Clark and Geppert, 2002). Research question is, which type of learning is needed in organizations during social transience in society. The object of the research is learning in Estonian organization during implementation of changes.

In this paper a theoretical framework for studying organizational changes and learning is followed by an analysis of the interviews about changes in Estonian companies. The author then proposes the model connecting changes and learning in organizations during societal transience.

Theoretical Background

Organisational changes

Organisation is a complex system that produces outputs in the context of an environment, an available set of resources, and a history (Nadler and Tushman, 1989). An effective organisation meets the expectations of multiple stakeholders including shareholders, employees, suppliers, customers, and the society in which it is located. It also demands the loyalty and commitment of these stakeholders to the long-term survival of the organisation and of the social network in which it is embedded (Kochan and Useem, 1992).

There are several classifications of types of change in the literature on this topic. These types have been compared according to initiation and scope. Most theorists divide change into two groups according to scope: change taking place within the given system, and change aiming to change the system itself.

The most popular terms for this classification are first order change and second order change. First order change provides a method for managing stability. It helps one to manage current strategy more effectively and efficiently (Bartunek, 1993). This type of change proceeds via a sequential step-by-step assessment, guided by a specific objective, making systematic and rational evaluations of an organisation and its environment. A first order change cannot produce transformation because it lacks the creativity to discover new strategic ideas (Hurst, 1986). Second order change calls for innovation in order to lead the change. It searches for agreement about what the end result should be and then considers how the organisation could be changed to meet these new expectations. Second order change is difficult to carry out because information gathering in an organisation will tend to reify the rules, culture, strategy and core processes that make up its current paradigm (Nutt and Backoff, 1997).

Transformation calls for a second order change process (Watzawick et al., 1974). First order change stresses growth and single loop learning. Second order change stresses development and double loop learning. In the second order change process change agents should gather information without value judgements. This enables new ideas to emerge (Pribram, 1983).

The author argues that in order to describe the changes that have taken place in Estonian companies over the last decades we need more than two types. Ackerman (1986) describes three types of organisational change: (1) developmental change, (2) transitional change, and (3) transformational change. Developmental change improves what already exists through the improvement of skills, methods, or conditions. Transitional change replaces current ways of doing things with something new over a controlled period of time. Transformational change means the emergence of a new state, unknown until it takes shape, out of the remains of the chaotic death of the old state. Burke and Litwin (1992) have developed a model for making a distinction between two types of deeper change. They argue that transformational change occurs as a response to the external environment and directly affects the organisational mission and strategy, the leadership and the culture. Transitional change deals with psychological and organisational variables that predict and control the motivational and performance consequences of the work group climate (Burke and Litwin, 1992).

Both the popular press and academic literature tend to consider organizational change as a step-by-step process leading to success. The basic model developed by Lewin (1989) consists of three

steps: unfreezing, moving, and refreezing. Tichy and Devanna (1986) got also three steps: (1) recognizing need for change, (2) creating vision, and (3) institutionalizing change.

The concept of organisational learning

The most difficult part of the whole change process is getting it started (Hendry, 1996). Past experiences and learning have a significant part here (Schein, 1992). The organizations' 'capacity to learn' is critical resource. There are three key criteria, which lead to success (Probst, Büchel, 1997): First, responsiveness to the needs of the members of the organization who will be affected by change; second, the learning capacity of the organization; and finally, organization's capacity for action.

The ability to learn continually means remaining open to experience, understanding instances when things do not work out as expected, spotting shifts in the environment, seeking new information, learning from customers and everyone else, challenging assumptions and beliefs, moving outside of comfort zone, and turning into inner creativity and wisdom in order to change behavior in response to external changes and to develop ever-greater capacity to achieve results (Jaffe, Scott and Tobe, 1994: 221).

The concept of learning organization presumes ability to adapt to change. Management must anticipate or at a minimum recognize problems and use learning skills to solve them (DiBella, Nevis, 1998). Accelerating change and continuing advances in network information technology have stimulated a growing interest in organization learning and knowledge management, the development of an organization's intellectual capital (Edvinsson, Malone, 1997).

Organisational learning has been generally defined as a vital process by which organisations adapt to change in their social, political, or economic settings (Rosenstiel and Koch, 2001). Tsang (1997) defines organisational learning in more detail as the learning which occurs in an organisation that produces real or potential change after a shift in the relationship between thought, organisational action and environmental response. Emphasis on the connection between organisational learning and the environment in both definitions indicates that certain types of change in an environment may require a particular type of learning.

