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Managing change: Communication, managerial style and change in organizations

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ABSTRACT

We model the interplay between communication, manager attributes and the probability that an establishment successfully implements a significant change. Although change requires both sufficiently strong advocacy and enough communication to help overcome inertia inside the firm, we posit that frequent communication can be costly, particularly with strong managers and in larger establishments. These theoretical predictions are consistent with our empirical analysis. Utilizing uniquely detailed establishment-level data we find that, on their own, firm size, regular communication and result-oriented managers are all positively associated with change. However, the use of frequent communication in firms that successfully implemented a significant change is moderated: (i) when managers tend to be strongly focused on results; and (ii) in larger establishments. This suggests that organizations wishing to foster change should consider the interaction between manager attributes and the communication protocols.

1. Introduction

Implementing change in organizations is inherently difficult (Colombo and Delmastro, 2002). Not only does it require knowledge about what to do, this information needs to be communicated to those charged with its implementation. But even this might not be enough. Organizations can become sclerotic; routines and practices become entrenched over time, as do vested interests of both managers and workers. Effective change needs to overcome this inherent organizational inertia; it needs support from enough people in relevant positions throughout the firm to work together to ensure its success. In this paper we examine the relationship between managerial attributes, communication protocols and the implementation of successful change in an organization.

The intuition underlying our theoretical model, outlined in Section 2, is as follows. Firstly, communication is a necessary precursor to change: as well as providing information about what to do, it can allay fears about the prospective change. This suggests that there will be a positive relationship between the amount (or frequency) of communication inside the firm and implementation of a significant change. Secondly, to overcome people's preference for the status quo, managers – who we broadly define as anyone involved in managing the implementation process – need to advocate for change with sufficient conviction, persistence and energy to ensure its success. To aid our empirical investigation of these predictions (Sections 3 and 4) we categorize managers into two types: (i) managers focused on outcomes or results like profit or customer satisfaction (result-oriented); and (ii) managers who emphasize personal relationships (people-oriented).[1] Using these categories, we predict that result-oriented managers are more likely to have the advocacy skills, the drive and passion to convince their colleagues to implement the required change.

While these direct relationships highlighted above–namely between (i) communication and change and (ii) managerial style and change–need not be a surprise, in our empirical analysis we are particularly interested in the interplay between these factors. To capture this, we posit that there is a potential negative side-effect of communication for a firm; it creates an opportunity for argument, disagreement and conflict that can make it more difficult for the group to cohesively and effectively implement change. This is particularly problematic with result-oriented managers, who are more likely to dig in and argue for

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[1] This dichotomy parallels the arguments in Bass (1990); Fleishman et al. (1991); Yukl (2006); Burke et al. (2006) and Sarin and O'Connor (2009).

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their preferred change than to just 'go-with-the flow', and acquiesce to what they see as a lesser idea.[2] From this, we have our third prediction; a firm successfully implementing a significant change with more result-oriented managers will, other things equal, communicate less.[3]

Lastly, consider the interaction of manager style and communication with other aspects of the firm's structure, in relation to its propensity to successfully implement change. A downside of communication about the change process is that it provides a forum for dissention and argument, which can foster conflict and render change more difficult. This is particularly pertinent for larger organizations. Consequently, we predict successful change in organizations requires less frequent internal communication as the size of the firm increases.[4]

To illustrate the intuition underlying our empirical predictions, consider the example of communication and management style within an academic department. Firstly, let us focus on departmental communication. In a small department, many key decisions are often made in department meetings, even if the head of the group has formal decision-making rights. Regular meetings discussing proposals might be the norm. Hiring decisions, for instance, could be brought to the group as a whole, as could tenure decisions and proposals for new courses or programs. With a small group, a high level of engagement is typically necessary to properly assess candidates, or to fully flesh out the implications for changes to the department's teaching program. In terms of our framework, a small department requires frequent communications and a high degree of participation to help facilitate successful change.

Such an inclusive and collegial communication process is less likely in a larger academic group. Change could be problematic if everyone in the department is involved. Too many meetings create opportunities for disagreement and politicking, stymieing effective change. This could be true for hiring decisions – advocates in each subfield might argue for a new hire from their area. A similar issue could arise with proposals about degree structures or the direction of the department. Rather than involving everyone continually through the process, decisions are often instead made by subcommittees, and only then communicated to the group. This limits communication (and involvement) of the group as a whole; in other words, effective change in a larger group requires less frequent communication about change than might be otherwise appropriate for a smaller department.

