

# ORGANISATIONAL CHANGE

DEVELOPMENT AND  
TRANSFORMATION



**7E**

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WADDELL  
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CUMMINGS  
WORLEY

## Instructor's Manual

# Chapter 1

## Introduction

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## Learning outcomes

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After studying this chapter, you should be able to:

- Describe both organisation development (OD) and organisation transformation (OT), and explain their similarities and differences.
- Explain the relevance of OD and its role within organisations.
- Analyse the evolutionary historical context of OD and have an understanding of its future.
- Assess the environment of OT and comment on its relevance in today's change environment.

## Answers to 'Apply Your Learning' critical thinking questions

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These questions are ideal for organising students into groups of three to five to debate the issues. You could extend the debate by being flexible and responsive to their comments. There are no right or wrong answers for these questions as they are intended to challenge students to think about how theory might be applied to actual organisations and situations.

## Apply Your Learning 1.1: Improving quality of work life through labour legislation

### 1 What are the key findings of the paper?

This paper examined the current labour laws in Nepal, the impact of the legislation on the quality of work life (QWL) of the Nepalese people, and the role that stakeholders (government, employers and unions) play in the development of labour legislation in Nepal. The key findings of the paper are that the QWL of working people is deteriorating and employees will encounter negative consequences unless there is a 'commitment on the part of government and employers to work on these [QWL] initiatives and create a sound and harmonious industrial environment'.

### 2 In your opinion, can legislation assist in improving QWL?

This is subjective and will depend on how much knowledge students have about labour law. If you are considering the question with regard to the Nepalese situation, the argument is that the labour legislation is failing workers and needs a radical re-think. Hypothetically speaking, legislation can assist in improving QWL. However, the demands of workers have changed dramatically over the years due to improvements in technology, such as faster and more reliable internet connections as well as smart phones, which has essentially allowed employees to send and receive emails and phone calls and stay connected with co-workers and clients all day, every day (including weekends). Gone are the days when employees needed to be in the office to work. Further, employees feel pressure to be 'on call' and work during their time off away from the office. How legislation can address this is difficult. Legislation may dictate the maximum number of hours an employee is legally allowed to work before overtime needs to be paid. However, studies (such as <https://www.fastcompany.com/944128/worker-interrupted-cost-task-switching>) have shown that when a worker is interrupted and needs to switch tasks (this could be in the office working on a different task or at home with family or friends and an email or phone call is received), it takes on average 23 minutes and 15 seconds to get back to the original task. So, while it may only take 10 seconds for the employee on their day off to glance at their phone and read the email notification that has come through, they may be distracted and their mind preoccupied with the email request rather than with what they were doing before it was received.

Rather than relying on legislation to assist in improving QWL, it may be up to companies to lead the way with QWL policies. For example, Volkswagen in 2011 blocked workers' emails from being read between 6:15 p.m. and 7:00 a.m. weekdays and on weekends, and Daimler implemented its 'mail on holiday' program, which 'automatically erases employees' emails while they're

on vacation'. Porsche followed Volkswagen's policy in late 2017 (<https://www.ft.com/content/197cd828-e4c8-11e7-97e2-916d4fbac0da>).

### **3 Download the article and identify the difficulties that would impede a QWL culture.**

The article observed three main reasons for the poor implementation of labour laws:

- The Nepalese government has failed to effectively monitor relevant QWL factors.
- Factory owners have little incentive and are actively disinterested in implementing QWL regulations.
- Labour unions have not seen any success in the process of collective bargaining in order to ensure their members' rights and interests are respected.

Table 2: Assessment of QWL situation (p. 12) outlines three relevant Nepalese QWL laws: the *Labour Act, 2048 (1992)*, the *Child Labor (Prohibition and Regulation) Act, 2056 (2000)* and the *Trade Union Act, 2049 (1992)*. Hypothetically they are meant to protect workers but in reality they have little or no impact on the QWL of workers. If the government is not enforcing its own legislation and businesses are not suffering any negative consequences for not meeting even the minimum requirements of the laws, then it is understandable why the labour unions (and workers) have failed to develop a QWL culture.