One critical issue in the literature dealing with the learning organisation is the relationship between individual and organisational learning. According to Senge (1997) organisations learn only through learning individuals. Without individual learning organisational learning does not occur. But individual learning does not guarantee organisational learning. Senge (1999) makes difference between adaptive learning and generative learning. *Adaptive learning* is about coping, and it is only the first stage in moving toward learning organization. Generative learning is creative, it expands capabilities. *Generative learning* requires new ways of seeing the world: seeing the systems that control events.

DiBella and Nevis (1998) have identified four organizational learning styles. They define organizational learning style as a function of how organizations learn and is determined by knowledge source and learning scope:

♦ correction – learning to adjust or correct what we already doing;
♦ innovation – learning from their own operations and use of that knowledge transformatively, creating new products or process innovation;
♦ adaptation – making incremental changes or improvements to knowledge acquired externally;
♦ acquisition – acquiring what has been learned by others and further incorporating that learning into their own operations. It involves some amount of acquisition.

Individual learning has been viewed by different theorists as a rational, information-based system or as a socially constructed process. Organisational learning emphasises the socially constructed process, which proceeds through sharing interpretations of events and through reflection on these interpretations (Mahler, 1997).

There are different views about process of organizational learning. According to Dewey (1933) organizational learning consists of four processes:

1. Discovery. By this process errors or gaps between desired and actual conditions are detected.
2. Invention. It involves diagnosing the causes of the gap and inventing appropriate solutions to reduce it.
3. Production. It includes implementing solutions.
4. Generalization means drawing conclusions about effects of the solutions and applying this new knowledge to other situations.

These processes are interrelated.

Mumford (1999) developed learning cycle consisting of four actions: (1) having an experience, (2) reviewing, (3) concluding, and (4) planning. According to Probst and Büchel (1997) the process of organizational learning is characterized by: (1) change in organizational knowledge, (2) increase in the range of possible actions, and (3) change in subjective constructions of reality.

An organization skilled at creating, acquiring, and transferring knowledge, and at modifing its behavior to reflect new knowledge and insights is called learning organization (Garvin 1993: 80). Learning organization facilitates the learning of all its members and continuously transforms itself (Pedler, Bourgoyne, and Boydell, 1991).

Empirical Study

In 2001, structured interviews about the implementation of organizational changes were conducted with members of top management teams from Estonian companies (Alas, Sharifi, 2002). These changes took place in the 1990s, during a period of social transience in Estonian society. In 2005, when economic situation had already stabilised, interviews were again conducted with members of top management teams from 105 Estonian organizations about changes implemented. The interview questions were similar during both interviews. In order to evaluate the dynamics, the results from both interviews are compared. The author has used a T-Test in order to find statistically significant differences, and examples from the interview transcripts have been used to illustrate the statistics.

Results

Compared to the first survey in 2001, when 90% of the changes were transformational, the second survey showed only 64% of changes were of the deepest variety in terms of scope — involving changes in strategy, mission, leadership style or culture.

There was no resistance to change in 44.6% of transformational changes and 48.4% of transactional changes. "*There was resistance at all the levels. People were afraid of losing their jobs although they had been assured that there would be no job cuts and all the good employees would certainly be found a place in the new structure.*" (interviewee 5)

In 38.7% of transactional changes and 53.6% of transformational changes the reaction was negative. There were more neutral employees during transitional changes than during transformational. Usually, reactions were negative in the beginning, but in the process of implementing the changes, if people could already see the positive results and positive changes for themselves, the reaction changed to a positive one. "*Emotions were rather different within the company and the confused employees had to go through periods of hesitation, questions and fear. Having seen the positive direction of the changes, the feelings of the employees changed in the direction of satisfaction.*" (interviewee 51)

Managers tried to analyse the sources of resistance beforehand: "*We understood that the success of the implementation process was mainly dependent on the middle managers and on how well they could explain the need for the changes to their employees.*" (interviewee 35)

Although the most common reasons for resistance in 2001, inertia of thinking and fear of the unknown, still dominated, the reasons for resistance had changed. During transactional changes 29% reported a fear of the unknown, during transformational changes 50% reported a fear of the unknown. In respect to the problem of inertia of thinking the same figures were 25.8% for transactional and 33.9% for transformational changes. Also, employees often found changes unclear and too quick: 25.8% for transactional and 23.2% for transformational changes.

