This paper examines the psychological aspects of reinvention by initially discussing the case of a failed reinvention in a large engineering organization (LEO). The change involved initiation of business planning in each of its three major plants to spur development of new products and value-added products. This required altering mindsets or routines. Routines had to be changed with regard to the behaviour of individuals at junior levels, actions at senior levels, basis for actions, norms for sharing information, assuming responsibility, communicating expectations, working across functions and so on. When there is little attention paid to altering routines, change programme does not stand much chance of success.

The change at LEO also required a clear and shared understanding of the final destination. The issue of sub-goals pulling in different directions had to be examined. In LEO, while there was clarity on what was needed to be changed and why, there was little exploration of how changes could be brought about. The organizational architecture at LEO did not allow the change to take roots. Yet, neither the organizational architecture was changed nor its incompatibility considered and factored in. Thus, the existing organizational arrangements were ignored in the mental maps of the key decision-makers. As a result, they were surprised by the unexpected resistance to change and were even paralysed by it.

As the challenges of mindsets, final destination, and existing organizational architecture were not addressed, there was absence of effective conversations and distortions in people’s thinking and actions. Ineffective conversations made it difficult to integrate information, ideas, and insights distributed across different levels and functions into thinking and actions that are appropriate for the demands of the problem. Distortion in people’s thinking was reflected in their behaviour of ignoring real problems and getting busy with pseudo-challenges that could protect their sense of competence. When individuals feel marginalized, experience little or no support or recognition, they tend not to engage with the problems that they believe are too large for them to make a difference.

After examining the major hurdles to the success of reinvention, this paper discusses the story of successful transformation of Nissan. The case examines
- how the goal setting was approached
- how cross-functional teams were created to address the organizational architecture demands for Nissan’s strategic challenges
- what was done to provide key actors a sense of competence and control as they approached the fuzzy destination and uncharted terrain.

The paper then derives key lessons on how to manage reinvention. More specifically, implications are discussed in terms of how destination can be clarified and goals set, how structural barriers to engagement can be removed, and how routines can be attended to so that understanding of reality is influenced and effective conversations are promoted.
Organizational change can occur in many forms. It can, for instance, include processes of growth, transformation or decline. All these three forms of change need to be managed. In the growing literature on change management, transformational change has attracted a lot of attention. Referred to as reinvention, radical change or frame-breaking change, this type of change involves simultaneous alterations in strategy, architecture, and culture of an organization.

However, transformational changes are not very common. They also have a risk of failure with estimates of successful transformational changes ranging between 20 and 40 per cent. In this paper, we present a case of unsuccessful transformation and examine the factors that led to failure. We suggest that transformational changes in large organizations can fail if managers do not address three important factors: (a) mindsets and routines, (b) architecture, and (c) the final destination of change.

We present the case of a large Indian engineering organization referred to as LEO that attempted to transform itself in response to market needs. Based on this case, we identify the factors that lead to failure and draw implications for managers who are attempting large scale transformational change.

Failed Reinvention: The Case of LEO

In response to the market discontinuities, LEO constituted new Business Planning Teams (BPTs) in each of its three major plants located across India. A group of line managers were selected from different departments and transferred to the newly formed team. The team was assigned a separate office space. The new teams were expected to initiate business planning for the respective plants.

Each of the managers in the teams had spent about 20 years in their functions and was at the level of Assistant General Manager. An individual at the level of Deputy General Manager (DGM) was made the leader of the team. This was an important corporate initiative because of which the initial formation of the group received attention at the top levels.

In a sellers’ market that earlier existed, LEO had largely been involved in optimizing its facilities and production. In such a scenario, it paid little attention to the development of new products and value-added products. There were minimal interactions between functions like marketing and costing. The BPT was expected to address all these problems and help the organization gear up for the emerging competitive scenario.

To begin with, the newly formed team was quite enthusiastic about taking up the challenge. Unfortunately, the initial euphoria did not last too long. The group started running into one hurdle after another.

Organizational Context

In LEO, traditionally, it was the production planning department (PPD) that was considered very powerful. This was a large department and was headed by a General Manager. The PPD did not take kindly to the new team. Therefore, the new team found it difficult to get any information or support from the larger department.

While even a large department like the PPD reported to the Executive Director (ED) who was the head of operations, BPT reported directly to the Managing Director (MD) who was the overall head of the plant. This was done to ensure that business planning received attention at the highest levels and to clearly signal that business planning involved interface among all the key functions of the organization. While the underlying concept was laudable, in practice, it created enormous difficulties for the new group.

LEO had a strong hierarchical culture and there was a large status differential between the DGM (heading the BPT) and the MD. While the ED could walk directly into the MD’s office, the DGM had to wait forever outside the secretary’s office to meet the MD. This created a number of roadblocks in doing any work.

For example, the DGM once wanted a formal approval for purchasing a copying machine. When he sent a proposal to the MD, it was returned with a query. Under normal circumstances, such small approvals did not go to the MD but, in the existing working arrangement, the DGM did not have an alternative for obtaining approval from any other senior executive. To address the MD’s query, the DGM put together some analysis for his proposal. But, when he went to discuss the matter, the MD pointed out that his query was different and that...
it had not been answered. In this process, neither the problem nor the solution was clear to the DGM.

In another instance, when the BPT put together a proposal for a new product and presented it to the MD, he remarked that it was not practicable. He also wondered whether the group should be doing such projects at all in the first place. Actually, the MD himself was somewhat unclear as to how to utilize the new function. When the nervous DGM asked him if he had any suggestions on a project which the team could take up, the MD did not openly share the ambiguity in his thinking. As he had participated in some deliberations pertaining to social forestry a few days earlier, he made an off-the-cuff remark that the team could possibly explore the social forestry project. The DGM and his group did not have any background in this area. They had little clarity with regard to the nature and the extent of details that would make sense for pursuing such a project at that time. Nevertheless, they worked hard for a couple of weeks, prepared a report based on some secondary sources, and submitted it. The MD did not even look at the report and the group did not know how they could follow up the matter. In any case, they had not come up with any concrete ideas in the report and were themselves not too convinced about their report.

