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Human Resources and Organizational Change

First in the
Theory-to-Practice Monograph Series

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SECTION 1

Change

Human Resources and the Change Process

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This monograph is a joint project of the Training and Development Research Center of the University of Minnesota and the Research Committee of the American Society for Training and Development. It is the first in a series of theory-to-practice monographs involving distinguished scholars and distinguished human resource practitioners.

Human resource managers have historically been confined to functioning at the operational level in their organizations. But as a 1985 *Business Week* article—frankly entitled "Human Resources Managers Aren't Corporate Nobodies Anymore"—pointed out, many of these professionals are now moving beyond that level, playing an important role in basic business planning (Hoerr 1985). These professionals are combining new corporate looks at their importance with personal desires to further corporate strategic aims. The dynamics of change in today's organizations are providing many opportunities for human resource professionals to contribute at the strategic as well as the operational level. Rather than contentedly picking up the remains after the harvest of change, visionary and energetic human resource professionals are seizing the opportunities change is creating.

For any organization to be successful, both strategic and operational human resource management must occur. The issue is, who can perform this role? Are human resource practitioners as prepared for contributing to organizational missions as they are for training employees about technologies? Both types of tasks, strategic and operational, require extreme competence and sophisticated thinking.

The human resources of the organization have clearly become the key to organizational success, and those practitioners who understand this are at a significant advantage. As Harmon and Jacobs wrote, "People are not a limited, finite resource like so many kilowatts of power or pounds of salt. People are a nearly limitless reservoir of physical, psychological, and mental energy and talent. The key is in knowing how to utilize people's capacities to the full or, rather, how to motivate people to give themselves entirely to their work. . . . At the pinnacle of corporate life are those companies that have discovered the secret of fashioning the human resources of which they are composed into an integrated cohesive living organization" (Harmon and Jacobs 1985).

Our primary role as human resource practitioners is to ask the right questions of our organizations and ourselves. We must concentrate as much on formulating problems as we do on solving them. This role becomes more difficult when our professional toolboxes are filled only with operational problem-solving tools: focus groups, management styles analyses, videotape production capabilities, communications courses, machinery training. These are the tools of adaptation, much like small biological adjustments to small environmental changes. The ill-defined future bearing down on us requires more. It requires an anticipatory stance on our part, one in which we are comfortable tackling strategic questions such as these:

1. What is the mission and strategy of the organization?
2. What should be the mission and strategy of the organization?
3. What can human resources contribute to the mission and strategy of the organization?
4. What can training and development contribute to the mission and strategy of the organization?
5. What can training and development contribute to the operations of the organization?

The original working title for this monograph was "Undermanaged Change and Its Effects on Employees." The concern then, as now, was how to cope with the high rate of change in organizations, the relative lack of sophistication in handling the human side of organizational change, and the increasing role training and development professionals are being asked to play in the change process. The "undermanaged" view of organizations brings to mind a picture of technological and financial decision makers whizzing down the road into the future at 100 miles per hour, while human resource practitioners plug along at 35.

David Passmore, a professor at The Pennsylvania State University, served as the distinguished scholar for the monograph. His paper, "Adapting

Human Resources to Organizational Change," provided the focal point for discussion among a group of distinguished practitioners at a two-day symposium at the University of Minnesota. Passmore's paper and the practitioners' responses are the substance of this monograph.

Passmore takes a provocative stance as he compares growth and change in organizations to evolution in biological organisms. The practitioners then translate the theory into practice. They report on specific "real world" change efforts and describe human resource programs during giant mergers and relocations of work groups. They provide a practical view of change in the workplace, discuss such issues as stress and lack of diversity, and offer several planning strategies.

The monograph is organized into four sections. This first section, an overview of change, continues with Stuart Alexander's paper, "Change and Its Effects on Business: The Human Factor." His discussion of the phases of change is particularly noteworthy.

Section 2 presents Passmore's theory, the result of his research into topics from biological evolution and survival of the fittest to strategic and human resource planning. He challenges many of the change myths that are widely held by training and development professionals and suggests some alternative hypotheses.

The practitioners apply Passmore's theory to practice in Section 3. Blanchard Smith presents a practical planning scenario for change, and challenges some of Passmore's hypotheses. In support of Passmore's theory, Raphael Kavanaugh builds a case for encouraging employee diversity as a force for coping with organizational change. Mitchell Kusy, Jr., focuses on issues of personal stress caused by rapid change in the organization. Then Charles Rhoads, Jr., describes the complex human resource aspect of the Gulf/Chevron merger. James Peterson ends the practice section with a report on a large 3M employee relocation project.

Section 4 consists of Kenneth Eckhart's prescription for taking "A Proactive Stance for Dealing With Change." His strategy has proved successful in several organizations and thus forms the ideal summary for this monograph.

Reading this material from front to back is logical, but not necessary. If you are a back-to-front reader or a jump-around-and-sample reader, go to it. The essential point is that you read about this important topic of change and that you become more aware of the proactive stance that is being required of professionals in training and development.

References

Harmon, F. G., & Jacobs, G. (1985). *The vital difference.* New York: AMACOM.

Hoerr, J. (1985, December 2). Human resources managers aren't corporate nobodies anymore. *Business Week*, p. 58.

Change and Its Effects on Business: The Human Factor

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New technologies, increasing marketplace demands, tougher competition, and shifting societal attitudes are sparking a host of internal and external pressures that are forcing rapid change. Some of this change can be anticipated and influenced, but a significant portion of it is neither predictable nor within our influence. Although it may seem so, the real problem is not change itself. The greatest problem facing us is the need to understand what today's change means.

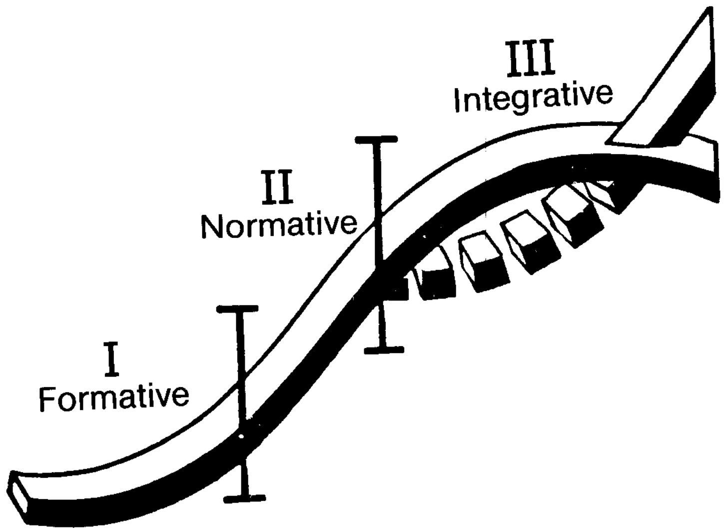
Change is a dimension of life that affects everyone. Because it is a life dimension, our only escape from change is death. (I am not certain that this is a fact, but I would not encourage anyone to research the probability of it being true.) Since change affects everyone and since business organizations are dependent on people, we might logically conclude that every business operation is affected by change. And if change is a dimension of business, then the absence of change for a business is death. Given the direct correlation between life and change, the ability to assimilate change into our lives or into the lives of our businesses determines to a large extent how successful, satisfying, and rewarding we perceive our lives or the lives of our businesses to be.

Dynamics of Change

We can better understand the dynamics of change by viewing change as a process rather than an event. Looking at change as an event allows us little control or influence over the change. Looking at change as a process enables us to learn from the past and plan for the future. It is obvious that there are many different kinds of change in the world. What is not obvious is that these different kinds of change follow each other in a regular pattern or system, a predictable process of changing.

Theorists have created several models that explain the pattern and structure of change. The one developed by George Ainsworth-Land (1986) is quite useful due to its simplicity. This model, shown in Figure 1, illustrates the universal pattern of successful growth or change. The universal pattern of change recurs throughout all of nature's manifestations—from atoms to corporations to society in general. This pattern provides us with a new interpretation of, and hence a new understanding of, change.

Figure 1. Phases of change



Ainsworth-Land calls the first phase of growth of a system the *formative* phase. Every system, whether it be a human being or a corporation, begins to organize itself by exploring its environment, finding out what works and what does not work, testing its latitude and its limits. This first phase is essentially a process of seeking a pattern of growth. Much trial and error, invention, and discovery characterize the phase. This is the entrepreneurial phase in a business. Once a pattern of growth is found, anything that does not fit or is too different from the pattern is discarded and left behind.

If the chosen pattern is successful, it is followed by a *normative* phase of growth—repeating, modifying, and improving the pattern. The system no longer needs to expend its energy on experimentation; it can channel all its energy into making the pattern work better and better. The system now limits its creativity, experimentation, and invention, following the adage "When you find something that works, stick with it." (This is Henry Ford saying, "You can have any color car you want, as long as it is black.")

Eventually, the growth experienced in the normative phase slows down. The growing system simply devours its environment, resources, or markets, and the energy that sustained the system's rapid growth begins to run out. At the saturation point, the system begins to suffer diminishing returns. Businesses, like all systems at this point on the growth curve, usually attempt to shore up the old pattern. In an effort to escape the state of decline, a great deal of energy is expended "going back to the basics." Such a strategy might suceed for a short time, but success is usually temporary.

At this point, the structure of the growth pattern is not merely challenged but is actually threatened with extinction (death). Everything in the system may seem to be falling apart. But confusion and disorder are often necessary before the system can reach over or through the limits of the pattern, limits that were originally established in the formative stage.

If the system survives this period of disorder, a third phase of growth begins, the *integrative* phase. A new, more creative, mature kind of growth occurs. Often some of the very things that were left behind or rejected when the limits of the pattern were initially established in the first phase are now integrated into a new level of order. Healthy organisms and organizations build in a *new* formative phase during the third phase. Regeneration occurs and the growth cycle starts over again at a much higher level of complexity.

Ainsworth-Land's model of growth and change as a process is extremely useful in helping managers understand organizational change. With the model we can locate and understand where our organizations are in the growth/change cycle. Instead of resisting changes that seem thrust upon us, we can learn what the changes mean and how to use them to our advantage. For example, we can alter our marketing techniques substantially as our organizations move from one phase of growth to another.

In the formative phase a company might try to develop a product or service to meet a market need. "Find a need and fill it"—the first rule of entrepreneurship prevails. If the company develops something that works, it might shift to a selling mode: "We must actively seek those people who need the products and services we offer"—the normative phase. If the company is successful in this second phase of growth, it might become comfortably arrogant. The company now has a new problem, but there is a solution. The next phase—integrative—will allow the company to shift into a true marketing mode. The company can begin to really listen to its customers, to new and different customer needs it might have ignored in the past two phases. The company can start a new cycle of growth by integrating its customers' ideas into its products and services.

Understanding is the key factor in any individual's or company's ability to cope effectively with change. And while that may sound simple, it is not easy. We individuals do not accept well that which we do not understand. We need to know *why*. Knowing why allows us to more easily accept things as they are, even if they are not the way we would like them to be. Knowing why also lets us introduce creativity and invention—activities of the formative and integrative phases of growth—which may bring about a more desirable outcome.

With a framework for understanding change as a process, we are more inclined to view change as the natural order of living things. We can devote our energies to understanding and influencing growth or change patterns, instead of resisting the inevitable forces of change. The importance of communications in bringing about this understanding of change is universal. A changing company must become educated and must educate at the same time. Only through the communication process can a company enlist the commitment, energy, and creativity of its employees in coping with change.

Frequently, an understanding of change in a company is not achievable because communications within the company are not adequate. Employees do not know what the company is trying to achieve, nor do they know how the company is doing. Sometimes they don't even know what they are supposed to accomplish in their own jobs. In a worst case situation, the communications within a company, so essential to effective change management, can actually create misunderstandings.

How Values, Beliefs, and Precepts Affect Change

If a phases-of-growth model can provide a framework for understanding change, then values can form the foundation upon which that framework rests. This concept is true for both individuals and organizations. Values are not the new, polished employee-orientation programs everyone sees. Values are not the award-winning advertising spots created by the ad agency. Values are not the posters on the walls or the buttons on employees' lapels. Values are deeply held beliefs that tell us how we feel about ourselves and how we view others.

A strong set of values acts as an anchor in difficult times and as an inspiration in exciting times of opportunity. Tom Watson, Jr., the former head of IBM, has said that he believes a corporation's survival and success are dependent on sound beliefs, from which it acts and to which it is faithful. He has also said that everything else may change, but not the beliefs; they remain absolutes. In other words the basic philosophy, spirit, and drive of an organization have far more to do with its relative achievements than do its technological and economic resources. These resources are transcended by how strongly the people in an organization believe in its basic precepts and how faithfully they carry them out.

The values of the organization influence every activity, from the planning process to the management practices followed in implementing the plan. Because values influence the decision-making processes of the organization, they undoubtedly influence how the organization deals with change. If the organization is to meet successfully the challenges of a changing world, it must be prepared to change everything *except* its beliefs and values. If the organization can see change as a process, a natural order of things, and if it has sound values and beliefs from which it acts and to which it is faithful, then it has the basic ingredients to create an internal environment that can cope with change. With sound values and beliefs, there is less chance of a major discrepancy between the reality of change and the perception of change.

Perceptions are real even if they are not accurate. In addition to managing the reality of change, the organization must be aware of and responsible to the perceptions associated with change. Usually, a difference between perception and reality will occur when the communication process is not managed effectively or when employees must work in an environment of low trust. Correcting a poor communication process is usually a lot easier than correcting a situation of low trust in the work environment. Low trust is the result of the lack of, or failure to adhere to, a strong system of values and beliefs. Under such a situation, the energy that might otherwise be expended in coping with change and continuing to grow is unproductively expended in resisting change.

Building an Environment Capable of Adapting to Change

How do we create an environment that can nurture the growth/change process? First, we must understand that our personal growth cycle as well as the growth cycle of our organization involves multiple interactions with the external environment and the growth cycles of others. Our growth cycles are interdependent.

The organization itself consists of numerous dynamically interdependent subsystems, and changes in any of these are likely to affect other subsystems. In the same way, the organization is itself a subsystem in an environment that consists of many more subsystems, all dynamically interdependent. We are, in essence, parts of an open system, which explains why some changes can be anticipated and influenced while others—those resulting from pure chance—cannot.

Many factors influence the corporate environment, and all of them are changing. But fundamental to creating an environment that supports growth and change is a sense of purpose, or mission, that operates within a commitment to a core set of values. Take, for example, the value set at Deluxe Check Printers. Deluxe communicates to all its employees that its mission is to serve customers as the best supplier of financial documents, related products, and services. This mission is changing as Deluxe's growth/change cycle takes the company into nonfinancial documents and services, such as computer forms and business supplies, and the company enters the integrative phase of the growth cycle. An important point is that the mission is being communicated even as it changes. Knowing what the mission of the company is helps employees channel energy and resources toward preferred ends.

Another part of the Deluxe communication process speaks to the values and commitments the company adheres to:

- We believe we earn the right to business through quality products, prompt and complete service, and with an approach that emphasizes consistency and long-term associations. We try to conduct our business in a manner that will make our employees and associates proud of the company.
- Our overriding goal is integrity—integrity in our products and in our business conduct. Every Deluxe employee is expected to conduct business in a way that is socially responsible. No act of impropriety advances the interests of the company.