The greatest difficulty was to change habits and the traditional ways of doing things: 41.9% for transactional and 48.2% for transformational changes. Also, the need for the changes was not always understood: around 25% for both types of changes. There were problems with providing training and mentoring, in both cases around 20%. Difficulties stemming from organizational cultures arose in 10.7% of transformational changes. This problem was less significant during transactional changes, only 3.2% reported this.

Also, the lessons learnt from the changes were similar according to both surveys, although during the survey in 2005 more managers realized the need to behave differently. In 2005, 62.5% of managers recognized the need for more explanation and 26.8%, for more preparation during transformational changes. The same figures for transactional changes were 48.4% and 29%.

To summarize the lessons learnt, "*More people should be involved in the process of discussion at the beginning stage, and this would make it relatively easier to introduce changes later. The processes should be described and mapped immediately. This would make it possible to approach the changes rather more process centred than function centred. The relationship between core and support services should be described. The company should try to preserve a positive internal climate and create a belief in the employees as part of the results. It is essential that people learn and develop through the changes, and that I talk more to my subordinates, ask for solutions to problems and give them more freedom in their activities. It is necessary to talk to the employees more at different levels in order to avoid the spreading of news in the form of gossip and the probable resulting confusion.*" (interviewee 52)

Training was organized for employees in 25.8% of transactional and 19.6% of transformational changes. "*When changes started appearing within the concern and in the surrounding environment, we started with training the managements of the companies. All the company managers passed a two stage training session at Company University "X in Change". The training session dealt with the whole process of change by beginning with supplying information to the employees and clients and finishing with the probable dangers and tackling them.*" (interviewee 81)

With the use of steering tactics, actions were kept on course: "*The implementation of changes was monitored via weekly meetings and informative briefings. The deadlines were generally met. In case any problems appeared with the deadlines, an immediate plan of action was made to resolve the situation.*" (interviewee 11)

For overcoming resistance, communication was the most popular strategy in 48% of both types of changes. "*The chairman of the board started organising regular informative meetings that were meant for all the employees. At those meetings he explained the reasons for the change and the goals of the company. These meetings were also aimed at creating a feeling of working "side by side", i.e. the employees worked not only to achieve their personal goals but to achieve the company goals through their contribution." (interviewee 67) or "It is necessary to talk about everything, and if there is nothing to be said, this has to be made clear as well." (interviewee 17) Also, "to make communication more efficient, several formal and informal channels of information were established. Among the formal channels were the Intranet, i.e. the in-company home page, in-company newspaper, informative meetings to all the employees, a scheme of meetings, strategic seminars for the leaders of the major functional divisions, the division of managers' working time between different sub-institutions, regular meetings with trade union representatives.*" (interviewee 31)

In transformational changes, involvement of employees in decision-making occurred in 32.1% of cases, and then support from managers in 19.6%. In transactional changes support from managers

occurred in 22.6% of cases, and then improvement of working conditions and work environment in 19.4%. Involvement was ranked next, along with wage increases, both at 12.9%.

Handling emotions was necessary because, "*The organization went through several emotional stages — confusion and loss of understanding, fear about the future and finally enthusiasm about the challenges opening up with the new solutions*." (interviewee 13) Managers organised — "*preparation of interim reports in order to find out the problems, what disturbed people the most and what they were afraid of.*" (interviewee 19) Informing employees helped to handle emotions: "*Before we informed the people there was a lot of electricity, ignorance and dread in the air. After being informed about the changes, people became scared, but this feeling passed rather quickly.*" (interviewee 32) Also, "*using an outplacement programme helped to avoid excessive emotions and prepared those people who were to be made redundant for competition in the labour market.*" (interviewee 9) Handling power issues helped to remove obstacles in the implementation process: "the "old time" middle management were replaced." (interviewee 29)

To mobilise employees and to achieve employee involvement, managers realised that, "*it was necessary to work out a way to sell the new vision to our employees and then look further together about how to take it to the clients.*" (interviewee 79)

Conclusions and Discussion

Survey results in Estonian companies indicate that the types of organizational changes are connected to institutional environments. Transformation from being an authoritarian, centralised, totalitarian socialist state, to a democratic country with a free market economy is a process, in which a complex set of normative and operating principles, embodied in historical structures, systems and practices becomes replaced by another unknown set (Clark and Soulsby, 1999: 18). During this societal transience, transformational changes, deepest by scope, take place in most companies. During more stable institutional stages, organizations face a decreasing number of transformational changes. At the same time transactional changes take place.