Another instance of how the things actually worked was when the BPT started on a proposal for value-added products and needed some market data. When it sought market-related data from the marketing function, it was informed that the data were confidential and could not be shared. The group considered approaching the MD to intervene and get the marketing department to release the data but did not pursue that path. During a team meeting, a member remarked that a customer meet had been organized a year earlier by the finishing department of the plant wherein the participants had completed a feedback questionnaire that the department had prepared. The questionnaire responses had not been worked on after the customer meet. As the team had ready access to the data, these were obtained and analysed. Of course, the data had been gathered from a rather small sample of customers and that too in only a couple of market segments but these limitations were ignored.

When BPT reviews were organized, the group put together presentations based on the analysis of whatever market and cost information they had access to. It was very easy for others outside the group to pinpoint flaws in the analyses and propose actions. Given the culture of the organization, the real concerns and difficulties were not voiced in the review meeting. Hence, the BPT made very little progress resulting in a crisis of credibility. The team became increasingly anxious and demotivated.

In private conversations, the members of the BPT blamed the leadership for their troubles. They felt that the senior management was not really committed to change. The perspective at senior levels was different. They felt that change was important but that it was not progressing well. The feeling was that the managers chosen for the function were not adequately skilled and motivated.

On the whole, both the senior management and the BPT viewed the whole experience as a failure but ascribed different reasons for it. Why did this change effort, which was obviously needed, fail?

### REASONS FOR FAILURE

#### Inability to Change Mindsets

We invoke the notion of a mindset to explain why the change effort failed. Mindsets are the ‘codes’ that drive behaviour in an organization. These codes are made up of assumptions, values, and habits that form the repertoire of managerial thinking and action. When practices and work methods have to be changed in line with their existing mindsets, changes are easier to bring about.

---

**Mindsets are the ‘codes’ that drive behaviour in an organization. These codes are made up of assumptions, values, and habits that form the repertoire of managerial thinking and action. When practices and work methods have to be changed in line with their existing mindsets, changes are easier to bring about.**

---

For example, incremental goals (such as enhancing production or minimizing cost say by 10%) can be brought about without making changes within the organization’s established hierarchy and patterns of functioning. But, reinvention makes special demands on the organization and its actors. For example, this may require transforming the basic nature of relationships or responsibilities to implement changes.

But, managers may operate with the mindset that there is clarity with regard to the future state or the goal
to be achieved as also the broad process to be followed
to reach that future state. In a situation involving com-
plexity and uncertainty, such a mindset leads to prob-
lems in actual implementation of change.

The case illustration describes a change that could
not succeed with the old mindsets. For the success of
the change effort, the employees were required to be-
have in ways that would be qualitatively different from
the manner in which they had been used to operating.
The organizational members were required to move
away from a hierarchical culture in a number of ways
as discussed below.

**Behaviour of individuals at junior levels**: Juniors were
expected to show greater willingness to talk openly
about their difficulties even if such expression conveyed
at a first glance that the plans worked out at the top were
at fault. They also had to voice their opinions frankly
and freely in management meetings.

**Actions at senior levels**: In the same
vein, seniors had to learn to feel com-
fortable raising questions for which
they did not have answers.

**Basis for actions**: Actions and ini-
tiatives were required to be taken
based on the needs of internal or
external customers and not on the
basis of rules, procedures, and pre-
cedents.

**Norms for sharing information**: The
choice of individuals and groups to
receive privileged information (such
as sensitive market research data)
had to be made on the basis of their
job assignment and responsibility and not on the basis
of the recipients’ positions in the hierarchy.

**Assuming responsibility**: Managers in different posi-
tions were required to take a stand and go ahead with
decisions in as many situations as possible rather than
waiting for clarity from the seniors. They were expected
to operate more and more without guidance, role pres-
criptions, and benevolent nods from the authority. And,
those in positions of authority were required to feel
comfortable with such initiatives being taken.

**Communicating expectations**: If requirements for achiev-
ing larger goals so demanded, juniors were required to
communicate expectations and demands to individuals,
groups, and functions even if they were powerful.

**Working across functions**: Individuals had to work across
functions with minimal interventions from their bosses.

Such mindset changes involve personal transition
for the concerned individuals in terms of giving up old
beliefs, identities, power bases, and work methods and
adopting newer patterns. As unlearning poses consid-
erable difficulties for individuals, reinvention is diffi-
cult to implement.

**Unclear Destination of Change**

**LEO initiated the change effort to prepare itself for facing
greater competition.** The objective was to strengthen
interface management among different functions for
developing a pipeline of new products and value-added
products. Commitment to this direction was established
in the form of setting up of BPT for each of the plants.

In other words, while the broad aspiration or direc-
tion was clearly specified in LEO, the direction had to
be concretized in terms of sub-goals that could be communicated, ob-
served, and measured in some way. More important, the linkages among
the different sub-goals had to be ex-
plored to clarify how the inherent
contradictions among some of the
sub-goals were expected to be re-
solved. Without a proper under-
standing of the linkages, having a long list of sub-goals or part goals tends to be
more confusing than helpful. This is
because organizational members
would still have no clarity on ‘what
is really important’ as compared to
‘what is only urgent.’

Given the older mindsets, the operating levels may
expect that all such issues pertaining to the future state
should have been clarified by the key decision-makers
right at the start. Such an argument ignores the inherent
uncertainties and complexities of change. When the BPT
was constituted, the top managers could not have antici-
pated and provided for all the contingencies such as:

- How would the new product development effort be
  sustained without making significant compromises
  with regard to existing performance, and how the
target setting and reward systems be adjusted to
  ensure that attention to both the goals are main-
tained?
- How would the new department work with the PPD
to prepare the annual business plan?
• How would information sharing occur between marketing and business planning?
• How would the ED and also the other departments involved in the process of new product development get involved?
• How would routine requests for additional office facilities made by the newly constituted department be handled?