—We start with the law. Our policy is to obey it—in letter and spirit.

—We seek no special favors or considerations from suppliers, customers, competitors, or government.

—We avoid relationships or arrangements with competitors that would limit the vigor of competition in our markets.

—We are straightforward and aboveboard in all our relationships.

—We seek long-lasting relationships with all whose activities touch upon our own.

—We seek to conserve the resources and protect the quality of the environment in areas where we operate.

Commitments that the company makes, in order of importance, are:

1. *To customers*: Deluxe strives to offer customers superior products and service. We believe we are the industry leader because of our commitment to customer service—service that emphasizes quality products, prompt order handling and follow-up, and strict security. If we fail to provide total satisfaction, we forfeit our right to the business.

2. *To employees:* Deluxe recognizes that its success depends on employee attitude and performance. Therefore, we select qualified employees and strive to create an atmosphere conducive to quality performance by sharing information, opportunities, and the rewards of a successful operation. We respect the dignity and the rights of each person in our organization and try to provide equal opportunity, fair treatment, a safe work environment, and continuous employment for employees.

3. *To shareholders*: Deluxe is committed to maintaining a healthy company so that its shareholders will profit from their investment. We prefer to focus on corporate health rather than growth, recognizing that growth is generally a by-product of a healthy organization.

Deluxe's approach to creating an environment that fosters growth and is adaptive to change works well for its customers, employees, and shareholders. The formula is not magical and it is not exclusive. It requires constant attention. For instance, the training and development function works with management to ensure that the internal environment remains supportive of the growth/change process.

Practitioners in the training and development profession have long been referred to as change agents. The assumption can be made that what's meant by change agent is someone who promotes change—specifically, someone who helps people and organizations grow and develop by providing knowledge and skills training While this definition describes the role of the training professional, it does not adequately address the purpose, or mission, of the training and development function. The mission of the training and development function should be to help individuals and organizations become as much as they can be throughout the various stages of the growth/change cycle. With such a mission, training and development can be seen as a process and a system, rather than as an event. As an open system within the organization, training is not independent. To be effective, it must be viewed as a part of the whole—not apart from the whole.

Because it is a part of the whole, activities like strategic human resource planning do not seem to make a lot of sense. How can we have a strategy for the human resources of the organization if the organization has not developed a strategic business plan? And if the organization has a strategic business plan, then human resources should be a component of that plan. That activity so vital to effective human resource management, human resource *planning*, should take place in conjunction with the other planning activities of the organization.

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SECTION 2

Theory

Adapting Human Resources to Organizational Change

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The only thing that is common in the long run is the sense of change . . . and we all instinctively avoid it.—E. B. White

Change . . . is our language symbol for something we avoid and resist . . . . Change demands adaptation; without change . . . evolution would cease.—Jonas Salk

That men as different in accomplishment as E. B. White, a man of letters, and Jonas Salk, a physician/scientist, so similarly characterize the notion of *change* testifies to its ubiquitous and exacting nature. As time passes, all things are moved, transformed, or substituted, one for another. Change, not stability, is the natural course of things. It is a fundamental condition of life and an irresistible force to be reckoned with.

Change in an organism may result from choice or from necessity. For instance, change may emerge from an opportunity seized by an organism. Or it may emerge from a reaction required of that organism due to an external force. Whether it results from a push or a pull, change causes the organism to redeploy or enrich its resources and to develop new tactics. To survive, then, the organism must adapt, sometimes painfully. So it is with plants and animals. And so it is with forms of human organization such as the modern business corporation.

This paper is about the adaptations of human resources in organizations to changes they chose and to changes that were dictated by external forces. It describes parallels between processes of evolution in biological populations and processes of evolution in human organizations. This provides structure for understanding the causes, consequences, and control of change in organizations. The paper also reviews theory and research about the effects of change in organizations on their employees. It then considers approaches to strategic human resource management for evolution of organizations.

Evolution of Organizations

Seminal work by Aldrich (1979), Aldrich and Mueller (1982), McKelvey (1975, 1978, 1982), and McKelvey and Aldrich (1983) establishes parallels between biological and organizational evolution. Whether organizations evolve exactly like living beings is an essentially unexplored empirical issue. However, the lack of resolution of this issue does not diminish the usefulness of the concepts and methodological perspectives of evolutionary theory as rich metaphors for the analysis of change in organizations. Therefore, this section of the paper does the following:

■ applies theories about natural selection of biological species to organizations;

■ synthesizes this perspective to examine conditions for survival of organizations;

■ notes the importance of human resource management in survival of an organization.

This information establishes the proper perspective for understanding change as a natural course of events in history, rather than as a series of crises over time.

Theory of natural selection

Research and inquiry about the evolution of living beings center on the origins of differences among populations, the persistence of differences, and the evolution of populations. Organizational scientists ask similar questions about organizations as political, technical, and social entities. McKelvey and Aldrich (1983) borrow four useful principles from the theory of natural selection to explain the evolution of organizations: variation, selection, retention and diffusion, and struggle for life.

Ideas gleaned from the theory of natural selection are commonly used to explain corporate activity. The expression "lean and mean" is applied to those organizations that are struggling vigorously, and sometimes valiantly, to stay ahead with intense competition for resources and markets. Belief in the fittest is well entrenched in the ideology surrounding the modern corporation.

Variation—The process of natural selection starts with variations, or changes, of any sort. McKelvey and Aldrich (1983) argue that the attention paid to controlling change by managers and management theorists is evidence, at least indirectly, that variations occur in organizations. Such an argument seems unnecessarily conservative because common, practical experience tells us that organizations are in constant flux.

Selection—Some variations within populations are beneficial because they are especially effective in acquiring resources from the environment. Survival of a population depends on its capitalizing on beneficial variations to acquire resources, so necessary for maintaining or growing in the face of competition. Organizations that make the best of changes they choose or are required to make, survive. Organizations that react ineffectively to variations they confront wind up in, as Toffler calls it, the "Museum of Corporate Dinosaurs" (1985).

Retention and diffusion—Beneficial variations in a population are retained over generations and diffused throughout the population. This process operates through heredity. Organizations do not have offspring, but they do pass on favorable "genes" to improve their ability to survive. Heredity in organizations works through what McKelvey (1982) calls *competence elements*, or *comps*. The set of comps held by an organization, which McKelvey terms its *dominant competence*, is the organization's combination of technologies and organizational skills and knowledge that determine its ability to survive. Comps are embodied in the people of the organization. Comps are retained in an organization by, among other actions, hiring and keeping the right kind of people and by instilling comps in the organization's members. Comps are diffused through an organization by training, helping people learn the ropes, and other processes of corporate acculturation.

Struggle for life—Evolution is favored when competition for resources is keen. McKelvey and Aldrich apply this notion to organizations by using the example of solar energy companies. For a while, federal tax credits and subsidies allowed solar energy companies to remain essentially undifferentiated and immune to all of the harsh threats that exist in energy markets. As a consequence, few barriers to entry and survival were erected in the solar energy market. Then the Reagan administration reduced support for solar energy, heightening the struggle of solar energy companies for existence. Many did not survive. Others, by exploiting beneficial variations, did.

Ideas gleaned from the theory of natural selection are commonly used to explain corporate activity. The expression "lean and mean" is applied to those organizations that are struggling vigorously, and sometimes valiantly, to stay ahead with intense competition for resources and markets. Belief in the fittest is well entrenched in the ideology surrounding the modern corporation.

Favorable conditions for survival

From an evolutionary perspective, change is persistent, and the ability to change by adapting to environmental pressures enhances chances for survival. What, then, contributes to the adaptability of organizations and, therefore, to their survival?

Variations in populations can be classified either as *purposeful*, when the population makes an intentional response to a pressure, or as *blind*, when the population changes by accident or chance. Included in the class of blind variations are changes that are motivated solely by the need to change, change for the sake of change itself, and changes based solely on fashion or fad. McKelvey and Aldrich (1983) assert that most changes in organizations are blind (cf., however, Corning 1974) because "Environments are diverse, uncertain, and imperfectly perceived, [and] . . . organizations are composed of people limited by bounded rationality, suffering from limited or biased information and poor communication, and subject to processes of social influence and reconstruction of reality." In *The Change Resisters*, George Odiorne (1981) writes that he believes American business is characterized by unplanned, unmanaged, and chaotic change.

Both biological and organizational populations take form and character by selecting variations favoring their survival. In this way many blind, as well as purposeful, variations work their way into the culture of an organization. However, many beneficial variations in organizations may never be selected, because they discourage risk taking, punish rank breaking, or promote fear of importing ideas from the outside. (See Kanter 1983 for a discussion of the "not invented here" syndrome.)

One is tempted to question whether such things as corporate dress traditions, social action by corporations, and hierarchies of desk sizes among white-collar workers contribute demonstrably to the survivability of firms. If they are no more than results of superstition, they probably either are self-limiting in times of intense competition, or are harmless when the organization is not under siege. A certain amount of superstition, clumsiness, or, as Miller (1973) terms it, *galumphing* may be necessary for organizations to adapt to environmental pressures or opportunities. (For examples see McKelvey and Aldrich 1983, p. 122, and Weick 1979). Weick (1979) further suggests that those organizations most appropriately poised for change are garrulous, monstrous, "octopoid," wandering, and grouchy.

Support for the notion that diversity within organizations favors the opportunity for beneficial change is embedded within evolutionary theory. The *Law of Evolutionary Potential* states that less specialized species have greater potential for change than those that are highly specialized (Sahlins and Service 1960). This law is derived directly from Darwinian theory in which cladogenetic lines (treelike branching of taxa) are expected to derive from a generalized stock that is new to an environmental niche, rather than from a stable, highly specialized species. Organizations that are characterized by diversity are ready for any threat, however it may appear.

The evolution of biological species generally occurs over long periods of time. But because of the vast differences in markets for products and resources, as well as in abilities of organizations to respond to market shifts, organizations are influenced by change in disparate ways. Miles and Snow (1978) classify firms as *Defenders*, *Analyzers*, and *Prospectors*. These three classifications conform to the three ways Simon (1969) says systems cope with their environments: passive insulation, reactive negative feedback, and predictive adaptation.

According to Miles and Snow (1978), Defenders have restricted product/market spheres. They rarely make adjustments. They create stability in the short-term by reducing the need for their organization to interact with its environment. Miles and Snow state that "a Defender is ideally suited for its environment only to the extent that the world of tomorrow is similar to the world of today." In Simon's judgment, such a firm is passively insulated from change in its environment.

Before ridiculing the vulnerability of Defenders, consider that these firms certainly can be profitable. Depending on the nature of their business, the short-term stable period they create actually could represent many successful years of stability. In fact, demand for the products or services they offer may be relatively independent of fluctuations in economic activity. As a consequence, preparedness for change may not be a priority among Defenders.

Analyzers, in the Miles and Snow classification, react to changes through extensive market surveillance, which allows them to imitate already successful products. An example activity in this classification is the production of inexpensive clones of popular personal computers. Applying Simon's description, Analyzers are best at reacting to negative feedback from markets. They watch. They wait. They follow.

Prospectors, in contrast with Defenders and Analyzers, anticipate change; they have developed adaptive abilities. According to Miles and Snow, "A true Prospector is almost immune from the pressures of a changing environment since this type of organization is continually keeping pace with change . . . frequently creating change itself." To apply Simon's description again, Prospectors predictively adapt in at least three ways. First, they forecast change so that it can be structured in advance or prevented. Second, they absorb threatening or noxious changes. Third, they actually adapt the environment to the firm's needs, rather than vice versa.

Borrowing the terminology of mechanics, Chakravarthy (1982) portrayed Defenders as being in an unstable state, Analyzers as being in a stable state, and Prospectors as in a neutral state. Organizations can cope with change in any of these states, but the unstable one is most vulnerable to change and the neutral is least.

Importance of human resource management for survival of organizations

Organizations that are prepared for adaptation by the diversity of their human resources and by the characters of their product and resource markets are positioned for long-term survival by competing for their markets and resources. Human resources clearly are the linchpin for an organization's survival. The dominant competence of an organization is not held in its capital or its land. It is contained and expressed through the quality of the firm's labor.

It's no wonder there is more interest now than ever before in managing human resources. More stable and neutral organizations (Analyzers and Prospectors), rather than unstable organizations (Defenders), are needed to cope with the uncertainty, risk, complexity, and interdependence in the current world economy.

Evolutionary Rubble: Consequences of Change in Organizations

Adapting to change may benefit survival, but the consequences of doing so fall like rubble along the evolutionary path. Even though change may achieve benefits in the long run, it often looks and feels like chaos. "Particular aspects of behavior which may seem to be maladaptive from a synchronic [current] point of view," writes Alland (1970), "in fact may prove to be adaptive when put into a diachronic [longer] perspective." As a result, most of us have difficulty analyzing the nature and consequences of problems caused by change in organizations when we are personally knee-deep in the change.

The consequences of change in organizations are addressed in this section of the paper with the following:

- a description of dimensions of effects of change;
- a review of theories about how change in organizations can affect employees negatively;
- an examination of evidence that some organizational change negatively affects employees;
- a consideration of conditions for response to change by managers of human resources.

Dimensions of effects of change

Beneficial evolutionary change maximizes long-term gains and minimizes losses for the population at large. Yet at the same time, some individual population members may suffer deeply from the effects of change. For instance, once a year at The Pennsylvania State University, decisions are made about awarding academic tenure to hopeful professors. These professors have spent at least six years trying to develop outstanding records for teaching students, conducting research, and sharing expertise with others on and off campus. Academic tenure assures faculty members of future employment (within limits). Tenure also assures them academic freedom to pursue ideas that might be politically or socially risky in a setting other than the sheltered confines of a university.

A tenure decision is one of the most difficult and costly personnel decisions a university makes. Likewise, it is one of the most anxiety-producing decisions faculty members can await. A university tries to keep only the best, the brightest, and the most promising professors in exchange for a substantial financial and emotional commitment over faculty members' careers. For many reasons it is in the university's, its faculty's, and, ultimately, its students' best interests to be selective, and the good universities indeed are selective. Denial of tenure usually is profoundly devastating for a faculty member. Faculty members who fail to gain tenure must leave the university. With the scar of failing to make the grade on their records, they must find some other employment.

Change that maximizes benefits for an organization may not benefit all of its members. Plant closings . . . geographical moves . . . mergers . . . downturns in the economy . . . changes in the technology of production or in the product . . . all of these may benefit an organization, but negatively affect individual members. Situations that cause fear, uncertainty, danger, excitement, irritation, or confusion can evoke stressful physical, mental, or emotional reactions among employees. Productivity can decline due to health and behavior problems. A higher-than-optimal amount of employee turnover can result.

It is easy to fall into the trap of always presuming negative effects from change in organizations, especially when the effects are personal or are observed directly. It is equally easy to assume that these negative effects are absorbed solely by individuals. It is possible for emotionally charged perceptions of the negative effects of change to provoke demands for what amount to ad hoc, panicky, knee-jerk responses that may be wasteful and perhaps even harmful. On the contrary, the beneficial effects of change seem much more complex to analyze.

Taking an objective, analytical point of view, the effects of change can be seen to differ by locus, type, scope, and level.

■ *Locus*—The locus of effects of change could be described as either costs or benefits. In some cases, change may extract costs and create benefits simultaneously within the same group or, in other cases, differentially across groups.