## **Apply Your Learning 1.2: Examples of strategic change**

### **1 What does 'keiretsu' mean? Give an example.**

Keiretsu is a Japanese term for interlocking relationships developed between businesses and their suppliers. Traditionally, the manufacturer 'would draw on exclusive, decades-long relationships with key suppliers, in which it often owned significant shares'. However, the emphasis on keiretsu has diminished over the last few decades as Japanese firms have taken on 'Western-style cost-cutting tactics' and fundamentally changed the relationships between manufacturers and suppliers. Toyota is a contemporary example of a company that has successfully engaged in a modern version of keiretsu. Toyota 'now has supplier relationships that are more open, global and cost-conscious than they ever were, yet it has deepened the trust, collaboration, and educational support that were the hallmarks of keiretsu in their earlier form'. More information about keiretsu can be found here: <https://hbr.org/2013/09/the-new-improved-keiretsu>

### **2 List the major changes that were made by the organisation, which qualifies the changes to be strategic.**

According to the article, major changes made by Renault Motors to Nissan Motors of Japan, which qualifies the changes to be strategic, include:

- reducing manufacturing overcapacity
- eliminating Nissan's seniority system and replacing it with performance-based management
- cost reduction
- sales of assets
- eliminating the keiretsu
- cutting Nissan's cost structure, and
- improving its Infiniti brand recognition and reputation by a dramatic re-design and introduction of new models in March 2002.

### **3 Search the internet and identify what has happened to the company since 2001.**

The company's performance improved dramatically under CEO Carlos Ghosn's 'Nissan Revival Plan' (NRP)

([https://en.wikipedia.org/wiki/Nissan#Other\\_alliances\\_and\\_joint\\_ventures](https://en.wikipedia.org/wiki/Nissan#Other_alliances_and_joint_ventures)).

- In 2003, Nissan and the Chinese Dongfeng Motor Group formed a 50:50 joint venture (Dongfeng Motor Co., Ltd. (DFL)).
- In 2010, Nissan and Renault formed a triple alliance with Daimler AG allowing all three companies to share technology and development costs, encouraging global cooperation and mutual development.
- In 2012, Nissan and Renault formed a joint venture with Russian technologies (Alliance Rostec Auto BV).
- In 2013, the Renault–Nissan Alliance achieved 10 per cent of worldwide car sales, making it the world's fourth largest automaker.
- In 2016, Nissan bought a controlling stake in Mitsubishi Motors.
- In 2017, Hiroto Saikawa became the CEO of Nissan after Carlos Ghosn was removed from the role, following his arrest:

[https://www.huffingtonpost.ca/2018/11/19/nissan-carlos-ghosn-arrested\\_a\\_23593625/](https://www.huffingtonpost.ca/2018/11/19/nissan-carlos-ghosn-arrested_a_23593625/)

### **Apply Your Learning 1.3: The impact of leadership and change management strategy on organisational culture and individual acceptance of change during a merger**

#### **1 According to this paper, what is the cause or catalyst for change?**

The cause for change in Kavanagh and Ashkanasy's (2006) article is the merger itself. This is an example of organisation transformation.

#### **2 What is important for successful change?**

According to Kavanagh and Ashkanasy (2006), the 'success or otherwise of any merger hinges on individual perceptions about the manner in which the process is handled and the direction in which the culture is moved'. Leaders can promote or inhibit the change based on their experiences, competence and training in change management.

**3 Do leaders need to be prepared? If so, what need to be the primary characteristics?**

Leaders do need to be prepared. They need to be 'competent and trained in the process of transforming organizations to ensure that individuals within the organization accept the changes prompted by a merger'. Leaders can use communication and transparency to help their employees accept change.

**4 Download the article. It has a very good diagram (Figure 1). What is the pivotal role of leadership?**

The pivotal role of leadership in Figure 1 is between two variables : the 'change management approaches' variable (in which Kavanagh and Ashkanasy (2006) looked at the effect that the change management processes selected by leaders had on how leadership of change is perceived by individuals), and the 'individual accepts/rejects change' variable (in which Kavanagh and Ashkanasy (2006) looked at whether leaders are perceived in a positive manner when the consequences for individuals involved in the change process are positive).

