

Translating theory into practice

Drawing on the ideas discussed in this chapter and the other chapters in Part IV, review the situation at the Douglas refinery (Case study 12.1). The CEO of Prosper, the company that owns the refinery, has asked a consultant to review the case and recommend how the situation might be managed from this point forward. He has also asked the consultant to identify any lessons that will help the management team manage similar situations in the future.

Case study 12.1 *Managing change at the Douglas refinery*

Located in the Republic of Ireland, the Douglas refinery had originally been commissioned in 1959 and was one of four refineries owned by McPherson Oil. The Douglas refinery is the smallest of these four refineries, employing 150 staff and producing transport fuels such as diesel, petrol and jet fuel. McPherson Oil was acquired by Prosper, a private equity company, in 2009. The new owners invested new capital, recruited a new CEO and other key managers, and tasked the new Prosper management team to restructure and reposition the business in order to enhance profitability.

Over the next three years, two new refineries were acquired and three of the existing refineries were expanded, but there was little new investment in the Douglas refinery. While the Douglas refinery was making a small profit, the new management team did not (and still does not) see it as a core asset. Members of the Prosper management team and a group of

consultants undertook a strategic review that explored possibilities for transforming and expanding the Douglas refinery. The refinery manager was informed of the review and asked to provide answers to specific questions about the operation of the site, but she was not a member of the review team. She was instructed not to inform any employees at the Douglas refinery about the review. The review process was completed in the autumn of 2011 and concluded that, because there were only limited opportunities for transforming and expanding the Douglas refinery, it should be sold.

The refinery manager was informed of this decision but instructed not to tell other employees, including members of the Douglas refinery management team, until after possible buyers had been approached. The Prosper management team decided on this course of action in order to prevent staff at the Douglas site feeling insecure about their future, believing that any

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feelings of insecurity could trigger actions that might interrupt operations and/or encourage staff to look for alternative employment. They feared that any disruption would make it more difficult to secure a sale. The Prosper management team was particularly concerned about the possibility of losing staff because, despite the recent downturn in the Irish economy, a chemical company was expanding its facilities on an adjacent site and seeking to recruit process workers, some supervisors and at least one manager.

Four weeks after the decision to sell the Douglas refinery, a local newspaper published an article reporting rumours of a pending sale. Employees were shocked and angered by this 'announcement' and confronted their managers who, until the article had been published, knew nothing about it. The refinery manager immediately contacted the CEO at Prosper HQ in Switzerland and was told to deny the rumour until a consultant (who was a co-opted member of the strategic review team) had visited the site and assessed the situation. Despite this instruction, the refinery manager decided to take the site HR manager into her confidence and inform him about the strategic review and the decision to sell off the refinery. She did this because she felt that the Prosper management team's approach to managing change was creating problems that were difficult for her to manage and she felt a need to discuss the situation with somebody she could trust.

They both recognized that the other members of the refinery management team would be upset when they found out they had not been kept informed about the strategic review and the decision to sell the refinery. Even so, they felt they had no option other than to follow instructions from the CEO and deny any knowledge of the decision to sell the refinery. However, they did inform other members of the Douglas refinery management team that a representative of the Prosper management team (the consultant) would be on site within 24 hours to help clarify the situation.

Imagine that you are the consultant. The CEO has asked you to assess the situation as quickly as possible and report back with recommendations for how the change should be managed from this point forward. You have also been asked to identify any lessons that will help the management team manage similar situations in the future.

The CEO has informed you (the consultant) that only one of the possible buyers who had been approached

has shown any interest in the Douglas refinery. While this potential buyer might be willing to acquire the refinery, it has indicated that it is not willing to pay the asking price. This is because Douglas is a simple refinery that can only process part of each barrel of oil it purchases. In addition to the transport fuels that it produces and sells to end users, it also produces a number of intermediate products that it has to sell to other refineries for further processing. The market for some of these intermediate products is predicted to fall and it is this that is putting off prospective buyers. Nonetheless, the Prosper management team is keen to sell the Douglas refinery even if it has to accept a price lower than anticipated. But in order to secure the sale, the Douglas refinery must be kept working as normal.

Because there is some doubt about the pending sale, the Prosper management team has explored other possibilities. Two have been identified. The first is to close the refinery and sell off the site, making everybody redundant. The second involves retaining the site, closing the refinery and developing the site as a terminal. This option would involve making up to 100 staff redundant. However, it is possible that work could be found for between 40 and 60 of these employees if they were willing to retrain and cooperate with managers to develop new work streams on the Douglas site, which would support operations elsewhere within the Prosper group of companies.

Until the current crisis, employees at the Douglas site have been committed to the refinery and have responded well to new initiatives. Communications have been good and employees have felt able to make suggestions and seek information from their managers. Because there are only 150 employees on site, it has always been possible to discuss key issues face to face via team and departmental meetings. In addition, bimonthly meetings between managers and union and other employee representatives have ensured good two-way communication.

The rumour published in the local paper has undermined trust and damaged commitment. This could make it more difficult to retain staff and keep the refinery operating as normal and could, if the refinery is not sold, adversely affect their willingness to work with managers to transform the site from a refinery into a terminal and commit to the development of new streams of business that could be located on the Douglas site.

Summary

This chapter considered how the general level of commitment in an organization can affect the extent to which organizational members will support new initiatives:

- people's past experience of change can affect their level of commitment to the organization and their willingness to support further change
- the psychological contract is an unwritten set of expectations between all organization members and those who represent the organization and incorporates concepts such as fairness, reciprocity and a sense of mutual obligation. If employees feel that the organization has failed to keep its side of the 'bargain', they may respond by redefining their side of the psychological contract and invest less effort in work, be less inclined to innovate and less inclined to respond positively to changes.

While there is evidence that employees who are committed to their organizations are more likely to support change than those who are not, the situation is complicated when employees are also committed to (and satisfied with) their job because they do not want to do anything that could threaten the benefits their job provides. A key determinant of resistance to change is the extent to which potential change recipients perceive the change as personally beneficial or harmful.

Resistance to change can be viewed as feedback which can have functional value. Those leading change need to be careful not to always interpret negative feedback as resistance and a threat to change success.

A number of factors can affect whether or not people will support a change. These are:

- low trust
- low tolerance for change
- different assessments about costs and benefits
- parochial self-interest.

Leaders can do a number of things to minimize resistance, including persuasion, participation, facilitation and support, negotiation, manipulation and co-option, explicit or implicit coercion, and goal setting.

This chapter also discussed expectancy theory and the motivation to support or resist change. Expectancy theory considers how expectations influence motivation and provides a basis for assessing whether a stakeholder is likely to support or resist an impending change. Whether stakeholders will be motivated to support or resist the change will depend on their expectations about:

- their ability to deliver a satisfactory level of performance in the changed situation
- whether a satisfactory, or even exceptional, level of performance will lead to the achievement of valued outcomes in the changed situation
- whether the net benefits accruing to them will be equitable when compared to the net benefits accruing to comparable others in the changed situation.

References

- Argyris, C. (1960) *Understanding Organizational Behavior*. Homewood, IL: Dorsey Press.