■ *Type*—The type of effects of change could be pecuniary—they could involve money; or they could be nonpecuniary—psychological or health related.

■ *Scope*—The scope of effects of change could be private; that is, the burden or benefits of change by an organization could be borne or reaped by individuals inside and outside of the organization. For example, a plant move could create problems for the transferred employee as well as for the homeowner who is uprooted for the new plant location. Or the scope of change could be social; that is, the burden and benefits of change in an organization could be widely distributed. For example, a plant closing could affect one set of community members through reduction of the local tax base and through revenue shortfalls.

■ *Level*—The level of the effects could be corporate in the sense that they influence the health and well-being of business entities. Or the effects could be at the individual level, because they affect people. Most of the literature on the effects of organizational change focuses on its theoretical and actual costs to individuals, from both social and personal perspectives. Much of this literature views these costs as stress induced.

Mechanisms producing effects on individuals: Theoretical perspective

A long line of thinking describes stress as a major problem for employees. The proportion of stress induced by organizational change is not estimated, and may be inestimable in the aggregate. Sweetland (1979) describes the financial costs of stress as "so enormous as to be incalculable." Yet, theories of job stress point to causes that have their roots in employees' adapting to change.

Stress is defined by Selye (1973, 1975) as the nonspecific response of the body to any demand made upon it. What has become known as the *General Adaptation Syndrome* (GAS) describes the physical, psychological, and social responses of people to agents called *stressors*. These agents may be factors that we would identify as harmful. According to Rahe (1975), every life change, regardless of desirability, forces the individual to adjust to a new situation, which adds to total wear and tear on the individual and in some way increases the risk of illness. Because of the traditional dominance of the biomedical model of illness, health professionals underplay the role of socioeconomic factors in illness (Liem 1981). This is in spite of the ubiquitous relationship between socioeconomic factors and illness (Dohrenwend and Dohrenwend 1965).

The GAS includes three distinct stages: alarm reaction, resistance, and exhaustion. According to Beehr and Bhagat (1985), "Alarm is usually described as a generalized call of [to] arms of all of the defenses of the body, resistance is the replenishing of the body's defensive capacities that were somewhat depleted in the alarm stage, and exhaustion is the premature aging and breakdown of the body due to excessive demands which the body is having difficulty meeting." Although Selye first recognized the GAS as the body's reaction to biological stressors, subsequent work on stress includes the demands of psychosocial stressors on behaviors, thoughts, and attitudes.

Harrison (1978) adapts a theory of person-environment fit for describing, explaining, and predicting employee stress in organizations. Two types of fit between the individual and the environment are specified in the theory. One type is the fit of job rewards, monetary and otherwise, with the employee's needs and preferences. Another type of fit is the match between the employee's skills and abilities and the job's demands and requirements. An employee who is confronting a lack of fit can cope—that is, take

take actions to improve the fit—or can defend—that is, distort perceptions of the fit. Fight or flight. Whatever mode for adapting is chosen, the stress of reacting exacts some toll on the body.

According to Harrison, lack of person-environment fit results from real or perceived differences between the employee and the job, which, in turn, results in stress. The level of stress is increased by the employee's uncertainty about fit with the job, the importance of the misfit, and the duration of the lack of fit. Symptoms of stress can be psychological (for example, job dissatisfaction, anxiety, and lowered self-esteem), behavioral (for example, increased smoking and absenteeism), or physiological (for example, elevated blood pressure and serum cholesterol). These symptoms can lead to acute or chronic clinical illness of either a psychological nature (for example, depression) or a physical nature (for example, peptic ulcer); (cf. "executive monkey" studies by Brady 1958).

According to Beehr (1985) circulatory and nervous systems interact to produce the effects from stress. Animal studies confirm the following manner of physiological response to stress. The hypothalamus stimulates the pituitary gland to release chemicals into the bloodstream. These, in turn, direct the adrenal glands to release catecholamines, such as norepinephrine and serotonin, which are responsible for transmitting impulses across synapses between nerve cells (Bovard 1959). Stress, then, reduces the normal amounts of catecholamines available to the body.

Stress often is tied theoretically to measures of employee behavior through an application of the Yerkes-Dodson Law, which states (Sweetland 1979), "Performance will improve with increased rewards contingent on correct responses (or increased punishment), to a point. Beyond that point, performance will decline. The optimum level is lower for difficult tasks than for easy tasks." This relationship also is known as the *Inverted-U Hypothesis*, because it models a U-shaped relationship between stress and productivity. With increasing stress, productivity increases up to a point, after which it declines. Too little or too much stress can be counterproductive. Landy and Trumbo (1980) and Ivancevich and Matteson (1980) assert that evidence for the existence of this relationship and for the ability to generalize it is far from complete or conclusive.

Evidence of effects on individuals

The consequences and costs of stress for employers, employees, and society are varied and almost impossible to assign uniquely to organizational change. However, evidence exists that provides an estimate of the outer limits of the problem.

Medical care expenditures increased from approximately 5 percent of our nation's gross national product in 1960 to about 10 percent in 1985. Corporations pay a major portion of the bill for this care through third-party payments. Peptic ulcers and cardiovascular disease, two conditions that are caused or at least made more severe by stress, cost about $45 billion annually in the United States (Moser 1977; Putt 1970). Youngs (1985) estimates that stress-related absenteeism and excessive use of company medical benefits alone cost nearly $75 billion annually (see, also, Greenwood 1978).

Because these costs affect the bottom line, corporations take special interest in curbing growth in medical expenditures and in promoting employee health and well-being. Corporate programs offered for coping with stress focus on weight reduction, smoking cessation, hypertension screening and control, nutrition improvement, physical fitness improvement, stress management, substance abuse treatment, and personal and family counseling (Parkinson 1982), with varying degrees of documented effectiveness (see Murphy 1984 for a review and appraisal). In our increasingly litigious society, employers may find themselves liable for employee problems induced by stress (Ivancevich, Matteson, and Richards 1985; "Reading This May Cause You Stress" 1985).

Job loss and unemployment are stressful events in workers' lives, as are most economically relevant problems in people's lives (Liem and Liem 1978). At an aggregate level, a major concern of public policy is to mitigate the loss of income and services to workers who become unemployed. Cushioning this loss is not only good for workers, but, in some quarters, is thought to be good countercyclical policy for the economy. Unemployment compensation, food stamps, Aid to Families with Dependent Children (AFDC), Social Security Disability Insurance (SSDI), and Medicaid are countercyclical weapons in the fight to stabilize the economy.

The social opportunity costs of joblessness are high. A 1 percent increase in the unemployment rate accounts for 64 percent of increases in the federal outlays (Johnson 1981). A 1 percent increase in the unemployment rate increases Medicaid caseloads by 1.5 percent in 9 to 12 months after a surge in unemployment is observed (Barth et al. 1975). Applications for SSDI payments increase by 10 percent (Hambor 1975).

Many research studies have found that unemployment and job loss, in combination with other stressful events, are common precursors of psychiatric symptoms and treatment (Coates, Moyer, and Wellman 1969; Fontana et al. 1972; Holmes and Rahe 1967; Kasl and Cobb 1979; Myers, Lindenthal, and Pepper 1975; Theorell, Lind, and Floderus 1975). Moreover, researchers have concluded that unemployment

- elevates anxiety (Fineman 1979; Santhanam 1973);
- lowers subjective well-being (Harrison 1976; Hepworth 1980);
- induces withdrawal and secrecy (Briar 1978);
- distorts perceptions of time (Levin 1975);
- relates to development of schizophrenia (Turner 1977);
- is associated with greater external than internal locus of control (O'Brien and Kabanoff 1979);
- elicits defensiveness and self-criticism (Cohn 1977, 1978; Goodchilds and Smith 1963);

- contributes to deterioration of personal and familial relationships (Powell and Driscoll 1973; Root and Mayland 1978; Thomas, McCabe, and Berry 1980; Voydanoff 1977).

Unfortunately, much of this research is based on clinical reports and seems to contain as little scientific content as congressional testimony (see Congress of the United States 1980 for anecdotes concerning the health effects of unemployment).

The relationship between unemployment and suicide is ambiguous. A post hoc study by Shepherd and Barraclough (1980) revealed that 75 persons who committed suicide had experienced more unemployment and generally poorer work records than had 150 persons in a control group. Walbran, MacMahon, and Bailey (1965) noted that those committing suicide over a seven-year period in Pennsylvania were more likely to have been unemployed than the entire population (see, also, Tuckman and Lavell 1958). These studies beg chicken-or-egg types of questions. For instance, does unemployment lead to suicide? Or does mental illness lead to unemployment?

Kasl, Cobb, and associates published a series of studies concerning physiological changes in men who lost their jobs because a plant closed permanently in a midwestern city. Cobb, Brooks, Kasl, and Connelly (1966) presented a research design for the study. Slote (1969) provided a journalistic account of the Kasl and Cobb studies (see, also, Cobb and Kasl 1977).

Kasl, Cobb, and Brooks (1968) reported increased serum urate, but normal cholesterol levels, among 200 men who were informed that their plant would be closed. Uric acid levels dropped to normal if the men were reemployed quickly. Kasl and Cobb (1970) found increased blood pressure levels among men participating in the closing of the plant. High blood pressures were sustained by men with the longest unemployment. Those who were unemployed long-term reported higher levels of subjective stress than those who were reemployed quickly. However, using health-diary information that was collected over two years after the plant closing, Kasl and Cobb (1980) and Kasl, Gore, and Cobb (1975) reported that the blood pressures, body weights, numbers of cigarettes smoked, and pulse rates of 35-through-65-year-old male job losers never exceeded the levels of males in a control group. The authors concluded that the stress effects of unemployment are self-limiting.

Learning to adapt to lower levels of resource consumption and activity is a way of life for many organizations in turbulent economic times. Proposition 13 in California . . . Proposition 2 1/2 in Massachusetts . . . rising as well as falling oil prices . . . the Balanced Budget and Emergency Deficit Control Act of 1985 ("Have you been Gramm-Rudmaned, too?")—these events and others have made austerity a way of life for many organizations in the public and private sectors.

Jick (1985) notes, "As organizations adapt to leaner times, employees have been subject to multiple sources of stress including (1) the uncerty and instability in their work lives in the face of constant change and decline, (2) fear of job loss, (3) the burdens of "doing more with less" as a result of decreased staffing, (4) the pressure to cut costs wherever possible, (5) the increase in paperwork to document all spending and activity, (6) the strain between administrators and staff over the direction and mission of many organizations, and (7) the fear that job performance will be adversely affected. In short, it is a stress situation that is likely to contain many more demands and constraints than opportunities." From a review of the literature, Jick believes that documentation about the effects of organizational decline, uncertainty, and crisis on employees is mostly anecdotal (for examples, see Bozeman and Schluser 1979, and Rubin 1979). However, Jick also believes that there is good reason to believe that the general stress patterns and responses observed in the workplace are likely to generalize to problems created by retrenchment.

Conditions for response by human resource managers

Limiting the negative consequences of change for employees is desirable in many ways. However, what conditions indicate that a manager of human resources should respond to the effects of change on employees?

This question is quite difficult to answer in practice for a variety of reasons. Let's start with the axioms developed in this paper. Change in most organizations is inevitable. Change, with positive as well as negative outcomes, can create stress in people. Stress often leads to chronic states and acute episodes of psychological and physiological illness. In this manner, change, however beneficial directly, can frequently be counterproductive for individuals and organizations. Good so far, eh? But reactions to presumed negative effects of change are often hard to defend.

First, the effects of change on employees are most often defined as the products of psychic conflict and are manifested through somatic, psychic, or behavioral symptoms. The problem is that the conflict is defined and perceived uniquely by the employee and is not general. In practice, the conflict is difficult to identify objectively and to link unambiguously as the cause of the symptoms. For instance, are job loss, location transfer, corporate merger, and budget cutting (or the threat of any of these) always stressors for workers?

Most statements about the negative effects of change on employees are not confirmable by logic alone. Nor are they confirmable by observation of individuals in organizations whose business is business, not experimentation. Consequently, these statements more often resemble superstition than fact. Furthermore, as superstition, they become currency for the brokers of "voodoo" organizational development strategies, ones used to justify the direction of resources to activities that bear questionable relationships to organizational strategy or performance. This is not to say that some change does not actually produce negative effects; but rather, linking change and its presumed effects often is not defensible. Corporate concern, then, for minimizing the negative effects of change may amount to no more than throwing money superstitiously or faddishly at organizational development panaceas. Does anyone remember T-Group training?

The careful manager of human resources will want to see specific, hard, and local evidence of the undesirable effects of change before allocating resources for a reaction. This manager will resist all that is vague, soft, and general. Planning for change is another tack to follow for the manager who wants to minimize the undesirable effects of change on employees.

Strategic Planning and Human Resources

The word *plan* derives partly from a Latin word meaning *level ground.* Corporate planning is an attempt to stay on level ground and away from the chaos that can be created by undermanaged change.

Corporate planning and its relation to human resources are addressed in this segment of the paper. Included:

- a brief review of the aims and effects of strategic planning in organizations;
- an examination of the functions of strategic human resource management developed in Tichy's (1983a, 1983b) seminal technical, political, and cultural theory of managed change;
- several strategic planning models for estimating the desired supply of human resources necessary to meet organizations' demands for labor.

Strategic planning

Many analysts diagnose the current ills of management in all types of American organizations as being the result of "overemphasis on day-to-day operations.... Concentration on short-term goals ... that [emphasize] short-term results (e.g., a plant manager who expects to squeeze the maximum profit out of a plant while neglecting long-term maintenance and new product development because he or she will only be at that location for three years before moving on)"; (Wortman 1982). In reaction, they have placed greater emphasis on strategic planning and management of organizations. Such planning and management activities are strategic in the sense that they focus on long-term organizational survival, rather than on the tactics of operations.

Many guides have emerged for structuring strategic planning and management. Among the first to appear were works by Ansoff (1965) and Chandler (1962); more recently were works by Steiner (1979) and Summer (1980). Such professional journals as *Strategic Management Journal* and *Journal of Business Strategy* publish scholarly work about strategic planning and management. As Steiner (1979) observes, "Strategic planning is inextricably interwoven into the entire fabric of management."

Strategic planning involves deciding clearly what business an organization is in, devising long-term goals to pursue, and selecting investments in resources and markets that will help realize these goals. Strategic management involves implementing plans and continually considering whether the plans should be altered to solve emerging problems, to serve new needs, and to capitalize on opportunities. Strategic management includes continuously adapting to changes in an organization's environment (Schendel and Hofer 1979) as well as responding to changes inside the organization (Chakravarthy 1982).

In essence, strategic approaches to planning and management are the attempts by organizations to guide their own evolution. The notion that firms can control their futures is pretty exciting stuff, but it is loaded with hubris. Some critics believe that strategic planning and strategic management only serve managers' needs to feel that they are in control of externally driven change (McKelvey and Aldrich 1983). Others believe that formal planning is a rigid, bureaucratic, and rational process that fails to tap actual decision-making processes in an organization (Bresser and Bishop 1983; Quinn 1980).