## **Answers to end-of-chapter Review Questions**

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**1. Distinguish between OD and OT. What are the advantages and disadvantages of each? (LO1)**

There are many different definitions of OD, each of which has a different emphasis. These are presented in Table 1.1 (text p. 11). However, the one that incorporates most views and is referred to in Waddell, Cummings and Worley, is that 'organisation development is a system-wide application of behavioural science knowledge to the planned development and reinforcement of organisational strategies, structures and processes for improving an organisation's effectiveness' (text p. 11).

Depending on perspective and the emphasis applied to the content, this definition can be compared to other available definitions by different authors. A good exercise is to request students to search for additional definitions and then share and discuss those definitions in class. The material can be

discussed in depth or briefly. The differences and similarities in the definitions can be analysed and discussed.

The following should be noted about OD:

- OD applies to an entire system, such as an organisation, a single plant of a multiplant firm, or a department or work group.
- OD is based on behavioural science knowledge and practice, including both microconcepts such as leadership, group dynamics and work design, and macro-approaches such as strategy, organisation design and international relations.
- OD is concerned with planned change; it is not, in the formal sense, typically associated with business planning or technological innovation; nor **is it**, in the deterministic sense, often associated with organisation evolution.
- OD involves both the creation and the subsequent reinforcement of change and the development of the organisation's self-renewal capacity.
- OD encompasses strategy, structure and process changes, although different OD programs may focus more on one kind of change than another.
- OD is oriented to improving organisational effectiveness.

Organisation transformations can occur in response to or in anticipation of major changes in an organisation's environment or technology. In addition, these changes are often associated with significant alterations in a firm's business strategy, which, in turn, may require modifying corporate culture as well as internal structures and processes in order to support the new direction. Such fundamental change entails a new paradigm for organising and managing organisations. It involves qualitatively different ways of perceiving, thinking and behaving in organisations. Movement towards this new way of operating requires top managers to take an active leadership role. The change process is characterised by considerable innovation and learning. This process continues almost indefinitely as organisation members discover new ways of improving the organisation and adapting it to changing conditions.

Organisation transformation, however, is often responsive and reactive rather than planned change. It is often perceived as 'quick fix' in environments which are largely unpredictable and is often perceived as revolutionary rather than evolutionary. The focus for transformational change is largely external, in contrast to the internal organisational focus of OD. Note: Organisation transformation is further discussed in Chapter 9.

In summary, organisation development focuses on incremental and planned change and is the preferred option for organisations that are introspective and wish to proactively and continually improve their products and services. These organisations are process oriented, internally focused,

and thinking long-term about the total system. Organisation transformation, on the other hand, is reactive, dramatic and focused on chaotic, unplanned change, usually in response to external pressures. These organisations are outcome oriented, thinking about the short term, and focused on a specific type of change.

Some advantages of organisation development include: continuous improvement, increased communication, feedback and interaction within the organisation, employee development, product and service enhancement (innovation), and, if correctly implemented, increased profits and efficiency. Some disadvantages include the risk of a culture clash if employees aren't 'on board' with the changes, the need for considerable time investment (months to years), and the expense associated with the changes, which may include hiring a change consultant (<https://explorance.com/blog/5-key-benefits-organizational-development/> and <https://smallbusiness.chron.com/organizational-development-advantages-disadvantages-10516.html>).

One advantage of organisation transformation is that it allows rapid, relevant changes to be made that could take years to implement under an organisation development approach. This helps organisations respond to current changes in the market. Key disadvantages include: the push back, stress and anxiety, and inertia from employees, which comes from change being thrust unexpectedly on unwilling participants. Further, many senior managers and leaders may not be trained or experienced in managing or implementing OT projects. Further, front-line employees – who are often the most impacted by these changes – may not have the skills required of them as a result of the changes. This can cause further stress and anxiety and have an impact on organisational commitment.