Clarity of destination involves two different aspects:
• First, there has to be clarity with regard to ‘what’ change is sought to be made and why, what information may be needed, and what goals seem reasonable to aim at. This is akin to declarative knowledge.
• The second aspect deals with how to reach the goal. This may include factors such as specific interventions required for achieving the goal; conditions required for the interventions to have the desired impact; probabilities of achieving success; costs, and likely benefits of different choices or possible unintended consequences in terms of side-effects or long-term effects of the choices made and actions that would help minimize the negative effects. The second aspect may be referred to as procedural knowledge.

Even when there is reasonable clarity on declarative knowledge, there could be fuzziness relating to procedural knowledge.

In addition, change efforts can fail if inadequate attention is paid to balancing the different sub-goals. For example, the sub-goal of promoting new product development may be at odds with the sub-goal of maximizing production of the existing products.

Inappropriate Architecture

The change at LEO was driven by the expectation that a team especially earmarked for business planning consisting of individuals from multiple functions and reporting directly to the MD would be able to facilitate new product development. But, the actual reality was much more complex. There were several variables that were important to achieve progress towards the goal of accelerating new product development. Some of these were as follows:
• New product development required active inputs from R&D, operations, marketing, and finance sections. The interface of business planning with these functions and also among those functions themselves was an important factor but this was left to chance in the change process.
• The organization was driven strongly by the annual business plan. This plan was put together by PPD. But, PPD’s interface with BPT did not receive attention. There was a need for clarity on where PPD’s role would end and where BPT’s role would begin. In addition, given the realities of the annual plan, some attention had to be given to the mechanisms for generating plant interest in new product development.
• There were product development cells in the plants though it was not clear as to what role they would play.
• In assessing the plant performance, more attention had to be paid as to how the developmental costs incurred by the plant would be factored in; otherwise, the plants would have little incentive to incur those costs.
• At some stage, the requirements for implementing new product ideas should have also been linked to the human resource planning. Skills for applications development and market research were in short supply at LEO.
• Guidelines were required for pricing of products made during developmental trials; otherwise, there would be difficulties in getting trial orders.

• Development of certain new products posed major technological issues. Systems and processes had to be developed to address those issues on a priority basis. There had to be clear accountability for coordination of this agenda.

• The investment planning was done by the Projects Directorate. As new product development could require capital budgets for additions, modifications, and replacements, ways and means had to be worked out to have their involvement and contribution.

In addition to the three factors discussed above, there were also other ‘soft’ aspects such as those pertaining to information sharing, interactions across lateral and hierarchical boundaries or risk-taking. All such factors determined the final outcome.

Without changes in existing organizational architecture, each one of these factors had the potential to create huge hurdles and roadblocks for implementation.

‘SOFT’ ASPECTS OF REINVENTION

Some of the difficulties listed above could have been anticipated and appropriate preventive steps taken. But, given the ambiguity and uncertainty inherent in any reinvention situation, certain amount of ‘learning by doing’ is inevitable. This requires honest feedback and effective conversation. Information, ideas, and insights are distributed across different levels and functions and they need to be integrated into thinking and actions that are appropriate for the problem demands.

In LEO, for example, organizational members across different levels and functions were quite likely to have very different views on a number of issues such as:

• Which are the most important aspects to analyse and act upon for achieving the goal of value-added products and new products?

• How would things develop over time? For example, how soon would the technology issues be sorted out to manufacture new products of consistent quality, how would the competitors respond to LEO’s moves, when would LEO’s products gain customer acceptance and support, and so on?

• What are the barriers likely to be confronted on the way?

• Which coordination mechanisms would be the most effective in helping achieve the goal?

Such differences in views and perspectives can paralyse the organization into inaction or can lead to cacophony of pointless arguments. But, when they are channelled into a constructive force, they can also become a rich source of ideas and viewpoints and this can lead to high quality decisions. Conversations are the tools for the organizational members to orchestrate the multiple views and perspectives into unified strategies and later into sound operational and tactical plans.

Effective conversation leads to individual commitment to decisions and working out of agreements. But the flow of information and insights can get choked by dysfunctional norms or work cultures. Poor communication can lead to important information being withheld, early warning signals not getting picked up or not reaching the decision-makers, and organizations not being able to align actions to actual information about a business problem or a customer need.

In LEO, people at junior levels did not talk freely and publicly about their concerns. Even when they were not making much progress, business planners continued to make presentations in meetings as if satisfactory progress was being achieved. The other group members attending the meetings perpetuated the ritual by merely making a few superficial comments and not raising any hard, probing questions on the basic assumptions or premises underlying the approach to new product development. No new and unconventional ideas were raised at any stage. In both individual relationships and group meetings, people tended to remain silent rather than talk of differences.

There was probably a strong assumption that seniors would not be open to a candid discussion of potentially threatening and embarrassing issues and that open dissent could invite sanctions from senior levels. At the same time, at senior levels, there was hesitation to admit...
past mistakes. During meetings, seniors rarely encouraged subordinates to question or challenge strategic assumptions.

When dilemmas arose, top managers persisted with their answer-giving mode rather than state honestly that they had no one clear answer to offer. For example, during an interaction with the MD, when the DGM asked what the business planners should focus on, the senior officer gave a snap response. Though the MD had not intended it that way, his off-the-cuff remark became a directive for the BPT.

When there is a dominant mindset that the boss should be all-knowing, superiors are likely to feel vulnerable when they are forced to listen to feedback that brings out newer dimensions of the issue under consideration. Under the circumstances, when faced with complex problems, the decision-makers apply simplistic solutions. Such simple-minded solutions only end up treating symptoms and leave the basic issues unresolved.