The proof of the efficacy of strategic approaches to planning and management is in the pudding. To be considered effective, strategic planning and management must influence bottom line performance. Shrader, Taylor, and Dalton (1984) conclude from a review of the literature on strategic planning and organizational performance that there is strong evidence linking strategic planning with improved performance, especially in growing and diversifying firms. However, no evidence is available to suggest that strategically managed organizations are better at minimizing the negative effects of change experienced by employees. Research to examine this possibility might be fruitful. Intuitively, strategic planning and strategic management should lead to better foresight and subsequent reduction of undesirable effects of change on employees.

Strategic human resource management

Noel M. Tichy, in *Managing Strategic Change: Technical, Political, and Cultural Dynamics* (1983a), provides a major contribution to our thinking about managing organizational change strategically. Tichy's ideas emerged from his attempts to manage change in such organizations as the Martin Luther King Health Center in the South Bronx and Hazard Children's Health Services in Kentucky. Through these experiences he began to realize that creating change in an organization is not merely a technical problem of deciding how to marshal organizational resources to produce a desired level of output. Managing change involves allocating political power and resources for strategic ends. It also involves establishing an organizational culture that fosters the strategic aims of the organization.

The technical problems of change deal primarily with the decisions organizations must make to adapt to environmental threats and opportunities. These decisions involve arranging social, financial, and technical resources to produce some desired kind and level of output. Most formal planning tools are designed to deal with decisions about technical problems.

Political problems—that is, problems of allocating power and resources—are pervasive in organizations. These problems are far less likely to be the object of formal analysis and attention, but they consume much management attention and time. Political problems revolve around establishing and implementing systems of justice within the organization. Systems of justice involve rationalizing who in the organization bears burdens and who receives rewards. Compensation, risk, career development, budget, and formal and informal power structures are arenas for political problems in organizations.

Organizations are held together in part by what Tichy (1983b) describes as "normative glue that is called 'culture.'" A culture is a system of shared beliefs, values, goals, and ways of viewing the world. Organizations have cultures. One problem faced by management is how to decide what culture best serves an organization's strategic aims. Tichy notes that decisions about organizational culture are often not made explicitly, but rather are made implicitly, intuitively, or by trial and error.

Tichy (1983b) uses a three-stranded rope as a metaphor representing the technical, political, and cultural systems in organizations. From a distance the individual strands are indistinguishable; yet, they are separable, even within themselves, upon close examination. Most importantly, the strength of the entire rope depends on the interconnectedness of the three strands. Similarly, it is not possible to walk into an organization and see separate technical, political, and cultural functions, yet careful analysis could identify these functions. Moreover, technical, political, and cultural functions can reinforce the strategic plans of an organization, or they can work at cross-purposes. The task of strategic planning is to decide what form these functions should take to contribute to the business of the organization and to determine how these functions should be coordinated. The task of strategic management is to implement these functions and to adapt them to the changing technical, political, and cultural environments faced by the organization.

Tichy, Fombrun, and Devanna (1982) assert that the structure of an organization follows the establishment of its strategy. Once an organization has established its mission and its strategy for investing resources, a division of labor is made to carry out its plans. The division of labor is manifested by organizational structures of authority and responsibility, job descriptions, and the like.

The aim of human resource management in an organization is to ensure an adequate supply of labor to meet the technical, political, and cultural goals of the organization. This tactic may be conducted in a number of stages. First, workers who conform to the technical, political, and cultural needs of the organization must be selected. Selection may occur from internal or external labor markets. Second, the performance of those selected must be appraised. Third, conforming performance must be rewarded. Last, employees must be developed to conform to the organization's needs. Selection, appraisal, reward, and development systems must change as the organization's technical, political, and cultural spheres change in response to changes in the mission—changes that were made in response to either external pressures or opportunities.

The aims of human resource management may be viewed operationally or strategically (see Tichy, Fombrun, and Devanna 1982, Table 2, p. 52). Operational human resource management concerns itself with staffing and recruitment, day-to-day monitoring and control systems, wage/salary/benefits administration, and specific skill training. Strategic human resource management, on the other hand, considers factors such as the characteristics of people to select, values to shape, reward structures to develop, and long-term career paths and developmental experiences that are needed to assure the viability of the organization in the long run.

Strategic human resource planning, then, is responsible for determining the human resource supply and demand characteristics of the organization.

Strategic human resource planning

The internal changes in technical, political, and cultural systems must be manifested in fundamental societal changes before they will be consequential for a business organization. Therefore, strategic planners of human resources must examine social and economic forces that will determine the supply and demand for labor to an organization. However, information about the changes in supply and demand conditions for labor is not in itself sufficient for designing buffers against the undesirable features of change. Also necessary are techniques such as the following for strategic planning of the supply and demand for human resources. (For more detailed information on the following models, see Marron and Passmore 1979 and Passmore 1979b.)

Demand: Interindustry analysis. Money flows. The dollar paid to the baker for cake is spent, in turn, for sugar, whipping cream, and flour. The mill from which the baker buys the flour uses the baker's money to purchase grain, and so on. The baker's cake sets up a complex flow of money through the economy. Ultimately, many industries and workers are affected by the economic ripple resulting from even a modest transaction. Add ripple on ripple and you have a wave.

These economic "waves" did not go unnoticed by economists. Based on the work of eighteenth- and nineteenth-century economists, Wassily Leontief (1936) developed a table showing the transactions between industries in the United States economy. Important descriptive, explanatory, and predictive information can be derived from his table. Leontief's method is called interindustry analysis because it portrays dependencies among industries. Sometimes it is called input-output analysis because it shows the inputs from various industries that are necessary to produce one unit of output in any industry. Leontief's ideas won him a Nobel prize in economics.

Skipping the mathematical details, which can be examined in other works (Passmore 1979b), here is how Leontief's model works:

- The economy is divided into sectors called industries. The basic notion is that each industry combines a set of inputs—land, capital, labor—in fixed proportions to produce its output, which it, in turn, sells to other industries to meet their requirements.
- The production of industries is driven by the material needs of society for goods and services through expenditures for personal consumption, investments, exports, imports, and government. Economists measure these material needs as components of gross national product. These needs represent orders for production presented to industries by society.
- Different levels and kinds of demands for goods and services will cause industries to produce a variety of outputs, which creates a variety of demands by these industries for the products of intermediate and extractive industries.
- Various kinds and amounts of labor are required to produce a unit of output, and these requirements differ by industry. For instance, a different number and pattern of workers are required to produce a car than to produce a hamburger. Labor requirements are modified by changes in labor efficiency and by substitution of other factors of production for labor (e.g., robotics).
- In the model, possible changes in labor requirements are simulated. For example, analysts can alter the distribution of GNP, the patterns of interindustry relationships, or the kinds and amounts of labor necessary to produce a unit of output. Fundamental political, technical, and cultural changes that have economic significance can be reduced to these types of changes in the interindustry transaction table. These are the types of "what if?" questions that are familiar to users of electronic spread sheets. Moreover, framing these questions requires considerable art, science, intuition, and synthesis from many areas of knowledge such as economics, politics, finance, sociology, and engineering.

Leontief models have been established for world, national, regional, and local economies. Some firms are using Leontief models as a planning tool to describe, explain, and predict their relations with the rest of the economic world in a concise, analytical, empirical, and testable manner. These models allow the firm to address questions about the future demand for labor in a powerful manner. Examples of some of these questions include:

- How will a merger affect our labor requirements?
- What will be the effects of changes in the tax code on the size and composition of our work force?
- How will the introduction of a new competitor in our product market influence the level of employment in our firm?

- What types of jobs must we be prepared to cut if we experience a shortage of energy?
- What aspects of our work force can be affected by seemingly autonomous changes in government regulation?
- Will our work force be affected if the government decides to shift to purchases of more "guns" than "butter"?
- What shifts in consumer taste will require different kinds of products from us and, as a result, changes in the technical, political, and cultural systems of the firm?

Supply: Occupational supply structure. Strategic planning related to demand for human resources is only one-half of the human resource equation. The other half is the supply side. The stability of an organization's human resources is determined by the intersection of the supply of labor and the demand for labor.

A vast amount of theory and application on the demand side of labor is available. But models and methods for understanding the forces that affect the supply of labor to particular occupations are relatively underdeveloped. The model of labor supply by occupation described in this paper is presented in detail in Sommers (1974). Using data from the United States census, Marron and Passmore (1979) and Passmore (1979a) applied the model to the supply of bookkeepers. In Passmore, Marron, Norton, and Mohamed (1983) the model was applied to estimate the supply of medical record technicians.

Information about the supply of workers for specific occupations is important to a firm for a number of reasons. Changes in labor laws may restrict or expand the supply of available workers. Restricted supplies of labor in particular occupations could create production bottlenecks. Scarcities in the quality and quantity of labor required for production could provoke the need for automation. Moreover, because wages are determined to some extent by the relative scarcity of labor, information about labor supply by occupation could help an organization anticipate trends in compensation.

The model of occupational supply suggested here for organizational use contains three components:

- *Current Supply*—This is the number employed (or on layoff) in a specific occupation by location.
- *Entries*—Workers enter occupations within the firm from a variety of sources. They can enter by transferring from other occupations within the firm. They may be newly hired and may not possess the needed work experience. Public or private training programs may prepare workers for many roles.
- *Separations*—Workers leave occupations in a variety of ways. Some workers move to other jobs within the firm. Some workers are terminated. Some resign or retire. Some die.

To be useful, a model of occupational supply should draw on information about the demography of workers within the organization and in the general work force. Understanding specific sources and worker incentives to enter or leave an occupation is also useful. Knowing the possible effects of change on the organization's occupational supply is important. Some strategic questions that could be asked include:

- To what extent are we dependent on local schools to train our workers? Should we formulate policies of either support or benign neglect for vocational training programs in these schools?
- If we increase output by 3 percent, will we be able to hire the increased number of maintenance workers required?
- Can we avoid layoffs through attrition?
- Is a retirement "buy out" policy good for us?
- Are particular skills transferable over occupations within our firm?
- What are our firm's career ladders?
- Should we pay attention to turnover?
- Should we train our employees or recruit from the outside?

Concluding Remarks

Change in organizations is inevitable and consequential for employees. The pace of change varies over product and resource markets. Undesirable consequences of change probably occur to employees, but the negative effects of change are difficult to identify unambiguously in actual situations.

Strategic planning and strategic management are applied to reduce the risks that change creates for organizational performance. No evidence exists, however, that planning reduces the undesirable consequences of change for employees. Thus, the art and science of strategic human resource planning in management operate with this hope: that better intelligence and action about future risks and uncertainties will reduce the friction they create for organizations and for the people who constitute them.

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SECTION 3

Practice

Planning for Change

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David Passmore, in his paper, "Adapting Human Resources to Organizational Change," mirrors the ambivalence most people feel about change. He starts by noting that change is inevitable; then he implies that it is positive and a part of natural evolution. Passmore demonstrates that change is a function of organizations becoming more competent and contributing more to their environments. But then he raises a negative aspect of change by claiming that change creates the stress on individuals in our society. Finally, he suggests that planning is the way to minimize the side effects of change.

Human resource practitioners need not look far to find proof that managers believe in planning, or at least they believe in holding meetings dedicated to planning! The many hours spent in long-range planning are a monument to the conventional wisdom that planning must be good. And, yet, few people will dispute that planners are, in the main, ineffective.

Passmore suggests that planning may answer managers' psychological need to appear to be in control of their organizations, but he also appears to believe that the current push for "strategic planning" can be the cure-all for poorly managed change. Unfortunately, his discussion of strategic planning is misleading and downright confusing. Although Leontief models and supply-and-demand curves may be useful for some parts of the planning process, strategic planning, with its concentration on qualitative decision making, does not easily yield to these suggested economic techniques.

Passmore is not alone in confusing the qualitative and quantitative aspects of planning. The field of strategic planning is a semantic quagmire. In fact, the term *strategy* has many different definitions. Sometimes it is used as a noun to refer to any abstract level of thinking. Sometimes people refer to strategic planning as any form of long-range thinking. But forecasting the future and planning strategically require vastly different models and thought processes. Too often, people waste time by not differentiating between strategic and operational planning, as was suggested by Passmore. Or they confuse the activity of projecting the present into the future with the activity of planning the actions needed either to cope with change or to implement change.

My paper is based on the contention that planning is needed to manage change but that people waste time when they use inadequate planning models. While strategic planning can be useful, management's natural instincts lead to focusing with an overly optimistic view of the world on short-range, operational matters. Presented in this paper are tested approaches and models for three different types of planning for change. The broad topic of strategic planning is clarified with a differentiation between the formulation of the strategy for the organization and the implications of that strategy for human resource planning. (Regrettably, Passmore confuses the two processes, thus leaving the practitioner with no clear place to start.) Finally, a model for implementing operational planning and change in human resource systems is presented.

Starting Place for Strategic Planning

In his paper, Passmore commits an oversight typical of human resource professionals. He proposes planning for human resources without having a clear organizational strategy. He suggests we start by constructing labor-supply curves. Unfortunately, such macro labor-supply curves relate to the environment, not to the success of an organization. Instead, the first essential step of strategic human resource planning at the organizational level has to be management's development of a sound strategy for the entire organization. Developing strategy at this level means determining the nature and the future identity of the organization. Ideally the human resource professional will take part in this activity, because it must take into account the culture, or basic beliefs, of the organization as it strives to provide the products and services desired by its customers.

One key aspect of strategy formulation in the business sector is development of a product-market matrix that identifies the products that will be emphasized in each market segment the organization expects to serve. External changes in areas of customer need, competition, or technology can then be assessed for their possible or probable effects on the future success of the organization. This kind of basic thinking can help the organization avoid the failures that are caused by catastrophic environmental changes, the kind that gives managers nightmares. Of course, other external changes that affect business success, such as governmental regulations and labor-supply adjustments, must also be anticipated and factored into strategic business planning.

What Is Strategic Planning?

All managers like to believe they are strategic planners. Unfortunately, what they think is strategic planning is merely guessing what might happen in the future—or, even worse, it is merely projecting the present into the future. For example, two favorite exercises for human resource professionals are succession planning and developing skills inventories. Both exercises start with the status quo and assume that only minor adjustments in human resource capacities will be required in the future. True strategic thinking identifies the probable or possible changes that will determine future organizational success.

Ben Tregoe and John Zimmerman, in *Top Management Strategy* (1980), make a compelling case for focusing first on strategic planning and then on operational (projective) planning. Passmore concurs by noting that strategic thinking addresses entirely different issues from those addressed in operational planning. Strategic planning looks at the larger issues of organizational identity and future goals, and addresses the relationship of the organization and its products to its environment. Operational planning, on the other hand, looks at specific activities to implement the strategy. Strategic planning addresses *what* is to be accomplished. Operational planning addresses *how* to accomplish it.

In general, most human resource planning occurs without benefit of strategic planning at the organizational level. Roberts and Wolf (1985) are correct when they contend that most human resource planning happens from the bottom up rather than the top down. Bottom-up planning fails to address such basic questions as what the organization should be like, what its culture should be, and what the relationship should be between the organization, its customers, and its suppliers.

Even where top management does do strategic planning, it often fails to invite human resource people into its deliberations or even to inform others in the organization of its activities. Instead, top management leaves human resource professionals to creating succession planning charts and arranging college recruiting schedules. Human resource professionals who focus on such planning activities eventually miss the boat, because they are not helping top management accomplish what it desires for the organization.