**2 Likert's participative management system (System 4) suggests that organisations have one of four types of management systems. Provide examples from your own experiences of each system and explain how it relates to the system chosen. (LO2)**

Likert's research methods and the four management systems frameworks are covered in the text on pages 19 and 20 under the heading 'Participative management background'. Use the class activities outlined in Review question 4 to elicit answers from students via participative learning under each of the four management systems.

Students could also be asked to categorise an organisation by applying the descriptors to their workplace, family or sports club. They could then draw conclusions about its relationship to the organisation's effectiveness.



- 3 Change processes can create a 'domino effect' where if anything changes it creates ongoing changes with other areas. Provide an example of how this can occur. (LO2 & 3).**

**Figure 1.3 in Chapter 1 (p. 13) looks at the interdependencies between change processes: structure, process and strategy. The textbook states that there 'is a strong interrelationship between these three components of change and, should one aspect be altered, there would be a domino effect and the other two components would also be affected' (text p. 13). For example, 'an OD program directed at helping a top-management team become more effective [strategy] might focus on interactions [structure] and problem-solving processes [process] within the group'(text p. 12).4 Explain the difference between strategic change and OT. (LO4)**

The first step is to define what the student understands to be strategic change and OT.

The strategic change background is a recent influence on OD's evolution. As organisations and their technological, political and social environments became more complex and more uncertain, the scale and intricacies of organisational change increased. This trend has produced the need for a strategic perspective from OD and has encouraged planned change processes at the organisation level.

Strategic change involves improving the alignment in an organisation's environment, strategy and organisation design. Strategic change interventions include efforts to improve both the organisation's relationship to its environment and the fit between its technical, political and cultural systems. The need for strategic change is usually triggered by some major disruption to the organisation, such as the lifting of regulatory requirements, a technological breakthrough or a new CEO from outside the organisation.

The strategic change background has significantly influenced OD practice. For example, the implementation of strategic change requires OD practitioners to be familiar with competitive strategies, finance and marketing, as well as team building, action research and survey feedback. Together, these skills have improved OD's relevance to organisations and their managers.

Strategic change can be confused with organisational transformation when there is a need to respond quickly to a change in the business environment. Such actions are strategic if they are done in order to achieve the organisation's strategic objectives, but transformational if they take the organisation in a different direction than that planned. This is where it is most often confusing for students. OT is responsive to the environment, and can appear chaotic, whereas strategic change is more about anticipating that dramatic change is inevitable.

**5 Do you agree with the metaphor of the pendulum? Explain your answer. (LO1)**

The metaphor for change states that there is 'a pendulum that swings from incremental and planned change (organisation development) to dramatic and unplanned change (organisation transformation)' (text p. 9; seen in Figure 1.2 on p. 10). The answer to this question is subjective. Some students may believe this to be true (from planned to unplanned and then back and forth) as smaller changes may lead to bigger changes. Others may believe that both planned and unplanned change takes place simultaneously rather than one 'swinging' to the other.

## Additional review questions

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**1 Organisation development attempts to help an organisation cope with various aspects of the organisation's environment. What are these aspects? Describe current examples of OD and explain its value to the organisation. (LO2)**

OD attempts to assist organisations to 'revitalise', rebuild and reorganise their 'strategies, structures and processes'. It attempts to help organisations cope with the changes in their environment brought about by globalisation, information technology and managerial innovation. It does this by facilitating employee involvement in the welfare of the organisation, as it rewards them for their performance rather than the time they spend on particular tasks.

First, globalisation is changing the markets and environments in which organisations operate as well as the way in which they function. New governments, new leadership, new markets and new countries are emerging and creating a new global economy.

Second, information technology, such as e-business, is changing how work is performed and how knowledge is used. The way an organisation collects, stores, manipulates, uses and transmits information can lower costs or increase the value and quality of products.

Third, managerial innovation has both responded to the globalisation and information technology trends and accelerated their impact on organisations. New organisational forms, such as networks, clusters, strategic alliances and virtual corporations, provide organisations with new ways of thinking about how to manufacture goods and deliver services.