Secondly, consider how management style affects communication about a significant change within an academic department. Again, take hiring as an example. A strong-minded academic or chair of department might be able to push through bureaucratic and other impasses to successfully champion the hiring of a promising candidate where a less strident supporter might fail; that is, strong management facilitates change. But if the senior professors in a department are relentless advocates for hiring in their own sub-fields, involving them in the hiring process will invariably lead to conflict. As a result, the chair in a department with uncompromising colleagues might try limit their involvement in hiring or other key decisions, preselecting a field for the position or by setting up a committee charged with making the decision. More involvement might be possible with less driven, more compromising professors; fruitful discussions could involve more people in the department, but only if they are willing to compromise and listen to others.

We examine evidence of these relationships using unique establishment-level data that details: whether or not an establishment successfully implemented a significant change; communication strategies regarding both technological and organizational change; and management style (or attributes) in regards to the factors that motivate its managers. We find that successful change is more likely in establishments that: (i) regularly communicate about the prospects for new technological and organizational developments; and (ii) have result-oriented managers. We also find that these direct relationships are moderated taking into account the key interactions between communication protocols, manager attributes and the size of the firm. Specifically, establishments that successfully implemented a significant change communicated less regarding technological change if they have: (iii) result-oriented managers; and (iv) more employees. These results are consistent with our empirical hypotheses – while communicating relevant information is crucial to successful change, its effectiveness depends on the firm's other internal characteristics, notably its size and the attributes of its managers.

There is a growing literature on the allocation of decision-making rights and communication in firms. Communication can aid effective decision making by allowing agents to specialize in processing particular types of information (Bolton and Dewatripont, 1994). In Dessein (2002), Rush et al. (2010) and Garfagnini et al. (2014) communication allows information to be (imperfectly) transmitted to an uninformed principal. Similarly, in Aghion and Tirole (1997) an uninformed principal with formal decision-making rights has an incentive to communicate with their agent so as to learn about what project can be implemented. Recent papers empirically analyze decision-making processes in firms. For example, McElheran (2014) examines the tradeoff between delegation (allowing for adaption) and centralization (aiding coordination) of IT purchases within US manufacturing firms.[5] Acemoglu et al. (2007) find delegation is more likely in establishments closer to the productivity frontier. Meagher and Wait (2014) find that the decision to implement a significant change is more likely to be delegated when a firm exports its output and when it faces more competition in the product market.

Much of the inspiration for our focus on the difficulty for organizational change comes from Colombo and Delmastro (2002), who analyze the factors related to structural inertia (with respect to a reorganization of the number of hierarchical layers) in Italian manufacturing establishments. They find that while there is strong evidence of significant inertia, organizational change is more likely if the establishment adopted new technologies and human resource management practices. On the other hand, the likelihood of organizational change is decreasing in the sunk costs associated with the change process and in the presence of influence activities. Our study on the interaction between communication and change supplements the findings of Colombo and Delmastro (2004) that communication technologies aid the delegation of decisions relating to significant organizational change.[6] Furthermore, our focus on managerial style and communication complements previous research on managerial practices and firm performance, such as Bloom and Van Reenen (2007); Bloom et al. (2014) and Nemlioglu and Mallick (2017). Nemlioglu and Mallick (2017), for example, find that better managerial practices, when coupled with R & D activities, contribute to higher performance levels (profit margins) in firms.

[2] Here we focus on the possibility that greater communication makes it more likely for result-oriented managers to disagree and argue, rendering effective change problematic. While some disagreement may be valuable in the reform process (Van de Ven and Grazman, 1997 and Markham, 1998), too much conflict consumes resources and reduces the likelihood of successful change (Venkataraman et al., 1992; Chakrabarti and Hauschildt, 1989; Markham, 2000 and Klerkx and Aarts, 2013). For tractability we do not consider this potential positive effect of conflict in our model.

[3] For example, the founder of Amazon.com, Jeff Bezos, commented that '[c]ommunication is a sign of dysfunction...We should be trying to figure out a way for teams to communicate less with each other, not more' (Stone, 2013).

[4] It is noteworthy that a similar tradeoff is highlighted by Couzin et al. (2005). Motivated by honeybee swarms where only a few individuals (about 5%) guide the group to a new nest with a high degree of accuracy, Couzin et al. (2005) study leadership and information-transfer in animal groups looking for the location of food or for a migration route. They show that: the proportion of informed individuals needed to successfully guide a group is decreasing in its size; and that the proportion of leaders in a group is smaller when these leaders 'push' for their preferred direction more strongly.

[5] See also Castiglione and Infante (2014) for a study of firm investment in information technology, management practices, R & D and productivity.

[6] For a further discussion of these issues, also see Colombo and Delmastro (2008).