Top Management and Strategic Planning

A ship without a rudder is without direction and at the mercy of rough seas. Similarly, an organization without a clear and appropriate strategy is at the mercy of the harsh realities of environmental change. Top management must reach agreement on the kinds of products the organization will and will not consider. Management must also agree on the geographic markets and market segments and customer groups it will serve. To have a comprehensive strategy, management must also consider the key capabilities of its human resources and how to allocate resources to support future products, future markets, and desired rates of growth and return on investment.

Too often, the result of strategic planning is a "motherhood" statement—one that gives too little specific guidance to the many decisions needed to reach the organization's goals. Such statements are far too broad to be useful. They actually avoid the painful decisions about what products or markets should be dropped, and thus these statements could be construed as wasteful of organizational resources. Top management must conscientiously develop the strategy statement in such a way to assure that it is distinct, clear, and provides needed direction to the organization. Tregoe and Zimmerman introduce the concept of the "driving force" as a method for forcing such priority setting. They show that planning for any single strategic area, such as technology or products offered, usually provides all the necessary direction for making strategic market choices (1980).

During the process of considering issues about the nature and direction of the organization, management will find it prudent and necessary to identify the nature of broad environmental changes—in the customer, the marketplace, the technology for producing products, and the government—changes that will influence the future success of the firm. This initial stage of strategic planning is the first line of defense against surprising external events that could lead to organizational failure. (Plant closings are more often caused by unanticipated environmental changes or miscalculations of strategy than by management's making poor operational decisions.)

A clear top management strategy has many virtues, not the least of which is that of encouraging all internal planning to be oriented toward a common vision. In fact, a management that can confidently answer the following questions posed by operations planners is a management that has developed a clear, appropriate strategy.

1. What kind of business do we want to be in the future?
2. Who are our future customers and what do they need?
3. What makes us different from our competition?
4. Who is our competition?
5. Who will be our competition in the future?
6. What market shifts could force a change in our strategy?
7. What environmental changes must we monitor in the future?

Realistically, it will not always be possible for the human resource professional to participate in developing top management strategy or to offer support in answering the questions listed above. Political or economic realities sometimes force decision makers to bypass the participation of some important people in the organization. Nevertheless, the human resource manager can insist on being informed of top management's strategy so that the vital process of human resource strategic planning can be soundly based. Most executives would concur that answers to the above questions would have many implications for human resource programs such as employment, compensation, and development. These programs must be oriented toward realizing the strategy. Without strategically focused programs, the organization strategy will remain just a dream of top management.

Strategic Implications for Human Resources

Once management has clearly identified its strategy, human resource professionals can determine the implications of that strategy for the human resources in the organization. Note that this is a different level and kind of thinking from operational planning, which essentially asks how we can implement the strategy. Instead, strategic-implications thinking looks at the human resource system and asks what its nature and identity must be when the strategy is fully implemented. Here the focus is on people and not on personalities. The issue is still *what* should we be in the future, not *how* do we get there.

Noel Tichy (1982) applies technical, political, and cultural dimensions to this level of strategic thinking. Roberts and Wolf (1985) show how business strategies representing different parts of the product life cycle require different human resource strategies. For example, they suggest that for two distinct strategies—such as "invest and grow" versus "earn and protect"—to be successful, two distinct human resource systems are required.

What's more, Roberts and Wolf suggest using three levels of human resource strategic thinking: the business or unit level, the corporate level, and the enterprise level. They conclude that human resource attention is generally focused at too low a level. The result is that many human resource plans fail to accomplish organization-wide results.

The Roberts and Wolf model assumes the existence of an overall organization strategy, then, through successive deliberations, addresses these issues:

1. Given this strategy and business plan, what should be the future organization design and structure?
2. Given this structure, what should be the design of jobs and accountabilities?
3. What performance measures and objectives will be required for different jobs?
4. What should be the approach for selecting and developing personnel? (Select and develop from within or recruit from outside?)
5. What should the organizational reward system be (economic and noneconomic factors) to support this strategy?

Answering these questions is prerequisite to identifying the organizational structure desired in the future. Beware of projecting from the current situation into the future; instead, focus primarily on the future nature and direction of the business and think through what human resources will be needed. For example, yours may be a centralized organization. But when you consider your new strategy for meeting diverse customer needs in various geographic markets, you realize that the appropriate organizational structure would be flatter. You visualize an organization with a minimum of formalized controls and a maximum of freedom to act, which is coordinated through the use of complex information networks.

By focusing on questions of organization structure and general job design first, human resource professionals can avoid designing jobs to fit current employees or overly concerning themselves with current personalities. The goal is to meet the needs of the future organization as identified by the strategy.

Although human resource professionals are probably best qualified to look at human resource issues, top management also should participate in such strategizing. Management already has a mental picture of the future organization and the people who will be needed for its success. By looking at the human resource implications of organizational strategy, such mental images can become clear, and everyone can begin sharing the same vision.

This clear picture of the future organization also provides a measuring rod for evaluating the current human resource system and its capabilities. With this evaluation, operational plans can be made for meeting goals for the future. Clearly, identifying the implications of the organization strategy for the human resource system is a primary responsibility of the human resource professional. Courage is needed for speaking out whenever top management ends its strategic thinking with its determination of the business strategy and fails to consider the human resource implications.

Operational Planning for Human Resource Professionals

By taking a look at the critical discrepancies that exist between the desired human resource system and the one that currently exists, specific programs can be designed to reach the desired strategy. Regrettably, implementing human resource programs is not always as simple as using project management software to schedule a plan. Careful thought must be given to the many objectives to be accomplished and to the constraints and risks of implementing a variety of programs. Careful analysis work is essential. Charles Kepner and Ben Tregoe (1981) have presented a detailed model for performing such comprehensive decision making.

Solid thinking is particularly important in planning any program that requires changing human behavior. Some people claim that human beings are so unpredictable that planning to implement any behavior change is impossible. Geary Rummler (1972) offers a more constructive view of changing human behavior by presenting a practical model of the many factors that influence human performance. His approach, called *performance system analysis*, offers an organized view of the factors that influence human performance and identifies specific actions to consider when implementing a change. Rummler, and Alan Brache (1984), identify the following factors as critical to changing human performance: (1) clear and specific job standards; (2) timely feedback on the employee's actual behavior and how it relates to those standards; (3) a favorable balance of consequences (the benefits outweigh the negative consequences of the new behavior); and (4) adequate resources and tools to get the job done. Their research clearly shows that few breakdowns in human performance are the result of deficiencies in personality or capabilities. Environmental conditions or managerial practices, such as the absence of standards or feedback, create most of the performance difficulties that exist in large organizations.

Rummler's and Brache's insights provide excellent guidance when planning change. First, when contemplating change, management can assess the probability of success by taking the current performance system model and projecting the new behavior within that system. Generally, management will find that existing reward systems can be expected to mediate against the new, desired behavior. Anyone using performance system analysis can readily identify specific needs for changing the current human resource system. Management will then be in a position to assess whether or not implementing change is likely to be cost-effective. For example, one could establish whether or not the new behavior is worth the cost of installing the new incentive system that would be needed to obtain and maintain the new behavior.

Performance system analysis is not just a forecasting tool. It is equally useful for planning any operations change—for example, the use of microcomputers in the office. The performance system model can suggest needed changes—for example, clear standards for the use of microcomputers, positive feedback from top executives about the use of microcomputers, and attention to the motivational factors that will encourage people to try microcomputers and to continue using them even after difficulties arise. This is an entirely different view of planning.

The performance analysis approach is vastly different from the strategic planning approach that is used by top executives. Performance analysis focuses on specific behaviors and looks at the "nitty gritty" actions needed to manage change.

Planning is not just a simple matter of propping up one's feet and thinking about the future; it requires three concrete, consecutive approaches. First, top management must establish a vision or strategy for the organization. Next, when the human resource professionals have a clear idea of the future nature and direction of the firm, they must assess the implications of the proposed strategy for human resource planning. This step leads to a clear picture of what the future human resource system must be. Finally, for day-to-day planning, attention must be paid to the many factors that influence human performance. Only with this integrated three-step approach to planning will human resource professionals be able to handle their responsibilities effectively.

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Employee Diversity: A Divided Issue

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David Passmore makes an interesting case for diversity within an organization. In his paper, "Adapting Human Resources to Organizational Change," he cites the law of evolutionary potential and uses it to build a case for the idea that less specialized species have greater potential for change than those that are highly specialized. He cites the Darwinian theory in support of the notion that change in an environment is more easily adjusted to by organisms that have the ability to adapt. Such adaptability is easier to achieve when diversity is present. My paper supports the notion that diversity within an organization is essential to its survival in times of significant change. Diversity enables an organization to better predict changes in the environment. Plus, a diverse organization is better equipped to identify new approaches to its markets in changing times. Although the condition of diversity is an ideal to be valued by the organization, achieving this ideal is often thwarted by the organization's culture and its human resource development and rewards systems. Presented in this paper are one company's reaction to change and how the company addressed its need to increase employee diversity.

Change Is Evident

Consider how much the American consumer changed in the last forty years. Changing consumer expectations and demands for autos, fashion, foods, technology, advertising, packaging, and services forced whole industries to adapt to produce the appropriate consumer products. Change at the industry level made it necessary for individual businesses to adapt in order to remain competitive. Businesses that did not adapt were destined for failure.

Examples abound of businesses that failed to respond to changing environmental conditions in spite of their being voiced as changes in consumer expectations. The railroads believed they were in the railroad business; they did not realize they were in the transportation industry. As a result, they failed to expand services to meet the ever-growing transportation needs of their consumers. Instead, other businesses formed to fill the transportation niches left undeveloped by the railroads.

Most successful businesses realize that the products they produce are aimed at a constantly changing population, one that is on the move all the time. Just like good duck hunters, good businesses know how tough it is to hit a moving target. Both have to make adjustments before pulling the trigger. If they lead too much or lag behind, they miss their target.

As human resource managers we, too, must realize that our target is always moving. We must attempt to predict the change path with accuracy and adjust our efforts as needed to hit our target. We are most likely to hit our business target when we have a human resource pool that is capable of viewing new business opportunities from many different perspectives.

People Drive the Business

Virtually every organization exists to provide a product to a customer base. All functions within the organization are focused on meeting this objective. The people within an organization are its most valuable resources. Without individual contributors doing their part to make a viable product, the organization would surely fall prey to its competitors. As Bill Darden, founder of Red Lobster, once said, "I am convinced that the only edge we have on our competitors is the quality of our employees as reflected each day in the job they do."

Research of the excellent companies in America has demonstrated that if you want productivity and the financial rewards that accompany it, you must treat your workers as your most important asset. Thomas J. Watson, Jr., has been quoted as saying that one of IBM's key philosophies is their respect for the individual. Although this is a simple concept, it occupies a major portion of management time at IBM. Peters and Waterman (1982) support the notion of respect for the individual. They add that this basic belief was ever present in the successful companies they studied. They also state that this belief must be supported by a number of structural devices, systems, styles, and values designed to reinforce one another. They found extensive support for the notion of respect for the individual. They also found extensive support for an organization's willingness to train, to set reasonable and clear expectations, and to grant practical autonomy so that individuals can contribute directly to the job in unique ways.

Desirability of Diversity

Nearly every company of any size has been organized into departments or units to bring diverse sets of skills and expertise to the organization. The people within the different departments tend to look mostly at the nature of their business specialities and at how to best achieve success from their departmental perspectives. However, some diversity is found within each department. This diversity, when nourished and encouraged, provides the organization with a number of alternative viewpoints on business opportunities as they occur.

By necessity, some jobs have a high proportion of routine, repetitive, do-it-as-ordered activities. The challenge for managing effectively is to allow people in these jobs to think beyond the limits of their specific tasks and see their jobs in a larger context. When people understand how their "piece of the action" is part of the total picture of the organization, they are better able to contribute to the search for better ways to deliver the product. When job descriptions are confining and the people holding the jobs are perceived as having little to offer, interests become segmented and the organization's ability to identify challenges becomes stunted (Kanter 1983). The challenge that successful organizations face is to combine the necessity for routine jobs with the possibility for employee participation beyond those jobs. They need to give individuals at all organizational levels the chance to contribute to innovation.

Sharing the vision

All organizations gear their efforts to accomplishing a basic objective, which is usually communicated through a mission statement. Every task in the organization should be geared to making this objective a reality. The organization goes about its business within a cultural setting that has developed since its founding. It is important that the organization have employees who share its goals and work effectively within its culture. Whether weak or strong, its culture has a powerful influence through the organization, affecting practically everything that goes on. Effective organizations are filled with people who understand the goals, work effectively within the culture, and yet maintain their personal identity.

Agreeing to disagree

Values are the foundation of any organization's culture. The values of an organization form the essence of its philosophy for achieving success. They also provide a sense of direction for employees and guidelines for their day-to-day behavior (Deal and Kennedy 1982). Among the most critical cultural values in any organization are respect for the individual and opportunities for free expression. These two values are key to the cultural diversity necessary for organizational growth.

Diversity that is fostered through the free expression of ideas broadens the organization's perspective on a wide range of issues. It allows a new business problem to be approached from many vantage points. Entertaining diverse opinions enables the organization faced with change to look at creative alternatives, identify challenges within each alternative, and thoughtfully select an appropriate response. Allowing freedom of expression removes the blinders in a traditional business setting, enabling the organization to look at its products in new and different ways. Removing the blinders helps the organization assess the needs of the consuming public from multiple vantage points. It contributes to gaining more accurate insights into the changing environment in which the organization operates and, in effect, helps in predicting events to which the organization must respond.

Granting more than lip service

Although there exists widespread agreement that diversity within an organization is healthy and desirable, there is at the same time an implied business norm supporting the notion that conformity is what really pays off. Many organizations have systems in place that not only encourage conformity, but mandate it.

Most companies have basic systems designed to motivate and reward employees for performance. These systems—namely, appraisal, incentive, and development—could be important instruments for encouraging and reinforcing diversity. Selection is another system that could be used to encourage diversity within a company. Unfortunately, in most organizations, these systems implicitly encourage conformity in thinking and behavior.

To assess whether or not diversity exists in an organization, thus permitting the free exchange of ideas, it is helpful to look at the growth cycle of a successful business. As the business begins to prosper and grow, its methods and procedures become more finely tuned. These procedures become increasingly responsible for the success of the business. As a result, its procedures tend to become very hard, fast, and inviolate. The business usually continues to grow, and for a while, as it continues to operate within a static environment, the business continues to prosper. As the demands of its consuming public change, the business fails to recognize the signs of imminent change and continues to stick with its established methods of doing business. As the environment around the business changes still more and as the business continues in its set ways, sales begin to decline.

The business that lacks in diversity tends to emphasize its "proven" systems during such declines in sales. The telltale sign of mistaken emphasis is a "Back to the Basics" campaign. As individual efforts intensify, sales continue to decline. No one in the business reacts to the fact that the environment around it has changed and that an evaluation of how to approach the customer more effectively is in order.

It is at times like this that diversity within a business organization truly pays off. As happened with many previously successful companies, continuing to emphasize traditional systems and methods in times of change leads to serious decline, if not actual disaster.