Each of these aspects is discussed in detail and examples are provided in the text.

**2 With change management in today's organisations, OT is often used when all other strategies have failed. Do you agree/disagree? Explain your answer. (LO4)**

When the question is asked 'Do you agree/disagree?', there is no right or wrong answer – it depends on the justification for the answer. What is needed is to determine the basis upon which the decision was made.

If it was agreed that OT is used as a last resort then there would need to be evidence of prior activities that have failed, whereas if OT is used as a conscious strategy then there is the need to reference the context in which change is initiated; that is, the need for dramatic and responsive change. This could be a very good class debate.

**3 The metaphor of a pendulum for change has been used to describe the constantly changing demands for change. List examples of each spectrum (extreme) of the pendulum. (LO1)**

This is a good activity to use for group work (three to six depending on class size). Have half of the class cover OD characteristics and the other half OT characteristics; or cut each of these spectra into sub-categories of three by three (see Figure 1.3, text p. 13). If game enough, whole-group brainstorming could be used whereby spectrum headings are written or projected on the board and students move around the room adding to each list. Synthesise and discuss responses for appropriateness and variety afterwards. For example, change at Clemenger BBDO in Melbourne, consequent upon Biggs' transfer from New Zealand, could be considered OT; changes since would be OD.

**4 It has been stated that if you change any one of strategy, structure or process in a change implementation, this affects the other components. Provide an example of how this can occur. (LO2 & 4)**

See Figure 1.3 on page 13 of the text. This question could be workshopped in a similar fashion to Review question 3 above. Students should be able to (and encouraged to) discuss contemporary examples of systems impact.

Many law firms change their strategy to one of differentiation and innovation; this requires creative staff (and may require a change in structure of teams) along with having quick access to changing market trends (requires process change particularly in communications, data storing and sharing).

**5 Why should one study OD? What are the major contributions OD can bring to an organisation? (LO2)**

The field of OD is being influenced by information technology and globalisation. OD is being carried out in all major trading countries and a whole new set of OD interventions are being developed. OD needs to contribute to the management of change in cyberspace as well as face to face. Diversity in the evolving discipline of OD is growing and good change managers require a keen and current understanding of the developments in OD.

The key contribution OD brings to an organisation is in the management of planned change in order for organisations to meet their strategic objectives. Good OD will mean that the organisation is in a state of preparedness for change.

## Answers to end-of-chapter Extend Your Learning questions

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### **1 Explain the value of planned versus unplanned change. Use examples to reinforce your explanation. Is there a preferred process of change? (LO2 & 4)**

The management field of OD is concerned with planned change. 'Planned change is the systematic efforts made by management to improve the functioning of some human system. It is a change process in which power is usually equal between consultants and clients and in which goals are mutually and deliberately set.'

From this definition of planned change, we can see that it is not based on the usual assumptions of change, such as organisational business planning or technological innovation. It is instead a process or a plan of how the organisation should carry out change and implement it. In other words, it is an outline of the change process that involves diagnosing and solving problems within the organisation.

However, because change should be a continual process, most plans are often revised as new information is accessed regarding the progress of the change process. Planned change goes beyond the initial implementation of change and looks at ways to stabilise and institutionalise these new activities that have been set out in the original blueprints. It does this by looking at the strategy and the structure of the organisation. It may choose to implement change, for example, on strategy to a greater degree than on structure or vice versa.

The main aim of OD is to improve organisational effectiveness based on two assumptions. The first is that an effective organisation is able to solve its own problems and concentrates on the relevant skills and resources involved in achieving these key goals. The second assumption is that, in order to implement change, an effective organisation must have high performance and high productivity and must strive to improve continually. OD helps the organisation by providing it with the relevant skills and knowledge to conduct its everyday activities and to implement the new processes and changes.

Students are asked and expected to add examples from their personal experiences to this discussion. Understanding change is covered in more detail in Chapter 2.