It was especially hard to get changes started in a stagnated society with overstaffed organizations, lacking any knowledge of a market economy. In this situation correction from organizational learning styles defined by DiBella and Nevis (1998) was not enough, innovation, adaptation, and acquisition were needed.

In 2005, when the transition to a free-market economy was completed, there were more people with the knowledge of how to provide high quality services and knowledge about efficient and effective management practices. The main players have learnt from previous experiences with change and managers are turning more attention to careful planning and not underestimating the human side and the emotional side of change. Communication has changed from being speeches and information travelling in one direction to listening and two-sided conversations and discussions. True involvement of employees (not only asking for opinions and forgetting about them) began to take place and even already in the earlier stages of the planning phase. The interviews also indicated an increased knowledge of change management: in the first survey in 2001 less than half of the respondents were able to describe concrete steps in the change process, but in 2005 most of respondents were able to analyze the change process from the behavioral viewpoint as well.

The survey results enabled the author to develop a model of the process of change and learning for transition countries (Figure 1).

The goal of organizational learning must be to increase the range of possible behaviours for implementing the necessary changes. In order to do this, people should first realise that changes have taken place in the external environment of the organisation. These changes trigger the change process, which is accompanied by learning. During the unfreezing phase, people realize that a gap exists between the existing reality in the organization and the situation required by changes in the environment. This constitutes new knowledge for the organization and it takes time before everyone accepts this difference and a change in the collective understanding takes place.
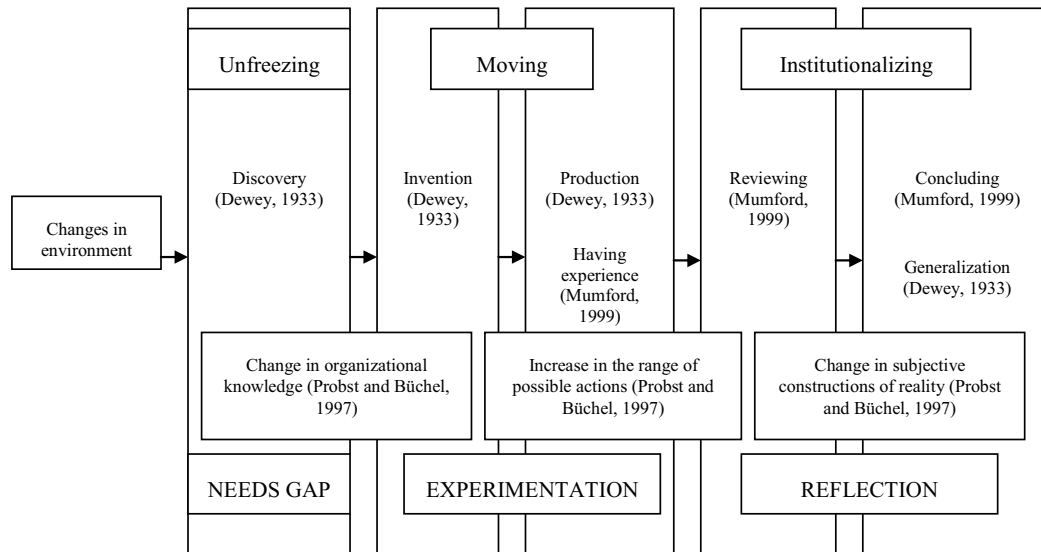
Fig. 1. Author's model of the process of change and learning for transition countries

The next stage, moving, is full of experimenting with new behaviours. People experience new ways of doing things and the range of possible behaviours increases. In the institutionalizing stage, reflection takes place: participants review their positions, generalizations are made on the basis of experience and conclusions are drawn for the future. A change in the subjective constructions of reality takes place.

Transformational changes in organizations, taking place during societal transition, require a higher-level of learning from the participants. Changes in the organizational knowledge base are essential. In order to achieve this, individual learning should develop and become organizational learning and organizations should then become learning organizations. Only an increase in the learning ability of organizations can ensure the successful implementation of change and the future competitiveness of the organization.

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