Caught by a Changing Environment—Red Lobster's Story

Bill Darden founded Red Lobster in January 1968. From its very beginning, Red Lobster was an extremely successful concept. Its success was based on a philosophy of providing the best quality seafood, offering great value, and presenting excellent service. In fulfilling this philosophy, Red Lobster set its priorities on meeting the needs of its customers. The needs of its employees came next. The assumption was that if these two constituencies were taken care of, the investors' needs would be adequately met.

Red Lobster attracted the attention of General Mills, Inc., and became a wholly owned subsidiary of General Mills in 1970. At that time the company had three completed restaurants and two under construction. It underwent a rapid expansion program immediately following its acquisition by General Mills.

The company opened its 100th restaurant in 1974, and sales passed the $100-million mark in 1975. By 1977, 200 restaurants were in operation and sales exceeded $200 million. In 1981, sales surpassed the $500-million mark. At the beginning of 1982, the company had 310 restaurants, a management staff of 1,460, and a total employment of 24,000. Currently, there are 386 Red Lobsters in the United States, with a total of 31,000 employees. These 386 restaurants account for total sales approaching $800 million, and they are expected to serve over 80 million customers in fiscal year 1986. In addition, there are 26 Red Lobsters in Canada and 12 in Japan.

During the period of rapid expansion from 1970 through 1982, Red Lobster's ability to replicate restaurants on a large scale, support those restaurants with a well-developed purchasing and distribution system, and manage the restaurants with a well-disciplined and well-schooled cadre of managers was key to its success. Managers were required to be precise in following the extremely detailed procedures and systems for operating the restaurants. Every hourly position was finely described in terms of the expectations and behaviors required for success in that position. The restaurants were designed to be run very efficiently at high customer volumes. This strategy was quite effective because at the time, the customers' expectations of Red Lobster, as well as of many other full-service dinner restaurants, were that it provide quality food in large quantities in a very fast, efficient manner.

In the mid to late seventies, customer expectations began to change. People expected a more comfortable dining experience in an atmosphere more suited to leisurely dining. At the same time, customers' expectations of service were changing. They began to demand more attention from the wait staff. These new expectations required that the wait staff be provided with a different type of training program. They needed to be more knowledgeable about their product, more understanding of customer expectations, and more people oriented in their behavior. The job of the wait person was evolving: once just a food server, the wait person now had to be a knowledgeable salesperson, one who could understand the expectations of customers and relate to them in a personable manner. At the same time, the attitudes and work-oriented values of employees were changing. Their expectations of management and their desire for a challenging work environment became more central.

These shifts in employee and customer expectations required a different type of manager than Red Lobster had been hiring and developing.

Confronting surprise

The signals of a changing environment were loud and clear. Red Lobster customer counts were declining; turnover in the management ranks was on the rise; customer feedback was pointing out problems with decor and service. The company began to hear that the restaurants were too expensive for the total dining experience. The initial reaction was to work even harder at the systems that had helped the company achieve great success earlier.

The company experimented with new product offerings, added new cooking methods, and improved decor. Still, the desired results were missing. Red Lobster continued to search for the solution to declining customer counts. It then occurred to the company that part of the answer might lie in the orientation of its management staff. The need for managers who could hire, train, and motivate a work force to be people oriented and to value quality service became clear. In short, the company needed management people who could relate to the expectations of both customers and employees, and who could react to those expectations in ways that would communicate sincere concern.

Identifying the management profile

The decision was made to identify the management style of the key operations managers. The Myers-Briggs Type Indicator (MBTI) was used to identify the management style of all general managers and area supervisors. The MBTI is designed to show how an individual looks at issues and occurrences in the environment and how he or she goes about making decisions. By knowing the preferences of an individual manager's style and those of other people in the same work environment, a helpful understanding of personal strengths can be achieved. The MBTI is extremely helpful in identifying the kinds of work people enjoy and will probably be successful in doing. It also can be used as a tool for helping people with different preferences understand how to relate to each other in the work setting and, thus, be more productive.

The MBTI yields four scores with 16 possible combinations of the following:

- introverts/extraverts;
- feeling/thinking types;
- intuitive/sensing types;
- perceptive/judging types.

According to the MBTI theory, people create their personal "type" through exercising their individual preferences based on their perceptions and judgments. The interests, values, needs, and habits of mind that naturally result from any set of preferences tend to produce a recognizable set of traits. Consequently, individuals can be described, in part, by stating their four preferences. Individuals of a certain type can be expected to be different from others in ways that are characteristic of their type (Myers 1980).

In March 1984, all Red Lobster general managers and area supervisors were asked to complete a Myers-Briggs Type profile. When their profiles were analyzed statistically, certain prominent trends appeared in the data. The managers' dominant characteristic was their preference for thinking as the way to determine conditions and make decisions. More than 88 percent of all Red Lobster managers tested preferred thinking over feeling as a way of making judgments (see Tables 1 and 2). Generally, people with

Table 1. Preferences of Red Lobster managers (MBTI)

Extraversion 64.%	or	**Introversion** 36.%
Sensing 60.5	or	**Intuition** 39.5
Thinking 88.6	or	**Feeling** 11.4
Judgment 79.	or	**Perception** 21.

this preference are relatively unemotional and uninterested in people's feelings. They like analyzing and putting things in logical order, which makes them well suited for business decisions. But they can get along without harmony and may hurt people's feelings without knowing it. They make decisions on an impersonal basis and find it relatively easy to be critical of people's behavior. They may distrust their own feelings, preferring to deal only with the "facts."

The second most prominent characteristic of Red Lobster managers was the preference for judgment over perception. Seventy-nine percent preferred the judging attitude (see Table 1), which meant they preferred to plan their work and to follow their plans. These managers were apt to feel disturbed whenever they were interrupted while working on a project. They liked to get things settled quickly. People with this preference enjoy making decisions. They need to guard against jumping to conclusions before all the facts are in. They tend to focus only on the essentials they think are needed for a decision or a project, and they try to eliminate extraneous details. They get satisfaction from reaching closure or finishing a project.

The majority of the managers—60.5 percent—preferred sensing over intuition for acquiring new information (see Table 1). People with this preference like to work with facts. They enjoy established routines and

Table 2. Myers Briggs "core" types

Type by %'s	Gen. Pop.	R/L Mgrs.
Sensing with Thinking	28.	54.4
Sensing with Feeling	28.	6.
Intuition with Thinking	19.	34.2
Intuition with Feeling	25.	5.4

prefer to use the skills they already learned, rather than learn new skills. They generally dislike new problems unless there are some standard procedures for solving them. They become impatient or uncomfortable when the details of a project get complicated, but they are extremely patient with routine details. They definitely prefer to keep things as they are; they change only when thoroughly convinced by the "facts" that a change is necessary.

Implications

The managers' characteristics held many implications for the process of improving Red Lobster. The most obvious was that there would be a period of time during which many managers might remain unconvinced of the need for change. The second implication was that the concrete elements of the change probably would be much more easily accepted and more quickly adopted than the less tangible elements of the change. Such intangibles as the restaurant atmosphere, the mode of service, and the feeling (experience) customers should have while in the restaurants would not be readily understood by the predominantly sensing/thinking management staff.

These implications led to three conclusions. First, managers needed to be made fully aware of the reasons why the proposed changes were being made. Second, managers needed as concrete a picture as possible of the improved Red Lobster restaurant. Third, operations managers needed to become more people-oriented; they needed a greater understanding of the desires and expectations of customers and employees.

A brand new orientation to management in the restaurants was needed. This realization implied new selection criteria for managers, management training to improve affective skills, and a screening procedure for hiring wait employees with intuitive and feeling characteristics.

Implementing change

The results of the MBTI profile for the operations managers were perhaps the strongest indicator that Red Lobster had to reorient its approach to management. Inevitably, an organization's management philosophy directly affects its human resource system. Red Lobster's management philosophy was developed in a high-growth period when highly structured systems were needed to ensure proper controls. Management and hourly employees alike were expected to follow the systems with a no-questions-asked attitude. But as the Red Lobster concept matured and customers' and employees' expectations changed, managers needed to change their work approaches. The company's response to this need was to improve management practices through four key areas of its human resource system:

Selection—The hiring of all employees in a given restaurant is done by the management of that restaurant. Since managers needed support in hiring more successful employees, the company conducted a study to identify the attributes needed to be successful in front-of-the-house positions. A sampling of successful employees was identified based on objective measures of performance. Then, in a focus groups, these employees discussed the criteria for success in their jobs. These discussions were recorded, transcribed, and studied to isolate the common characteristics, work ethics, and beliefs of the more successful employees. In addition, focus groups with less-than-satisfactory employees were conducted to identify their characteristics and how they differed from those of successful employees.

The company then created a set of example questions designed to identify the desired characteristics in prospective employees. The example questions were asked of larger samples of successful and unsuccessful employees to determine their response patterns to the questions. A selection questionnaire was developed from the results of numerous interviews with current employees.

Preliminary results indicate that the new employees hired by managers using this questionnaire as one of the selection tools perform at high levels and have longer retention rates than employees hired without using this tool. Using the questionnaire has helped managers develop a clearer picture of the employee traits needed on the job. Current efforts are under way to develop similar instruments for back-of-the-house employees and management trainees.

Training and development—The groundwork for developing changes in the company's expectations of operations managers and for improvements in customer service began with the annual meeting for all restaurant managers and operations supervisors. Two key concepts were introduced at the meeting. The first was value-added service, which meant that the wait staff and managers would strive to provide customers with a dining experience that exceeded their expectations. The second key concept was the notion of appropriately bending the rules to meet the needs of customers. This meant that employees would exercise good judgment when customers made requests that did not fit within the normal guidelines of operation. Later sessions of the annual meeting provided managers with the information and materials they needed to implement these concepts.

Because of the company's changed expectations, the training and development programs had to be revised. The most significant change in training and development was made in the program for management trainees. The management-trainee program had previously run for 14 weeks, with the first 5 weeks focused on back-of-the-house matters. The program was highly structured and primarily centered around managing systems and procedures. The training program was redesigned and shortened to 12 weeks. Now, the first 5 weeks are primarily spent on front-of-the-house matters. Trainees are immediately exposed not only to these matters, but to methods for dealing directly with customers. This revision has resulted in trainees becoming much more sensitive to the dining needs of customers. It has also given managers a much more complete understanding of the desirable characteristics for front-of-the-house employees. Another major revision in the management-trainee program increased emphasis on human relations skills. Trainees develop these skills by working through case studies.

All training manuals for front-of-the-house hourly positions were revised, too, to reflect a strong emphasis on customer-oriented behavior. The new manuals are written from the perspective of the employees, explaining why every action is expected and why each job procedure is necessary. The manuals also give employees information about how they benefit from following the procedures and acting in the best interest of the customers.

Appraisal systems—The appraisal systems for managers and hourly employees were completely revised, again to reflect the increased emphasis on customer service. Expectations for each position are stated in behavioral terms, and brief descriptions of how to accomplish these expectations are included. Each expectation is rated on a numbered scale.

For hourly employees the behavioral expectations are grouped into four basic categories:

- people skills;
- product skills;
- sales skills;
- work beliefs.

A number of subcategories under each of these major headings provide employees with specific feedback on how their performance is perceived by management.

The new management performance review includes these major categories:

- guest service;
- leadership;
- financial controls;
- decision making;
- planning and organizing;
- delegating;
- employee relations;
- communications;
- training and development.

Each category is further defined by three to seven example behaviors. Every manager receives a numerical rating based on a specific rating for each category and an overall rating for performance for six months.

Reward system—In conjunction with revising the performance review criteria, the company reviewed the existing reward system. Merit increases are generally based on performance as it is viewed by the immediate supervisor and the supervisor's boss. The review system was revised to place heavier emphasis on the key elements of customer service; and the merit-increase system was adjusted to reward managers who place emphasis on, and are successful in promoting, customer service.

Operations management participates in a bonus award system. Bonus payments, which are made quarterly, had been based on a manager's performance on a number of fiscal control measures. This award system is currently under revision and is expected to reflect a more appropriate balance between fiscal controls, sanitation, and customer service.

Conclusions

Change is ever present in most business environments. Successful organizations equip themselves to react quickly to a changing environment. They recognize new business opportunities and respond accordingly.

An organization's human resources are its primary vehicle for recognizing and reacting to change. Human resource management systems must be designed to select people who bring diverse skills, opinions, and methods into the organization. Human resource systems must also reward individuality and diversity by supporting employees who can make creative contributions to the organization. This support must be provided by well-planned and coordinated efforts in training and development programs, performance appraisals, promotional opportunities, and other incentive programs. The alternative to developing a diverse employee base is to maintain a group of employees who approach the business with tunnel vision, sticking to the tried and true in spite of evidence supporting the need for change, and remaining puzzled as to why the company's market share continues to slide.

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The Effects of Organizational Change on Stress: Implications for Human Resources Professionals

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Change is pervasive in every business environment. As David Passmore stated in his paper, "Change, not stability, is the natural course of things. It is a fundamental condition of life and an irresistible force to be reckoned with." As change is a function of life itself, so change in organizations occupies a significant place in American industry.

Historically, managers of organizational change have focused their energies on the needs and expectations of the era. During the cost-conscious 1980s, managers must maintain high levels of quality and productivity with fewer human and financial resources. If we understand "change as a natural course of events in history, rather than as a series of crises over time," as Passmore suggests, we are better equipped to handle and plan for organizational change. During times of cost consciousness, change becomes visible through strategies that include reductions in the work force, increases in quality control standards, employee involvement groups, and enhanced commitment to excellence of service.

Largely unexplored but deserving of consideration are the effects of organizational changes on employees. Passmore regards the effects of organizational changes as *costs* to individuals, and the manifestations as *stress.* He accepts Selye's (1973, 1975) definition of stress: the nonspecific response of the body to any demand made upon it.

In industry, the relationship between stress and productivity is a critical area for examination. This relationship, known as the "Inverted-U Hypothesis" or the "Yerkes-Dodson Law," predicts that by increasing the amount of stress from zero to optimum we may increase productivity to its highest point, after which our applying more stress may result in decreasing productivity (Cirillo 1983; Sweetland 1979); (see Figure 1). Passmore notes that the amount of stress induced by organizational change has not been estimated. However, the financial costs of stress in relationship to productivity are regarded to be extensive (Sweetland 1979).

Passmore points out that some of the individual stress symptoms that result in financial costs to organizations include peptic ulcers and cardiovascular disease. These financial costs are significant and should not be underestimated. According to Passmore, the effects of peptic ulcers and

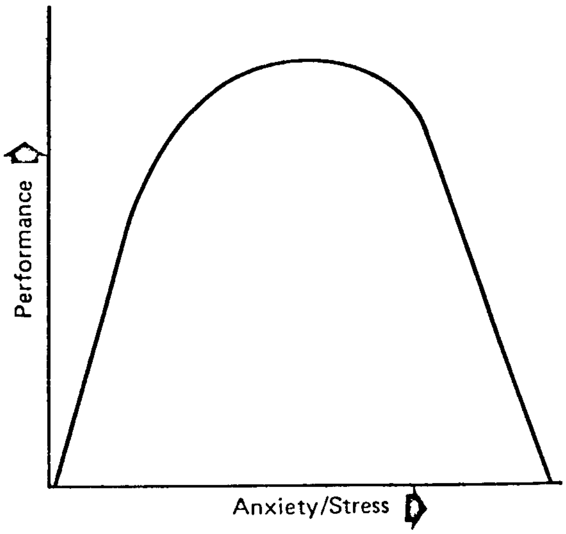

Figure 1. Inverted-U Hyothesis or Yerkes-Dodson Law, showing the relationship between stress and productivity (Cirillo 1983; Sweetland 1979)

cardiovascular disease cost about $45 billion annually in the United States. Currently, many organizations pay for these costs through increased medical expenses and reduced productivity due to employee absenteeism. Both are estimated to cost $75 billion per year (Youngs 1985). Because of the significance of these costs to industry, organizations must identify the variables that create stress in the workplace. An important consideration is the effects organizational change has on employee stress and, ultimately, on the bottom line. In particular, organizations must determine appropriate intervention strategies to offset the costs that can accrue from organizational change.