When underlying conflicts are not resolved, repressed feelings of frustration, anger, anxiety or resentment remain potent and shape people’s relations and perceptions. As emotional distancing and disconnections occur in relationships, problems mount, and people become even more secretive and isolated.

When such patterns of relationships persist, people lose hope and become passive. Paradoxically, teams that most need corrective actions tend to become the least likely to have a free and frank conversation to diagnose issues with an open mind and come up with appropriate steps to deal with the basic problems.

For instance, the development of new and value-added products involved individuals and teams at different levels from several functions: R&D, operations, marketing, costing, projects, product development cells, and a few others. People had to depend on others with completely different sets of skills and resources. While focusing primarily on their own tasks, each group was required to take lively interest in the challenges and problems facing others who were required to contribute in different ways to the final product or service. But, this did not happen at LEO.

With members unable to develop an overall conceptual understanding of the challenge, issues of interdependence were dealt with awkwardly and in sub-optimal fashion. The behaviour patterns of the various departments were as follows:

- Different functions not only worked with different priorities but also different time-frames on the same issue. Each function worked with a different ‘control panel’ and so agreements became enormously difficult. The constant refrain was ‘if only the other function had acted responsibly, we could have achieved the goal.’
- The members were accountable only for completing specific tasks or obtaining discrete outcomes, not for achievement of the overall objective.
- The members sent information only to their bosses within their own functions and not to colleagues across functions/groups. For example, operations had no idea of market feedback or technological challenges being tackled; similarly, costing had little information on what was happening to rejections on the shop-floor or the process that marketing was following to work out prices.

To sum up, when the social climate tends to be fear-or blame-oriented rather than learning-oriented, conversations end up being characterized by lack of trust, openness, and support. There is a great deal of self-censoring and very little willingness to discuss issues openly.

As a result, people at the operating levels do not hear a coherent story that explains the changes. Lack of a coherent story also undermines effective upward and lateral communication. When employees are not sure of where the plans are supposed to be headed, they would neither be able to help realize the plans nor warn those at the decision-making levels when plans go off-course.

While we have so far focused on organizational aspects above, reinvention also influences individuals in an organization. When different groups are at loggerheads with each other, it becomes extremely difficult for organizational members to influence colleagues or superiors. Research shows that when individuals find that it is too costly to surface views, negotiate workable arrangements or implement agreements worked out at
their levels, they simply do not engage with the problem.

Research further indicates that for problem solving behaviour, two motives are basic and fundamental. These include the need for affiliation and the need to protect one’s sense of competence or efficacy.

**Need for affiliation**: This includes consideration of relations. For example, the need for affiliation would manifest in the desire for membership of groups or association with individuals having similar attributes. As we have discussed so far in this section, when there are strong hierarchical or departmental boundaries, individuals would make certain choices on the basis of relationship considerations and not as per problem demands. Let us now turn our attention to a very significant determinant of problem solving behaviour — the need to protect one’s sense of competence.

**Sense of competence**: This is an extremely important element in the individual’s journey through a problem characterized by complexity and uncertainty. Studies show that if a person feels that the sense of competence is threatened at any stage of dealing with the complex problem, the thinking and behaviour would get oriented to the goal of regaining the sense of competence. Psychologists refer to this as the motive that energizes the behaviour.

For example, when the marketing department turned down BPT’s request for market research data, the group members considered requesting the MD to support them in gaining access to the data. But, they probably feared that the MD would snub them by saying that he had more important things to do and that they should learn to do their jobs by themselves. The members, therefore, felt that the option of approaching the former colleagues at the finishing department to obtain the results of their limited survey was more attractive though this was not a real solution to the problem.

How do such choices come about? For example, why would a business planner approach a colleague in the finishing department and obtain limited data rather than seek MD’s support for gaining access to comprehensive market research findings? Problem solving research indicates that individuals select the intention to be executed based on its urgency, importance, and expected probability of success.

An intention that is very high on one of the factors may actually take control even if the other factors are only in the medium to low ranges. For example, the choice of approaching a former plant colleague may be driven by the high chance of success of getting the data asked for. Conversely, the option of seeking MD’s help may have been dropped because of its low probability of success even though it may have been seen as a more worthwhile action to solve the problem.

When individuals deal with difficult problems characterized by uncertainty, this creates its own complexities. According to cognitive psychologists, the intention to safeguard or regain the sense of competence may over-ride other more real problem-oriented intentions. People may feel disinclined to take up the problem (for example, approach the MD for help) when they feel that they have little chance of overcoming the barriers.

Failure could seriously threaten individuals’ sense of competence. If the uncertainties of the problem are experienced as overwhelming, there is a tendency to avoid taking ownership of the problem by not taking any action, resorting to superficial work or getting lost in information collection and planning.

Avoidance behaviour fulfils the intention of serving to preserve our sense of competence in dealing with seemingly insurmountable barriers. It is not that the person has ceased to be rational. It is just that the criteria for rationality have undergone a change from problem-orientation to maintaining one’s own efficacy.

When we feel confident of fulfilling our intentions, overcoming barriers, and satisfying our present or future needs, we experience a sense of competence and a general feeling of security. Our sense of competence may move up or down based on our interpretation of how much control we have over our environment and whether we would be able to meet our needs or achieve our goals. Success is usually interpreted as greater control and so causes a rise in the sense of competence. On the other hand, there could be a steep decline when we confront potential failures in realizing our intentions.

The sense of competence need not be based solely on our individual abilities or power. It is also derived
from stable social support. What would happen if such support is absent? It has been observed, for example, that the individuals’ efforts towards sheltering their sense of competence may actually edge out attention to the original problem if:

- individual group members feel marginalized
- individuals who need organizational or collegial support are assigned to tasks where there is no such support
- competencies are not utilized
- there is little or no recognition or appreciation.