**2 What do you see as the future of change: planned or unplanned? Explain your answer using examples where appropriate. (LO3)**

The answer to this question is subjective. However, it should be noted that while both planned and unplanned change will continue to co-exist and organisations will need to cope with both types of change simultaneously, the frequency of unplanned change may increase. Examples of unplanned change include a new product failing or a CEO or senior manager suddenly quitting the organisation. Organisations should consider how to manage or anticipate unplanned changes through planned change (e.g. not rushing/spending more time developing their new product or ensuring that senior management are given both intrinsic and extrinsic rewards to avoid them leaving the organisation and working for the competition).

**3 'As the environment changes, organisations need to adapt if they are to be successful.' Discuss. (LO2 & 4)**

This depends on the environment and the 'push or pull' for change. Therefore, OD would be the preferred approach if the circumstances were predictable and it could be planned, whereas OT works better when change needs to be instantly implemented. This notion of 'Evolution versus Revolution' could be debated. This is an excellent opportunity to contextualise 'modern management theory' with history; for example, how sustainable was the French Revolution? What can OT learn from this event?

## **Suggested discussion and essay questions**

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**Outline the key events in the history and evolution of OD. What do you see to be the future directions of the field? How would you suggest that practitioners proactively promote or facilitate the evolution of OD? (LO3)**

The key events in the evolution of OD are the five backgrounds or stems that were discussed earlier. These greatly influenced the field of OD. Today, however, OD is being shaped by new influences, such as the information technology revolution, which is a rich source of information and globalisation, which leads organisations across international borders.

OD originally began in 1964 with a group of 200 members. Today, it has grown to a group of 2500 OD practitioners. In 1968, the American Society of Training and Development created an OD department. This then led the Academy of Management to create an OD department, and Pepperdine University offered the first Masters degree in OD in 1971. OD is now taught at

both undergraduate and postgraduate levels at many universities and colleges around the world.

The first generation of researchers and contributors to the field of OD included theorists such as Chris Argyris (developed the learning-and-action-science approach), Warren Bennis (examined the relationship between executive leadership and strategic change) and Edgar Schein (examined process approaches in OD and culture's role in change management).

Second-generation researchers and contributors included Warner Burke (brought attention to and created recognition of OD as a professional field), Larry Greiner (looked at power and evolution in regard to OD), Edward Lawler III (looked at rewards systems and employee motivation and involvement), Newton Margulies and Anthony Raia (looked at the values underlying OD) and finally, Peter Vaill and Craig Lundberg (aimed to develop OD as a practical science of management).

Today, the practice of OD is becoming more popular in many large organisations, including General Motors, Ford, Texas Instruments and Hewlett Packard. It is interesting to note that many of these large organisations have gone public with the information they have acquired and the lessons that they have learned during their OD practices and implementations. As mentioned earlier, the field of OD has become global and has been introduced in Canada, Germany, the Philippines, the Netherlands and Russia.

Although it is evident that the field of OD has expanded dramatically since the mid-1960s, it is disproportionately used in large organisations. However, many organisations use OD concepts in their day-to-day activities without even knowing it.

**2 Many organisations have undergone significant change. Identify one such organisation and explain how it has undergone the change process. Could you determine any impediments? How would you improve the process? (LO2 & 4)**

Students can be divided into groups of four to six to discuss the question. This provides an opportunity for the students to apply the knowledge gained in this chapter to a specific context or workplace.

It is also an ideal question for an individual or a group written assignment.

**3 'OD is old-fashioned and outdated.' Do you agree or disagree? Explain your answer with examples. (LO3)**

Discussion could start with unpicking and defining the terms in Di Waddell's definition on page 11 or any of the other definitions provided in Table 1.1, also on page 11.

Alternatively, students can be divided into small groups to discuss the definitions from a personal perspective. A report back to the class for their

rationale could follow. This may allow students to identify the approach they are most likely to be comfortable with in a change environment or to gain the knowledge and skills required to participate in change projects.

The key objective of the exercise is for students to grasp OD as a discipline which can have a number of different approaches. To look at up-to-date Australian work, students could be directed to RMIT's Centre for People, Organisation and Work (<http://www.rmit.edu.au/research/csow>), which is cited in the text on page 24.

