Chapter **6** Reinforcing New Behaviors

As we have seen, effective change implementation proceeds in a logical sequence of interventions. A dynamic competitive environment triggers the requirement for change.

Diagnosis sets the stage for effective change implementation by surfacing any misalignment that may exist between patterns of internal behavior and a desired new strategy.

In Step 1, redesign considers alternative patterns of behavior that will help the organization create and sustain outstanding performance. Out of the diagnostic process comes a shared understanding of the roles and responsibilities that employees must enact and the relationships that employees must create both among themselves and with key external stakeholders.

In Step 2, training and development helps employees acquire the required new skills and behaviors.

In Step 3, people change decisions ensure that the organization has employees with the needed competencies and behaviors.

Now, at Step 4, organizational leaders reinforce the new behaviors through what might be thought of as the "hardwiring" of the organization: structures, systems, and technologies. This chapter will explore the choices available in terms of hardwiring and analyze the importance of placing structural, system, and technology changes at the back end of a change process rather than leading with those interventions.

In particular, this chapter will:

- *Identify the major structural choices faced by organizational leaders and the behavioral implications of those choices*
- *Consider the role of compensation in shaping desired behaviors*
- *Analyze the role of information technology (IT) in impacting employee behaviors*

Before doing so, we will examine an attempt by a large national retail chain to restructure in order to revive their market during a recession. As you read this short case, ask yourself:

- *How would you evaluate Macy's response to the recession?*
- *Is it really feasible to do both turnaround (layoffs) and transformation (restructuring) simultaneously?*
- *What and whose behaviors is Macy's attempting to change?*

Localizing a Retail Giant Chain

Macy's is the largest division of the retail giant Macy's Inc. (which also operates macys.com, Bloomingdale's, and bloomingdales.com). The department store chain sells clothing and accessories for men, women, and children, as well as a wide assortment of home furnishings. The chain operates in 45 states and, until the 2009 construction of Shinsegae Centum City in Busan, South Korea, boasted the largest single department store in the world (in New York City).

In the 1990s, the department store industry in the United States experienced considerable restructuring. Federated Department Stores purchased the Macy's chain and soon consolidated many of the other brands it had recently acquired—Jordon Marsh, Filene's, Rich's, Marshall Field's, Famous-Barr among them—under the Macy's banner. In 2007, Federated itself changed its corporate name to Macy's.*

* So, Macy's is the name of both the corporate umbrella and its largest single business unit. This case focuses on the Macy's business unit.

Like other retailers, Macy's executives understood that while all of these consolidations offered many advantages associated with the economies of scale and scope, they also tended to deprive the stores of local focus or flavor.† Decisions about what merchandise to carry and how to market and display that merchandise were made in corporate headquarters. Macy's relied on sophisticated market research, of course. But still, each store tended to resemble every other one. They had all become more or less generic.

† Economies of scale allow an organization to become more efficient by increasing the number of times it performs a single activity, while economies of scope allow a company to gain efficiencies by performing more than one activity with spare capacity.

The recession of 2008 led to cost cutting—4 percent of Macy's jobs were eliminated—but Macy's executives also wanted to increase revenues. Their strategy for doing that, labeled My Macy's, would move away from the cookie-cutter image of the chain by emphasizing local appeal and regional differentiation. The company experimented with six stores, allowing local managers greater say over what merchandise to carry and how to market it. Product mix could vary by region. Even the same products could be packaged and marketed according to local tastes. Decisions would now be made by local managers. This was an advantage over corporate market research, explained CEO Terry Lundgren. "It is much more accurate to have people living in the marketplace tell you, 'This is who is shopping in my store.'"

With the success of these half-dozen pilots, Lundgren decided to roll out My Macy's to the chain's 800-plus stores. To do that, he knew that he would have to change the company's highly centralized structure. The businesses would now be subdivided into 69 "geographic districts" (approximately 12 stores per district). Results proved promising, helping Macy's recover from the recession. "We see the power in the local input from our experience over the past year," said vice chairman Tom Cody. "We know that the critical piece comes from the intelligence of the local market."