In such cases, individuals are not likely to assume ownership of the problem. Individual group members also tend to lose motivation to work when their individual inputs are not visible in the group process and group result.

Thus, every intention that we try to achieve actually consists of two intentions. The first one is of achieving the goal of the original intention. The second one pertains to increasing, or at least not decreasing, our sense of competence. When a situation develops where such failures occur and loss of control is imminent, the second goal assumes greater prominence over the first goal. To put it differently, our behaviour gets more oriented to guarding our sense of competence as this becomes the dominant motive that over-rides any real attempt to solve the problem.

To sum up, ownership of a problem comes about only when the individuals feel that they can do something about the problem, that they have some control over the situation or event, and that they have disposable resources to deal with the problem. As studies convincingly show, problem solving cannot be separated from how the individuals assess their own intervention capability or efficacy of their own actions.

In other words, even though their behaviour may end up exasperating the senior levels, individuals at operating levels may not truly engage with a problem when they believe that the problem is too large for them to make a difference and that they cannot really do anything about it. When the problem is seen as too large, individuals may get into a conformity mode. They may approach the problem as a structured exercise and go through the motions but avoid the implementation processes entailing ambiguity or exercise of influence. Mobilization would require that something is done to change their assessment of the situation.

**HOW TO MANAGE REINVENTION**

In this final section, we review what can be done to better manage the reinvention process. As we had noted earlier, reinvention is transformational change and, therefore, involves changes in mindsets of organizational members. People have to traverse through an uncharted terrain towards a fuzzy destination. They have to create appropriate architectures and pay attention to ‘soft’ aspects such as conversation and communication.

### Addressing the Issues of Fuzzy Destinations and Uncharted Terrains

There has been a great deal of research on how individuals and organizations deal with challenges characterized by uncertainty and complexity. The studies offer a number of insights on how the process of setting goals, developing a mental model of the reality, pitching at the right level of details or committing oneself wholeheartedly to the inquiry process can help in dealing with the unique set of demands posed by complex problems. We utilize these insights to develop some action guidelines for enhancing the success of reinvention effort.

#### Setting Goals

We begin with the recent experience of a hugely successful reinvention of the automobile giant — Nissan. In the early seventies, Nissan was just behind Toyota in terms of its size, competitive position, and profitability. But, over a period of time, its market position had steadily declined. The company was running on losses between 1993 and 2000. While margins and brand power had shrunk alarmingly, purchasing costs, the gap between production capacity and what the company was able to sell, and debts had ballooned beyond control.

The company entered into a partnership with Renault and Carlos Ghosn, a new leader, was chosen to lead a
turnaround at Nissan. Ghosn spoke with several hundred employees at various levels and found that established business practices were wreaking huge damage on the company. For example, a large capital was locked up in non-core financial and real-estate investments particularly in keiretsu partnership which was an enduring feature of Japanese landscape. The reward system in the company was linked to seniority and length of tenure, not merit. There was a culture of blame. As managers did not usually have well-defined areas of responsibility, people blamed other functions for the problems being faced. There were a number of advisers with no operating responsibilities whatsoever. They undermined the authority of line managers.

While the obvious goal was one of quickly implementing the required changes, Ghosn also identified an implicit goal that may be overlooked from a rational perspective. This implicit goal pertained to protecting the company’s identity and self-esteem of people. This goal of safeguarding identity could not be ignored in the context of the merger with a healthy European company and a new expatriate leader taking charge of the company.

Rather than imposing a plan for the company’s revival, the new leader mobilized a large number of Nissan’s own managers through a set of cross-functional teams (CFTs) to identify and spearhead the radical changes that had to be made. The CFTs were given clear goals derived from the larger vision of reviving the company in less than a year. For example, the CFT goals were established in different areas. In the area of business development, the objectives included launching of 22 new models by 2002 and introducing a mini-car model in Japan by 2002. The purchasing objectives included cutting the number of suppliers in half and reducing purchasing costs by 20 per cent over three years. The goal of improving capacity utilization in Japan from 53 per cent in 1999 to 82 per cent in 2002 pertained to manufacturing and logistics and increasing output efficiency of projects by 20 per cent per project related to R&D.

People were expected to work closely with colleagues in other functions but challenge existing methods and practices. They had an explicit mandate of seeing beyond their functional or regional boundaries to evolve actionable plans for achieving the goals assigned for their team.

CFTs had three-month deadlines. Managers worked on the goals exclusively and the leadership kept in regular touch with them. More than 500 bright managers worked on these CFTs and sub-teams to bring about far-reaching changes in organizational functioning that led to dramatic improvements in operating margin and reduction in debt burden.

In the context of reinvention, a positive goal of achieving some definite condition tends to be more energizing than a negative goal of wanting a condition not to exist. We notice that while the Nissan leadership identified problems, the challenges were defined in terms of specific goals to be achieved. Employees feel energized when they believe that the changes are worth undertaking and that they have a role in making appropriate contributions.

Nissan’s case also brings out the importance of recognizing implicit goals. In the excessive preoccupation with addressing the ‘obvious’ problems of getting rid of dysfunctional practices such as keiretsu, seniority principle, blaming culture or too many advisers, the implicit goal of safeguarding the identity may go unnoticed.

There is a tendency to focus on the problems that stare us at our face and not on the problems that do not exist yet. As the Nissan case highlights, we need to have heightened sensitivity to those features of the current situation that we want to retain as well. For example, there was no resentment about the merger of Nissan with Renault and an expatriate manager taking charge. By making moves that hurt the self-esteem of people, the new leadership may have ended up creating future problems for itself. People do not necessarily resist changes; they often resent the way they are treated in the change effort, for example, whether they are given any role to play in the effort.