At present, few organizations have in place mechanisms for monitoring the effects of organizational stress on their human resources and, subsequently, on their profits. Even fewer organizations have determined how to respond to the effects of organizational change through intervention procedures. One response mechanism that could be easily used for reducing the stress induced by organizational change and, subsequently, for increasing productivity is an employee assistance program (EAP). An EAP is a system for working with employees who are experiencing personal difficulties that affect their performance on the job and that ultimately affect total organizational productivity (Shain and Groeneveld 1980). Initially, EAPs were designed to address substance-abuse problems. They have since been expanded to address a wide variety of concerns, such as relationship difficulties and financial problems, that affect employee performance and organizational productivity (Davis 1984).

The tremendous growth of EAPs in industry, from just a handful in the early 1960s to over 8,000 today, reflects the success these programs have had in improving organizational productivity (National Report on Employee Alcoholism 1980; In Praise of EAPs 1984). EAPs have helped employees resolve personal difficulties and become more functional and productive workers. EAPs have significantly affected industry. In the areas of alcohol and chemical abuse alone, the literature demonstrates high returns on organizational investments in EAPs:

- 40 to 80 percent drop in absenteeism;
- 60 percent reduction in sickness and accident benefits paid;
- 50 percent drop in grievance claims;
- 50 percent reduction in disciplinary actions (Wiencek 1975; National Report on Employee Alcoholism 1980).

Specifically, General Motors reported positive results from its EAP, with returns as high as $8 for every dollar invested in the program (General Motors Study 1980). Similarly, United Airlines boasted a return of $16.35 for every dollar invested (In Praise of EAPs 1984). In another study, researchers found savings averaging 25 percent of the troubled employees' salaries (Wagner 1982). Beyond the financial benefits of EAPs, improvement in employee morale has also been demonstrated (Davis 1984).

Given such demonstrated effectiveness, one wonders why some organizations have limited their EAPs to problems of substance abuse and personal problems. Apparently the researchers who have reported their findings have not focused on determining whether an EAP is an effective intervention strategy for alleviating stress induced by organizational change. While many corporations offer stress management programs, these programs usually are not systematically associated with a company's EAP. Instead, stress management programs are offered as ad hoc events designed to generate awareness and encourage changes in life-styles among the participants. A more proactive, systems approach would involve using an EAP to alleviate stress induced by organizational change.

By applying the EAP model to stress issues, organizations could engage in a process of referring nonproductive, stressed employees to an EAP for further diagnosis, intervention, and follow-up. Clearly this is an individual approach to stress, where the intervention addresses the problems of a specific employee. Explored later in this paper is the idea of an organizational approach to employee stress, where the intervention involves addressing the entire organization to reduce the effects of stress.

The use of an EAP system for referring individual employees suffering from stress is a distinctly different approach from current programs designed to alleviate the negative effects of employee stress. Current, events-driven approaches to employee stress include stress management seminars, smoking cessation programs, lectures on nutrition, and physical fitness training. In general, these interventions are offered in the absence of a formal needs assessment to determine the nature of the problems. Directly referring a stressed employee to an EAP system would allow for more effective diagnosis *before* an intervention is attempted. More effective diagnosis would potentially set the stage for more appropriate intervention strategies, which could then affect the organizational bottom line to a greater extent than do the more conventional ad hoc approaches to handling employee stress.

Designing an EAP system to take individual and organizational stressors into account holds significant implications for human resource professionals. First, we human resource professionals need to focus on assessment strategies that could isolate whether and how stress-related problems affect organizational productivity. Second, we need to consider new ways to use the services of those who conduct current ad hoc approaches to stress. We should work with stress management experts to gain their support for a stress-reduction delivery system that is aligned with the organization's EAP. While ad hoc approaches are not wrong, they could be more effective if they were part of an overall delivery system consisting of an interdisciplinary team of stress management experts and human resource professionals.

In addition to the job of intervening with individuals who are experiencing stress, the organization itself is a viable subject for diagnosis and intervention. Through the process of organization development, consideration could be given to stress-producing variables within an organization and how these variables could be related to a collective form of employee stress. A needs assessment could effectively uncover such variables. Subsequent to the needs assessment, intervention strategies could involve changing large elements within the organization to reduce the negative effects of stress on individuals and on the bottom line. Such an organization development approach not only allows for viewing the organization as a gestalt, but also demands that top management commit to changing the organizational variables that create stress and inhibit employee productivity.

When planning such organization development interventions, an employee involvement process may be useful for determining effective strategies for reducing stress and gaining employee commitment. An employee involvement process that is particularly useful is the focus group. According to Bellenger, Bernhardt, and Goldstucker (1976), the focus group "offers a means of obtaining in-depth information on a specific topic through a discussion group atmosphere, which allows an insight into the behavior and thinking of the individual group members."

Executive-level commitment is a precondition that is necessary for organization development efforts to survive and grow. Human resource professionals must have this commitment in place before attempting to alleviate or prevent the organizational stresses that negatively affect productivity. We should call for and support research in organizational change and stress. First on the list should be research into how specific organizational variables relate to stress. For example, it was noted that employee absenteeism can be reduced through specific EAP interventions. Whether a similar, positive result can be accomplished by reducing organizational stress is subject to conjecture. Subsequent research should be directed toward demonstrating more definitively the relationship between an organization variable, such as absenteeism, and stress induced by organizational change.

Research should also be conducted to find out how stress impacts on the organizational bottom line. According to Passmore a wide variety of stress reduction activities—nutrition education, stress management seminars, and hypertension screening and control programs—has met with varied documented effectiveness. We must demonstrate more consistent, positive effects of these programs on the organization's bottom line. Such demonstrations will lead to a more supportive stance by top management toward human resource efforts.

Passmore also notes that in the future, organizations may be held liable for employee problems caused by stress. As a consequence, organizations may be facing worker compensation claims for stress induced by organizational change. Increased research into the effects of organizational stress on employees may help in developing strategies for preventing, or at least reducing, related litigation against employers.

Human resource professionals can incorporate discussions of organizational change and employee stress during times of strategic planning. Historically, strategic planning efforts have focused on recommending changes to top management, with relatively little consideration given to the impacts these changes may have on employee stress levels. Organizations can train their strategic planners to understand the effects of organizational change on human resources and to be aware of potential solutions—and we can assist in the training process. With this knowledge, strategic planning efforts might more positively affect the organizational bottom line.

In conclusion, developing a better understanding of the impact of organizational change on employee stress and the impact of stress on the bottom line appears to be fertile territory for human resource professionals. Because of our close alignment with employee relations and human resource development systems, we can help in initiating strategies for reducing the costs of stress created by change. Our involvement in this issue holds the potential for improving several items of extreme importance: organizational productivity, the work environment, and the morale of employees.

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Human Resources Management During the Gulf/Chevron Merger

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The greatest frustration a contemporary human resource professional can endure is to be relegated to performing "personnel" tasks while complex people issues go unmanaged. In many companies, top management readily spends money on equipment maintenance but must be cajoled to spend a similar amount on people maintenance.

Top-level managers who expect bottom-line impact from people maintenance encourage human resource professionals to practice their trade. This type of encouragement, and recognition of the necessity of people maintenance, were evident during the Gulf/Chevron merger.

The most important ingredient in managing the organizational change that would result from this merger was the awareness by the top management of both companies that 80,000 employees and their families would be affected. Jobs would be lost, policies and administrative systems would change, organizational structures would change, geographical moves would take place, compensation and benefit programs would change, power bases would shift, and two diverse cultures would be merged into one.

The scope of the merger was unprecedented. Chevron paid $13.3 billion for Gulf, making the merger the largest and most expensive in history. Each company employed roughly 40,000 people. Chevron's 1983 revenues were $29.2 billion; Gulf's 1983 revenues were $28.9 billion.

The process of merging the two giant companies ran into an immediate delay when the Federal Trade Commission (FTC) expressed its reservations about the antitrust implications of the merger. The FTC was concerned about overlapping marketing and refining operations in the southeastern United States. Two months of negotiations with the FTC produced a "hold-separate" agreement that required Chevron and Gulf to operate as separate companies until a buyer or buyers could be found for the duplicate operations. The companies operated separately for 46 weeks before the FTC-imposed agreement was lifted.

The hold-separate agreement, because it provided almost a year for planning the integration of the two companies, which was the only activity that could legally occur, may have been key to the successful merger process. Chevron's management seized the opportunity to design an elaborate process to integrate the employees, programs, processes, and cultures of the two companies, while retaining the strengths of each.

Chevron began planning for integration without the help of outside consultants, primarily because educating outsiders about what had to be accomplished would have taken too much time and the management staff in both companies had the necessary expertise.

A senior officer of Chevron was relieved of his day-to-day duties and put in charge of merging the two companies. A senior officer from Gulf was appointed as his counterpart. These two men were charged with accomplishing a job of great magnitude under tremendous time pressures. Their first decision was to use study teams that would have equal representation from Gulf and Chevron.

Even before the study teams could be formed and begin meeting, senior executives from both companies had to make many decisions about the overall structure of the merged company. The specific objective of this segment of the merger process, Phase I, was to establish new, broad organizational guidelines. Key organizational concepts for selected corporate staffs were developed—for example, the concept of strong corporate emphasis rather than strong operating company emphasis. Relationships between the officers of both companies and, in turn, their relationships to the joint operations and the corporate staffs were defined.

The major problem identified in Phase I was the difference between the basic organizational structures in the two companies. Gulf was organized along product, or functional, lines; whereas Chevron was organized along geographic lines. For instance, Gulf had a worldwide company that was responsible for exploration and production. Chevron had a totally integrated oil and gas subsidiary, Chevron U.S.A., which was responsible for explorations, production, refining, and marketing in the United States. Gulf was headquartered in Pittsburgh, Pennsylvania, but its largest operations were in Houston, Texas, where it employed about 5,500 people. Chevron was headquartered in San Francisco and had little presence in Texas. The decision was made to phase out Gulf's Pittsburgh headquarters, keep a major portion of Gulf's Houston operation, and organize the merged company along geographic lines, like the existing Chevron model.

After Phase I, the Phase II study team leaders and members were selected, with equal representation from the two companies. The study teams were charged with creating the structure for the organization, determining the geographic location of each principal office, defining specific work force requirements, and identifying human resource issues and concerns. In all, 37 study teams were organized, one for each major organizational structure. Each team had six permanent members: three from Gulf and three from Chevron. Each team had six weeks to complete its tasks.

The objectives of the human resources organization study team were as follows: to determine the need for a human resource structure and compensation support activities in the merged company; and to recommend a plan of organization and personnel requirements that would optimize the effectiveness of the combined work force. The scope of this study embraced both Gulf and Chevron's human resource activities, but it excluded labor relations and medical, environmental, hygiene, and safety activities. These were reviewed by other teams.

The specific aspects of the human resources organization study were:

- Identify premerger staff support activities at each organizational level in Chevron and Gulf. Evaluate their effectiveness with respect to both management control and services rendered. Examine areas that offered opportunity for improvement. Establish staff support concepts and objectives as the basis for future planning—for example, should the human resource function be heavily centralized and therefore responsible for determining company-wide future plans; or should it be decentralized, encouraging the operating companies to determine future plans.
- Project—one year and beyond—merger-related requirements for human resources. Consider the human resource requirements for alternative organizational and operational plans for headquarters and for the operating locations. Propose an overall organizational structure for the effective management of human resource activities for domestic and foreign operations, covering content, near-term, and future requirements.
- Establish subteams for each functional human resource organization to review such functions as compensation, employee development, benefits, and recruiting practices. Identify in each subteam the impact of merging the two companies in their functional area. Develop future organizational and operational parameters for each functional area.

- Communicate with other study teams to determine if any of their recommendations would affect how the human resource function should be organized to better meet the needs of the operating companies.
- Develop data requirements for an employee-information system.
- Identify human resource issues and offer specific recommendations for each issue—recommendations such as:
—relations with the labor force;
—current skills inventories relative to present and future needs;
—assessment of the effectiveness of succession planning for all key management jobs.
- Review proposed human resource organizational structures, policies, delegation of authority, and staffing levels with a representative cross section of operating management.
- Provide a schedule for Phase III studies and for implementing Phase II and Phase III decisions.

Each study team presented its recommendations to the officers in charge of the merger. Minority reports were encouraged. Most of the recommendations of the study teams were approved, and Phase III began. The objective of Phase III was to determine specific staffing appointments. By January 1985, 10 months after the merger, most top management appointments had been made. How have these massive changes been managed? What was the level of employee morale during these studies? How do the employees and their families today feel about the merger and how it was handled?

At first glance, it might appear unfair that 75 percent of the top 400 posts went to Chevron employees. However, the fact is that many Gulf executives voluntarily took advantage of the generous retirement programs the company had installed as part of its defense against an unfriendly takeover. Also, many Gulf employees were reluctant to leave their homes in Houston and Pittsburgh because of family ties and because of the depressed real estate markets in both of these cities, which made moving too personally costly.

The merger study teams recommended a total work force of 60,000 people—20,000 fewer than the premerger total of 80,000. Many more Gulf than Chevron employees lost their jobs because of the office closings and job consolidations that resulted from organizing along geographic lines, which caused some bitterness among the remaining Gulf employees. But all in all, the new Chevron has done a remarkable job of achieving its objectives:

- The company retired $6 billion of its debt by the end of 1985, cutting the debt ratio from 51 percent to 38 percent.
- Human resource representatives, acting as consultants to every study team, assured the resolution of human resources issues.
- Communications were exceptionally good during the merger process. Employees always knew what was happening. Chevron's chairman per-

sonally visited most major Chevron and Gulf facilities and held a series of "town meetings" with all employees at these locations. Videotaped merger updates were frequently distributed to all locations to keep employees informed.

The largest problem and greatest frustration during the merger process was the delay in letting individual employees know where they stood. This was due to the hold-separate agreement imposed by the FTC. On the other hand, this agreement was a blessing in disguise because it allowed the two companies almost a year to study and plan ways to implement the merger. Without the hold-separate agreement, pressure from employees and shareholders could have sparked rash decisions. In addition, the hold-separate agreement gave Chevron management more than a year to assess the capabilities of key Gulf employees before making important staffing appointments.

The process of the Gulf/Chevron merger demonstrated that managing change through careful planning, constant communication, and excellent teamwork truly can affect the bottom line. Top management today must insist on managing change through human resource planning.

Human Resources Management During a 3M Group Relocation

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Mergers, acquisitions, divestitures, and relocations are forcing organizations to look for new and creative ways to manage system-wide change. Managing change systematically as opposed to allowing nonsystematic, chaotic change is critical to an organization's survival.