Once again there are no right or wrong answers; it is the rationale for the students' response that is critical.

**4 Imagine you are an OD consultant. How would you describe the advantages and disadvantages of OD to a potential client? What would be your preferred area of expertise and why did you select such an approach? (LO2)**

This exercise gives students an opportunity to demonstrate their understanding of each concept within the context of OD as a whole-organisation strategy. Students should be able to distinguish the tools of OD from OD as an ongoing strategy design to meet the organisation's strategic objects. They could be directed to take a stepwise approach to this question by critiquing each of the five stems of OD presented in the text (pp. 16–17).

This would also make a good essay or final exam question.

## **Additional suggested readings**

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Porter, Michael E. 1980. *Competitive Strategy: Techniques for analysing industries and competitors*. New York: Free Press.

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# Waddell 7e: Teaching Notes

## Integrative Cases

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# Case Study 1 Nintendo Switch: Now you're playing with even more power!

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Andrew Zur, University of Melbourne

## Focus on the video game industry context:

This case study focuses on the Nintendo Co. Ltd. and its responses to the highly competitive and fast-changing video game industry since the mid-2000s.

## Cause of change?

The core context of this integrative case study is turbulent and fast-moving change. External triggers such as the phenomenal advances in hardware and software technologies have enabled Nintendo in particular as a market leader, and the video game industry more generally, to potentially access a multi-billion-dollar revenue source as 'gamers' of all ages gravitate towards video games. The challenge for Nintendo has been to be able to produce creative and appealing technological innovations within a context of turbulent change.

## Theoretical underpinnings and principles:

This case study provides a compelling example of the theoretical interplay that is discussed in this text for a company operating in the global video game business. The scale of challenge to the organization and the requirement for constant responsiveness to external drivers is significant and complex. The types of intervention required are both internally focused (responsiveness, proactive innovation and creativity, together with challenges to how the organization learns) and externally focused (unpredictability, rapid technological advances, and a highly competitive environment). This case study can be examined through the linear lenses of change first posed by Lewin or through emergent theories such as intelligent complex adaptive systems theories.

## Key issues:

For Nintendo to survive and thrive in the globalized and highly competitive video game industry, it has faced organizational development challenges that are both internal and external. Internally, the organization has needed to become more responsive to external pressures, to continue to invest in innovative and creative technologies of the future through constant research and development, to take risks, to listen to its customers, to be more willing to reach out to third-party developers, in short to be on a continuous learning curve. Arguably, its key internal issue here has been to decide whether to become a learning organization that has a purposeful plan of building an internal culture that is responsive to change over time or one that hopes that its technological strength will enable it to survive change. Is it a built to change organization (see Chapter 6)?

Externally, the significant changes in the video game industry since the early to mid-2000s has been phenomenal. The unpredictable nature of the external environment, the needs and expectations of an increasingly sophisticated client base of users, rapid advances in technology, some driven by Nintendo, and the potentially lucrative global market for video gaming have impacted on Nintendo's responsiveness to externally-driven change.

## Answers to Review Questions

- 1 The video game industry has seen enormous change over the past three decades. What future changes to the industry do you believe will affect Nintendo and its competitors, Sony and Microsoft? Based on what you read in the case study, what internal changes should Nintendo make to best respond to these changes?**

**External changes:** Students should look at macro-environmental forces impacting the video games industry when discussing this question. Students should undertake a PESTEL (political, economic, social, technological, environmental, and legal) analysis which examines the external factors that Nintendo, Sony, and Microsoft are unable to control. For example, social factors may include changes in how people consume video games or the community's perceptions of video games; political factors may include legislation that is enacted that restricts access to certain video games; and so on. Based on the trends from October 2018, it seems that technological improvements (e.g. high-definition graphics and displays; facial recognition; gesture control; virtual reality; augmented reality; wearable gaming; mobile gaming; cloud gaming; voice recognition; faster internal processes; on-demand gaming) is the biggest external factor influencing the video game industry and it will allow gamers and developers to continue to create more ground-breaking video games that will continue to 'push the boundaries' of what was thought previously possible.