The complex goal of revival was broken into partial
goals for business development, purchasing, manufacturing and logistics, and R&D. On the other hand, if the leadership had gone searching for things that were malfunctioning, it might have condemned itself to a permanent mode of ‘repair shop’ behaviour. Further, interim goals can dislodge the primary goal and goal degeneration may occur. The Nissan approach shows how goals and priorities can be effectively established while keeping sufficient flexibility for learning as we go along.

**Right Level of Details**

In dealing with fuzzy destinations and uncharted terrains, the decision-makers need to pay attention to the correct degree of details for their needs. Effective managers select the level of detail that helps them understand the inter-relationships among the factors that they want to influence.

Information collection or planning can occur at different levels of resolution. To initiate a change effort, the key actors may put together a rough sketch of a project or spell out the complete sequence of each and every little detail. Depending on the extent of importance, complexity, uncertainty, scope, and time availability, planning needs to be adjusted in terms of the following parameters:

- depth (how fine-grained?)
- breadth (how many variables should be included?)
- time perspective (for how long should we plan?).

Having sound and detailed plans can serve as effective antidote to the uncertainties and complexities being faced. On the other hand, if the decision-makers are excessively preoccupied with the planning process, they can become inflexible in meeting the ever-changing demands of a dynamic scenario.

Let us return to our example of CFTs constituted in key areas of Nissan’s functioning. As we briefly saw, their areas of responsibility ranged from R&D to organizational structure to product complexity. Together they addressed all the key drivers of Nissan’s performance.

It was decided that each CFT would consist of about ten members with different functional expertise and a proven track record drawn from the ranks of middle managers. Limiting the members to ten was expected to ensure that the team’s discussions would move forward at a reasonable pace; given the urgency of the situation, the company could not afford to spend time in protracted debates. But, it was also recognized that a team of ten people would be too few to cover in any depth all the issues facing it.

To get around that problem, each CFT was expected to form a set of sub-teams consisting of CFT members and other managers selected by the CFT. The sub-teams, each of which was also limited to ten members, focused on particular issues faced by the broader teams. In all, around 500 people worked in the CFTs and sub-teams.

Each CFT was headed by a pilot, a typically middle to upper-middle manager, who possessed two important attributes: extensive front-line experience and strong personal credibility. The leadership took a personal interest in the selection. To impart authority and stature, two leaders from the company’s executive committee representing different functional areas were assigned to each CFT. These leaders were expected to serve as the team spon- sors who would smooth the way for the team as it conducted its work and remove any institutional obstacles. Having two such senior voices made it less likely that the team would focus its efforts too narrowly.

However, to ensure that the CFT process was not unduly influenced by corporate imposition, the seniors took a backseat in the actual operation of the CFTs and attended only a few of the meetings. The pilots were selected by the executive committee and the leaders and the pilots together selected the rest of the team. Setting up a clear process of this kind had helped the managers to become much more aware of what they could achieve if they put their minds to the task.

There were detailed terms of reference for each of the CFTs. The teams were informed that nothing was sacred and that they could challenge everything and be aggressive. A strict time deadline was set. Proposals were expected to be comprehensive and detailed. There
was insistence that every proposal be backed up by numbers. Clear procedures were worked out for reviewing the CFT recommendations, making decisions, and quickly implementing the decisions.

As we can see, several aspects of the details of CFT functioning were specified. Had the leadership ignored certain details, it was possible that things may have deviated from the intended course or taken much longer to reach the planned destination. Just as pitching at too general a level of detail would be a mistake, getting into too many details may also be a mistake in some cases. Probably, that is why members were expected to be involved but not impose their perspectives. In terms of the degree of detail, trying to work with too course-grained and too fine-grained a picture could both lead to sub-optimal performance in dealing with the challenge.

**Commitment to Inquiry**

Even when we are dealing with fuzzy destinations and uncharted terrains, people have the tendency to get into a mode of advocacy and approach decision-making as a contest. As a result, they are passionate about their preferred solutions and, therefore, stand firm in the face of disagreement making it nearly impossible to remain objective and limiting their ability to pay attention to opposing arguments. Personalities and egos come into play and differences are normally resolved through battles of wills and behind the scenes manoeuvring. Such an approach is highly inappropriate for a problem characterized by complexity and uncertainty.

By contrast, when organizational actors function in an inquiry mode, they are likely to identify and consider a wide range of ideas, generate multiple alternatives, and produce a well-tested solution. Individuals assume the role of critical thinkers and use discussions to test and evaluate ideas. For example, it was considered unthinkable for the Purchasing Department or any other department for that matter at old Nissan to challenge the Engineering Department. The Engineering Department was large, cohesive, and all-powerful. It viewed purchasing merely as a supporting function. However, in order to deal with the challenge of reducing purchasing costs, the CFT realized that it had no alternative other than challenging the Engineering Department to achieve the targets given to it.

As there could be no watering down of the goals to be achieved, the CFT members took up the challenge of convincing the Engineering Department to achieve its targets. They received help from their team sponsors and leaders to support the steps that were necessary to achieve the 20 per cent reduction within the following three years. After the purchasing team reached an agreement with the Engineering Department, it really dawned on them that although their recommendations had initially seemed radical, they were straightforward and obvious.

The old Nissan functioned largely in an advocacy mode. As the Engineering Department was all-powerful, their views always carried the day. As a result, certain problems could never be resolved. But, an inquiry-focused group confronted these social barriers that prevented appropriate ideas from getting surfaced and right steps from being taken.

Interestingly, the steps that would have been considered far-reaching from an advocacy perspective were judged as simple and straightforward in an inquiry mode. After participating in the CFTs, several team members also realized that they had the capacity to come up with a lot of ideas. But many of these ideas had not been raised let alone pursued mainly because people had not seriously explored the constraints.

As the teams were expected to support their recommendations with facts and figures, there was disciplined inquiry. With disciplined inquiry, the destinations and pathways became less foggy and people felt energized.