At 3M from 1984 to 1986, management faced a significant challenge in relocating three divisions from St. Paul, Minnesota, to Austin, Texas. This move entailed relocating 700 employees and their families from the long-established, strongly centralized, world headquarters in the green, fertile lake country of Midwest America to the dry, hill country of America's Sun Belt.

By using a participative strategy to manage the change, management involved the relocating employees and such staff resource departments as public relations, human resources, and organization development. The needs of the relocating employees were identified and addressed throughout the transition, and within a year after the relocation announcement, the three divisions had moved.

An extensive up-front planning effort prior to announcing the move was critical to the success of the effort. The staff resource departments developed policies for handling Minnesota homes; moving household goods, automobiles, and hobby equipment; and helping spouses of relocating employees with their job searches. To encourage employees to move, the company arranged three-day introductory tours, home-finding trips, and special mortgage commitments. Plus, the division management committee and the staff resource departments held information-sharing meetings. They communicated policies, identified resources, and determined schedules and timetables. They also identified a committee structure to gain employee involvement and ownership of the change. The result of these combined efforts was a framework for a systematic approach to managing the change.

In the time between the date of the announcement and the actual date of relocation, an organization development effort began to function within each of the relocating divisions. A member of the human resources development department assigned staff who were not relocating employees to head the organization development effort. Committees—one each for relocation, facility, social support, employment, and communication—were set up to counsel, communicate, and advocate on relocation issues. Committee membership included middle management and nonmanagement employees across all departments in the three relocating divisions. The social support committee included employees' spouses who volunteered to become involved. One division estimated that one-third of its membership (including spouses) was involved in the committee process.

The relocation committee worked closely with the staff resource departments to clarify, define, revise, and communicate policies. This committee dealt with such issues as moving household goods and selling, renting, and buying homes.

The facility committee worked closely with staff engineering to define equipment and space needs for each division once in Austin. The primary concern of this committee was to plan for the business move. This included identifying those resources currently used in St. Paul that would need to be replaced in Austin.

The social support committee, including the volunteer spouses, was large enough to divide into four subcommittees: family support, spouse employment assistance, sponsorship, and social events. The family support group worked with staff employee assistance to schedule a special family seminar. The older children of relocating families were also invited to participate and were divided by age into groups. The program included opportunities to form small interest groups on parenting issues involved with relocation, couple issues, and singles issues. As an outgrowth of the seminar a support group continued to meet throughout the period prior to the move. Its purpose was to deal with ongoing personal issues.

The spouse employment assistance group worked with career development professionals to plan programs in St. Paul that would assist spouses in developing their job-search skills and updating their resumes. This subcommittee also worked with a professional group in Austin that would be providing job-search assistance to spouses after the move.

By the time the third division move was announced, approximately 500 people had already relocated and were eager to support the incoming groups. The sponsorship committee in Austin worked with a sponsorship committee in St. Paul to link together employees who wanted a resource in Austin for information and socializing.

The social events committee planned activities—such as a Texas barbecue, holiday parties, and picnics—for employees and their families in the three divisions. These events were open to both the people who were relocating and those who were unable to move.

Not all employees chose to move to Austin. Their reasons for not moving were primarily personal. The employment committee provided support, coaching, networking, and mentoring for employees whose jobs were moving to Austin and who therefore needed to find new jobs in St. Paul. The committee called on the formal 3M job-placement mechanisms and the help of staffing resource people. They also used informal networking to assist the nonrelocating employees. The result was a 99 percent success rate in finding placement for people remaining in St. Paul.

To meet the critical need for communication during the transition period, the communications committee established a newsletter. All information intended for the relocating 3M employees and their families was channeled through this group. The newsletter was published bimonthly, with special editions issued as needed. The communications committee also set up and maintained Austin information rooms, where brochures, maps, magazines, newspapers, and other pertinent information about the move were available to relocating employees. Particular attention was given to keeping all 3M employees and the two communities of Austin and St. Paul informed about the move.

The committee structure was so successful in the eyes of relocating employees and their families that after relocation, some of the committees continued to meet to tie up loose ends. In addition, new committees formed in Austin to assist employees in their orientation to the new location.

The relocation of all three business units was considered to be very satisfactory. (Business results were not significantly affected by the relocation.) Approximately 60 percent of the employees who were offered the opportunity to relocate accepted. After two years, only two employees have requested reassignment to St. Paul.

From a human resource perspective, the people who participated in the committee process, as well as those who benefited from their hard work, believe it was the only way such a transition could have been managed.

The high degree of commitment that committee members devoted to their tasks, the number of people who used the programs, and the sheer bulk of information that was communicated are all indicators of the sense of ownership and responsibility felt by 3M employees throughout the transition process. Planning, problem solving, and decision making became a shared responsibility between the staff resource departments and the division employees. Together they used established policies and the committee process to address and resolve problems successfully.

SECTION 4

Strategy

A Proactive Stance for Dealing With Change

Kenneth V. Eckhart
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Successful human resource managers focus their efforts on working both smarter and harder as they use experience and knowledge to help their organizations manage people better. They build effective planning systems that take into account the fact that the organization is always changing, always in a state of flux. As each system adapts to its changing environment, conditions call for a proactive stance by the human resource professional. As the external environment forces the organization to alter the way it does business, the human resource professional must respond quickly and effectively—a response that is easier when an effective system is already in place. The professional, then, will be less reactive to individual occurrences of change, because he or she has been more proactive in designing and adopting a human resource planning system that can accommodate change.

Let us assume that it makes sense for us voluntarily to influence change in our environments. If we accept this premise, we need a strategy. This notion of strategy goes beyond day-to-day operations, which although critical, are not sufficient for guiding the direction of a business. The strategy needed includes sophisticated approaches to human resource management. As Tichy, Fombrun, and Devanna (1982) state, "Technological, economic, and demographic changes are pressuring organizations to use more effective human resource management. While sagging productivity and worker alienation have popularized management tools such as quality circles and profit sharing plans, the long-run competitiveness of American industry will require considerably more sophisticated approaches to the human resource input that deal with its strategic role in organizational performance."

What follows is a description of a strategic process for managing human resources. The process, driven by business plans, allows the organization to confront the inevitable need to change—not just to react passively to change. Before looking at this system, three preconditions necessary for successful operation of the human resource process should be clarified. They are as follows:

■ *Precondition 1*: The human resource managers who administer the process must be as knowledgeable about their business as their line counterparts. Just as engineers must know engineering, and marketing managers must know marketing, human resource managers must know about human resources. In turn, all these professionals must know the business: strategic plans, profit plans, market share, margins, book value versus market value, and so on. Far too often, human resource managers are "personnel jockeys" who lack an in-depth understanding of the business. If they want to be successful, they must become knowledgeable; they must rethink their role in the organization.

■ *Precondition 2*: The line, not the human resource department, must own any systematic approach. As competent as the human resource manager has to be, he or she must remember to let the line managers drive the process. If the line does not own this activity, it generally will not produce results, and the process will become just another "personnel thing" to do.

■ *Precondition 3*: Throughout the implementation of the human resource planning system, communication *must* be open and accurate. Poor judgment in sending and receiving information will hurt the planning effort substantially. It is the human resource manager's responsibility to make sure that the channels are open and that they stay that way.

Once these three preconditions are met, the human resource planning system has a much stronger chance of being successful.

The Human Resource Planning System

The following human resource planning system is made up of a number of processes that are already in place in a more or less disjointed fashion in most organizations. The idea here is to combine what exists in your organization with some new approaches. What's needed is a methodology that will enable managers to use human resources systematically and to direct change proactively within the organization. The following system is designed to enable an organization to assess its current human resources and to plan for future needs. The system's objectives are as follows:

- to ensure that qualified people are available in the right numbers, at the right time, and with the right talents to meet the needs of the organization;
- to ensure career opportunities that are consistent with the potential qualifications and interests of employees.

This system, shown in Figure 1, has seven components: business plans; a human resource plan; performance planning and evaluation; a career development summary; a human resource audit; a comparison of the human resource plan with the human resource audit; and staffing plans—internal and external. The system is designed to cover a period of not more than five years and to be updated annually.

Figure 1. Human resource planning system

Segment	Comments	Time Required	Completion Date
Business Plans	Status of the business	5 months	October
Human Resource Plan		2 months	December
Performance Planning and Evaluation		1 month	January
Career Development Summary		1 month	January
Human Resource Audit	Status of the workforce	2 months	March
Comparison: Human Resource Plan vs. Human Resource Audit	Variance between business needs and employee knowledge/skill levels	1 month	April
Internal Staffing Plan / External Staffing Plan		1 month	May

Segment 1: Business plans

The strategic and operating (profit) plans of the organization define the boundaries for and provide direction to the entire planning system. Human resource planning cannot be conducted intelligently without sound business planning. Conversely, business plans are unlikely to be effectively implemented without sound human resource planning.

Management initiates strategic business planning in May, brings in operating (or profit) planning in August, and attempts to have both completed by November 1st at the latest. Throughout the planning effort, human resource managers are involved. Once the business plans are completed, they are handed off to the human resource professionals for work on the next segment.

Segment 2: Human resource plan

The human resource plan is developed at the end of the business planning cycle. The plan should be completed by the end of December, for the following year. It's important to remember that although the human resource plan follows business planning, it is really a part of the business planning activity. That's because human resource managers have been involved not only in analyzing capital and financial resources, but in analyzing people as well. Completing the human resource plan at the end of the business planning cycle allows for adjustments and fine-tuning.

Taking the business plans and objectives into consideration, the human resource portion of the plan takes a macro view of the organization in five areas:

■ *Environmental analysis* examines selected internal and external factors such as work patterns and job design, work force demographics, occupational skills shortages, compensation and benefits, collective bargaining, and other areas as appropriate. This data is retrieved from various articles and surveys like Booz, Allen, and Hamilton's *1982 Outlook* or APIC's *HR Scanner.* There are many good sources (including government publications) for this data.

■ *Work force analysis* focuses on the employee population in examining major organizational segments. This analysis asks: What are the major issues or implications that will affect each segment during the planning period? What is the current structure of each segment, and how is it likely to change through the planning period? How will the makeup of employee groups change during the planning period?

These questions are directed, in a recorded interview, at the managers of key organizational units. This segment allows examination of what will be happening to the business units during the planning period.

■ *Equal Employment Opportunity/Affirmative Action (EEO/AA)* reviews the organization's commitment to EEO and examines affirmative action initiatives in preparation for building effective staffing plans. This segment should not focus solely on staffing issues but should focus on internal development as well. If the organization is at all committed to EEO/AA, this is important data for building a strong plan.

- *Turnover* summarizes historical turnover, makes turnover projections, and reviews costs and other implications of high versus low rates. This is a necessary and often bypassed planning exercise. Turnover costs can be extraordinary, and this is one area where the human resources managers can drive "hard numbers" to the bottom line.
- *Executive summary* reviews the previous four parts and identifies major implications of the findings.

Segment 3: Performance planning and evaluation

Just as the business plans and the human resource plan are written each year, the process of performance planning and evaluation is an annual event. At the beginning of the year, all employees either write performance objectives or are given the performance standards that will guide their behavior during the year. These objectives/standards are based on the business plans, the supervisors' objectives, and the employees' job descriptions. Once they are mutually agreed on, these objectives guide performance behavior throughout the planning period. Performance evaluation discussions are held formally at the end of the fiscal year and periodically throughout the year, with objectives/standards being adjusted as needed. During these discussions, both the employee and the supervisor evaluate performance and discuss plans for performance improvement where appropriate. This component drives compensation.

The key to making this relatively simple concept work is excellent tracking and guidance by the manager. It can have a major impact on employees doing the right work efficiently.

Segment 4: Career development summary

Within 10 days following the formal performance evaluation, the employee and the supervisor discuss the employee's career and development needs. This activity, which is kept separate from compensation issues, engages both parties as they discuss career goals and preferences, strengths, and development needs across various interpersonal and technical dimensions. The outcome is a written action plan for the coming performance period, one that will be monitored and updated by both the employee and the manager.

Segment 5: Human resource audit

In the first quarter, when all performance reviews and career development discussions have been completed for the previous year, the information is coded and entered into a data base. The following five dimensions are covered and recorded for each employee: performance, potential, readiness, preference, and time-in-position. The human resource function also maintains a paper file that contains copies of every employee's personal information profile, the performance planning and evaluation form, and the career development summary. An audit of the data base supplies up-to-date information about all employees in the organization. This information can assist the human resource staff in a variety of ways, only one of which is succession planning. Corporate Education Resources, Inc., in Fairfield, Iowa, is an excellent resource for building the data base and the corresponding succession plan. Their system, *Executive Track,* is one of the best available.

Segment 6: Comparison of the human resource plan with the human resource audit

This segment allows management to compare the existing knowledge and skill levels of the work force (using the audit) with the required knowledge and skill levels of the same population (using the plan). The result of this analysis is valuable information to be used in creating the staffing plan for the business.

Segment 7: Staffing plan

In late spring a two-part staffing plan—the final component of the planning system—is prepared. The first part is concerned with *internal* staffing and is divided into four segments.

- *Critical considerations*—This segment focuses on underused, marginal, and high-potential employees. It also focuses on any special circumstances that call for management's attention, such as Affirmative Action goals.
- *Departmental summaries*—These reports list the names and titles of employees along with their audit codes for performance, potential, readiness, preference, and time-in-position. The reports provide general employee overviews for the major organizational units.
- *Succession plan*—This is where the classic "succession planning" comes into play in identifying current managers and their backups. Audit data (codes) are provided for all employees.
- *General development plan*—The general development plan outlines major training and development initiatives for closing the gap between the knowledge and skill levels that exist and the knowledge and skill levels that are required for successful management of the business. This plan acts on the comparison made in the previous planning step.

The second part of the staffing plan is concerned with *external* staffing, where recruiting strategies are developed for positions that cannot be filled internally, either at entry or upper levels of the organization.

These seven segments make up the human resource planning system. There are many systems and methods available, any number of which could work effectively in an organization. The idea is to commit to a system capable of anticipating the human resource requirements that are directly linked to the organization's business plans, and to institute whatever programs are necessary to produce desired results.

The system proposed here is neither new nor unique: many organizations try to plan effectively for human resources. The problem is that planning is too often unsystematic and staff driven. Increasing line ownership requires an effective blending of human resource planning and business planning. It is important to "make the human resource dimension a driving force in the formulation of strategic plans rather than consider it as an implementation issue" (Fombrun 1982).

Specifically, you should make your human resource systems, processes, and procedures pragmatic and link them directly to your business plans. If you do this, you will have established a proactive position, not only for dealing with change, but for intelligently managing the human resources of your organization.

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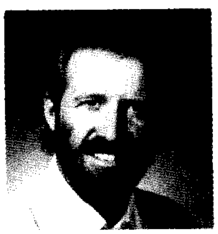

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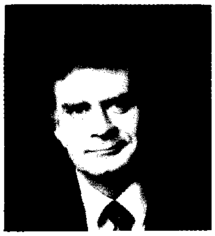

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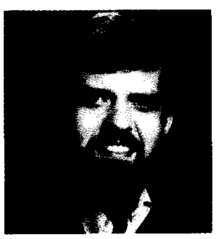

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