**Internal changes:** Nintendo will need to continually improve and refine their hardware and software if they want to remain relevant in 2018 and beyond. The company needs to ensure that it is listening to their customers' needs and wants, watching what their competitors are doing and ensuring that they are providing a product that is a point of difference to what the competitors are offering, and working with their suppliers to ensure that they are able to manufacture hardware (consoles, controllers, game cartridges, etc.) and develop software (developing first-party titles, leveraging their IP, building relationships with third-party developers and independent developers, focusing on their online gaming service, etc.). This is something that needs to continue to develop and evolve over time depending on the current state (and anticipated future trends) of the video game industry. Nintendo also needs to also ensure that it has the right leadership and senior development team is in place to help the company remain profitable and relevant to its current and future customers.

- 2 Has Nintendo's strategy regarding video game production truly changed after the dismal sales of the Wii U and the success of its new console, the Nintendo Switch? Or is Nintendo only as good as its next console release? Give examples from the case study to support your reasoning.**

**Customer focus:** Based on the case study and evidence from Nintendo's approach with the Nintendo Switch, it seems that Nintendo is beginning to slowly change its mentality towards focusing on the customer's needs and wants. This is Nintendo of America's corporate mission and philosophy:

*"We are strongly committed to producing and marketing the best products and support services available. We believe it is essential not only to provide products of the highest quality, but to treat every customer with attention, consideration and respect. By listening closely to our customers, we constantly improve our products and services."*

Source: Nintendo (2018). "Corporate," Available:  
<https://www.nintendo.com/corp/mission.jsp>

Based on this acknowledgement, it can be seen that Nintendo is attempting to do this. How successful they will be is purely based on whether they continue to listen to not only the current needs and wants but anticipate what future needs and wants may be. Sometimes these future needs and wants are driven by the offerings of Nintendo's competitors (Sony and Microsoft) or by macro environmental forces outside the control of Nintendo (discussed in Q1 above). For example, customers have been extremely critical of Nintendo's much delayed and virtually non-existent online service. Customers have criticised the demise of the Virtual Console service which has been replaced with the much inferior Nintendo Switch Online service. With huge demand for online gaming as well as retro and nostalgic games, Nintendo needs to ensure that it is listening to gamers by creating an online service that gives customers what they want (full access to Nintendo's and its third-party developer's catalogue of new and retro games) and develops a service that is able to better compete with Sony and Microsoft's offerings.

**Third party developers:** From the case study it can be seen that Nintendo has been working to attract third-party developers to the Nintendo Switch. This will be a slow process as many relationships between these third-party developers and Nintendo had been fractured over the years due to Nintendo's policy decisions. For example, hardware decisions with the Nintendo 64 cartridges or the GameCube's proprietary discs that restricted the file sizes of the games meaning that developers skipped these platforms altogether and instead developing games for the more powerful Xbox and PlayStation options. This is still the case for the Nintendo Switch as many new games such as the recently released Red Dead Redemption 2. The game requires 107GB for the Xbox One physical and digital versions of the game and 99GB for the PlayStation 4 physical of the game with the digital version (requiring an additional 50GB for the installation process) which makes the total requirement around 149GB. The largest current capacity of a Nintendo Switch cartridge is 32GB. However, such a cartridge is prohibitively expensive (increasing the retail price of the game), with most developers choosing a smaller cartridge size and requiring users to download a large part of the game onto their console. As the Nintendo Switch only has 32GB of internal storage it makes downloading and installing games difficult and consumers are required to purchase microSDXC cards if they wish to download digital titles from the Nintendo eShop. While many newer titles are not able to come to Nintendo Switch due to the storage restrictions, the Nintendo Switch is attracting many older generation titles that were not available on past Nintendo platforms. So, while third party developers are benefiting from being able to port over older games, the continued restrictions with the hardware still continue to plague Nintendo and their relationships with the developers.

**See the end of this document for a full reference list for this case study.**