**Addressing the Need to Bridge Boundaries**

What can we learn about bridging boundaries from successful experiences of reinvention? Organizations
differ in the ways in which managers generally handle conversations and meetings. For example, in certain organizations, attention is brought back repeatedly to defining the problems until everyone is agreed on what the problem is and then attention is directed toward generating possible solutions and evaluating their consequences.

In organizations where problems are approached constructively in interactions, the quality of decision-making and action taken is likely to be high. As we saw in the earlier section, in the old Nissan, it was not possible to communicate expectations to or make demands on the Engineering Department as its views could not be challenged. But, when a different pattern of interaction emerged, effectiveness of problem solving was enhanced.

Managers can also learn to communicate demands and expectations openly and constructively to each other in the interest of organizational reinvention. For example, Nissan had realized that its purchasing costs were significantly higher than that of Renault’s and that it could make substantial savings by bringing in the much-needed changes in this area.

When the CFTs made their first round of recommendations to the executive committee on what they considered significant savings, they were rejected outright. They were told that the recommendations were not aggressive enough. They were asked to come back with recommendations that would yield 20 per cent savings over the next three years. The Nissan revival was at stake if the goals were compromised. The CFT members knew that the biggest barrier would be the Engineering Department. They decided to confront the challenge by communicating demands and expectations in turn to this powerful department. The managers learnt that it was important not to yield to the temptation of taking the path of lesser resistance when they were dealing with key strategic challenges. Thus, Nissan effectively managed the dynamics of reinvention process by addressing the three critical factors of final destination of change, organizational architecture, and mindsets and routines.

Addressing the Need for Control and Maintaining Sense of Competence

As we have seen, the sense of competence is a key element in navigating through complexity and uncertainty. Sometimes, the intention to safeguard the sense of competence may take precedence over other more real problem-oriented intentions. As a result, organizational actors may resort to fight, flight or dependency behaviour.

Quite often, approaches to reinvention emphasize the content of change at the expense of process. The process may be perceived from a limited rational-educative perspective. In other words, the process of organizational change may be seen as consisting of a rational strategy of education starting with senior managers exhorting people to do the right things, for example, reduce expenses further, and launch new products faster. Commands may start flowing from the top. But, confronted with tighter controls and wide gulf between the ground realities and the plans being worked out at the top, the subordinates may start feeling peripheral and insecure.

This may lead them to worry about matters rather than think innovatively to address challenges. While informal communication in huddles may centre around how bad things are, formal communication that gets reduced to a trickle may still project an artificial image that success is just around the corner. This would be an illustration of flight syndrome. On the other hand, ‘fight’ may be manifested in the form of pointless arguments across different boundaries.

There can also be dependency behaviour when problems are referred up the hierarchy or entrusted to a group of ‘experts’ or there is an attempt at imitating practices of other organizations without paying attention to the context. After initiating actions, however, the subordinates may resort to ‘flight’ mode by not checking the consequences of these actions so that possibly disturbing and threatening signals do not surface.

To address the need for control, it would be helpful to initiate proactive steps to deal with the challenges.
It would also help if the issues are framed or reformulated to allow for a strategy of small wins. If the change strategy yields a series of concrete, intermediate outcomes of reasonable importance, apart from generating hope and optimism and spurring the impetus for action, it would also attract support and overcome resistance. Organizational actors also need to be helped to be more self-reflective. When they become more aware of how their own emotions are affecting their choices, they can be more effective in complex problem solving. We discuss these aspects in some detail below.

**Building Hope and Optimism**

Hope and optimism constitute important facets of the psychological capital and contribute significantly to addressing the need for control and maintaining sense of competence. In this section, we would primarily draw on the Nissan case example to discuss how a sense of hope and optimism can be generated for successful reinvention.

**Clear sense of purpose:** Employees need worthwhile purposes to direct their energy. For this, goals must be clear, specific, and realistic. They must be able to see how their goals contribute to the larger mission of reinvention. As we discussed earlier, the goals assigned to CFTs challenged the members to think beyond their boundaries and question the traditional ways of doing business. Specific goal-setting enables employees to focus on the task rather than groping in the dark. When they are able to visualize the larger picture and, at the same time, be clear about their assigned tasks, they become hopeful and optimistic. This also makes them committed to the reinvention process.

**Deconstruction of complex change:** It is important to break the complex goals down into manageable sub-goals. As we saw earlier, individuals get paralysed when the problem is too huge to tackle. To maintain our sense of competence, we must feel that our problems are controllable at our level. For example, the larger goal of reducing 20 per cent purchasing costs at Nissan was broken down into specific manageable sub-goals, such as:

- reducing service providers from 6,900 to 3,400
- forging partnerships with competitive global suppliers
- forming an alliance with Renault and purchase jointly to reduce costs (enhances bargaining power).

Obviously, each of these sub-goals would have to be broken down further. The challenge does not appear impossible any more to the organizational members. Deconstruction scales down the magnitude of the problem and this has a positive effect on the quality of thought and action because their feelings of frustration, arousal, and helplessness are kept at bay. When people are able to identify a series of controllable opportunities of modest size that produce visible results, they feel stretched and challenged. This evokes emotions of moderate intensities where its contribution to performance of complex tasks is most beneficial.

**Psychological safety:** Reinvention can create anxiety and stress. If employees do not experience psychological safety in such a scenario, they would become excessively preoccupied with maintaining their sense of competence. While the task at Nissan was large, employees felt empowered. They had the decision-making authority; they could question old habits and beliefs and even challenge powerful departments. They were now part of a group navigating an uncharted territory; they were not struggling alone. The leadership was very demanding but highly committed and supportive. Ideas were not imposed from the top. People felt themselves to be in control of their own and their organization’s destiny. All these factors enhanced their psychological safety and levels of hope and optimism.

**Enhancing preparedness:** Employees are more hopeful when they feel confident of managing the unexpected. Contingency planning, scenario analysis, and alternate courses of action instil a sense of readiness for multiple possibilities. If employees have visualized multiple alternatives for handling the challenges, they feel sure of their decisions and actions. On the other hand, if they consider their preparation as far from satisfactory, they suffer pangs of self-doubt. Some groups use a technique known as ‘mental rehearsal’ to develop hope. In this technique, individuals visualize impor-
tant upcoming events, anticipate possible obstacles, and mentally visualize alternative pathways to overcome obstacles.

CONCLUDING OBSERVATIONS

Several organizations and managers make the mistake of attempting to implement reinvention with the mindset of managerial intervention or sequential change. When this happens, organizations run into problems with unerring regularity. To start with, people at different levels and functions end up having conflicting and confusing interpretations of what has to be done and how even though the larger direction has been clarified with reasonable clarity. Therefore, people start pulling the change in different directions.

Given the uncertainty associated with complex change, it is not really possible to plan out all the details of execution right at the start. Leaders have to get things started with a general plan and then iterate as things proceed. But, it becomes difficult to identify what the impediments to reinvention are and take quick corrective actions when the ‘boundaries’ harden around authority, task, political interest, and identity. This prevents healthy conversations and consequently discovery of mutually beneficial solutions.

Organizational change, in its essence, is about bringing a change in organizational routines. The routines that are ineffective, inappropriate, and dysfunctional need to be identified and changed. This requires exposing people to alternative perspectives to free them from the dysfunctional constraints of their mental models.

- The first task is one of attending to integration and coordination mechanisms to enable people to work and learn together. The mindset of collaborative functioning requires the leaders to set the right context by developing a larger purpose that makes a compelling case for people to work together. The context in terms of performance expectations, rewards, and skill-sets should facilitate CFTs to discover pathways to reach the organizational stretch goals that cannot be achieved by the different functions acting on their own without paying attention to issues of interdependence.
- It is also necessary to identify factors obstructing the process of smooth, quick, and effective change execution. Sometimes, there are structural impediments; at other times, incentive systems may not be aligned to the organizational goal. Change leaders should create a favourable context where even weak signals pertaining to structural and systemic impediments get quickly identified and then actions are taken to minimize and eliminate them.
- A third important aspect is one of setting up routines to generate ideas through different methods. To derive the maximum benefit from the ideas, it is important to pay attention to moving ideas to different leaders, different geographies, and different businesses.
- Finally, change leaders cannot merely restrict their concerns to structures and systems. They should concentrate on people aspects of executing reinvention. There should be a behavioural climate for people that creates and sustains hope and optimism. This would give individuals the much-needed sense of control and competence as they embark on the journey of uncertainty through complex change. Having attended to the strengthening of roles, systems, linkages, and procedures, they should create a context that addresses the subjective world of organizational members. When there is hope and optimism, reinvention challenges are perceived as opportunities for growth as op-
posed to worrisome hurdles. The subjective world of organizational members is what determines what

BIBLIOGRAPHY

This paper draws on different streams of management literature dealing with aspects of organizational change and reinvention, decision-making, complex problem solving, role of emotions, and motivation in decision-making.

Organizational Change and Reinvention


Ghoshal, Sumantra and Bartlett, Christopher A (1996).


Decision-making, Complex Problem Solving, Role of Emotions, and Motivation


Dialogue Processes


S Ramnarayan is a Visiting Professor at the Indian School of Business and Director, Change Management, at the Centre for Good Governance, Hyderabad. He earned his Ph.D. in Organizational Behaviour from the Weatherhead School of Management at the Case Western Reserve University. After working in the industry for eight years during his initial years, he had been a faculty member at the Tata Management Training Centre, Pune for about five years and later a Professor at the Indian Institute of Management, Ahmedabad for about 13 years. His professional interests are in the areas of change management, leadership, and problem solving under conditions of complexity and uncertainty. His latest publication (March, 2006) is a book titled *Change Management: Altering Mindsets in a Global Context* (co-authored with V Nilakant).
e-mail: ram_cgg@rediffmail.com

V Nilakant is an Associate Professor in the Department of Management, College of Business and Economics, and Associate Dean, Faculty of Commerce at the University of Canterbury, Christchurch, New Zealand. He earned his Ph.D. in Organizational Behaviour from the Weatherhead School of Management at the Case Western Reserve University. He has also worked with the National Labour Institute, the Public Enterprises Centre for Continuing Education, and the Tata Management Training Centre. His professional interests are in the areas of change management and Leadership. His latest publication (March, 2006) a book titled *Change Management: Altering Mindsets in a Global Context* (co-authored with S Ramnarayan).
e-mail: ven.nilakant@canterbury.ac.nz.

---

**STATEMENT OF OWNERSHIP OF VIKALPA**

The following statement about ownership and other particulars of *Vikalpa: The Journal for Decision Makers* is published in accordance with Rule 8 of Newspaper (Central) Rules, 1956.

**FORM IV**

1. Place of Publication
   - Indian Institute of Management
   - Ahmedabad 380 015

2. Periodicity
   - Quarterly

3. Name of Printer
   - Revathi Srinivasan
   - Indian
   - Indian Institute of Management
   - Ahmedabad 380 015

4. Name of Publisher
   - Revathi Srinivasan
   - Indian
   - Indian Institute of Management
   - Ahmedabad 380 015

5. Name of Editor
   - Professor S Manikutty
   - Indian
   - Indian Institute of Management
   - Ahmedabad 380 015

6. Name and addresses of individuals who own the newspaper and partners or shareholders holding more than one per cent of the total capital
   - Indian Institute of Management
   - Ahmedabad
   - Indian Institute of Management
   - Campus, Ahmedabad 380 015

I, Revathi Srinivasan, hereby declare that the particulars given above are true to the best of my knowledge and belief.
March 1, 2006

(sd.) Revathi Srinivasan
Publisher