Gerstner announced a new structure. Twelve customer groups (such as banking, government, and insurance) and one small and medium-sized company group would take over all IBM accounts, including responsibility for budgets and personnel. The restructuring reassigned most employees in non-U.S. operations to a specific group; they would now report to the global leaders of their industry group rather than to their country general managers.

The response from country general managers was overwhelmingly negative. *It will never work* and *You will destroy the company* were statements that expressed their resistance. Some country general managers responded by simply ignoring the new structure. One regional executive unilaterally decided to block all communications between Gerstner and the field.

It took three years of what Gerstner called a "painful and sometimes tumultuous process" before the new global strategy could be driven into IBM's multinational structure. "Regional heads clung to the old system," reflects Gerstner, "sometimes out of mutiny, but more often out of tradition." Only after "massive" shifts in resources, systems, and processes—not to mention the removal and replacement of numerous country managers who could not or would not make the transition—did the new structure take hold.

The fierce resistance that greeted Gerstner's attempt to realign IBM's global structure with its new strategy was, in part, a predictable response to his calling on the restructuring lever too early in the change process. After articulating a strategic focus and creating a supportive context, leaders can call upon structural interventions to reinforce new patterns of employee behavior. Organizations seeking greater customer responsiveness may move from a functional to a divisional function. If the firm's supply chain is failing to deliver competitive advantage, then the company may adopt a horizontally linked structure.

Just because structural interventions are useful in shaping employee behavior does not mean that changing structure is an effective opening tool for change. Effective change implementation, in fact, calls upon structural intervention not to *drive* change but to *reinforce* new patterns of behavior that have been created through earlier-stage interventions.

Returning to Lewin's theory of change (Chapter 2), adopting a new structure is part of the refreezing stage, not the unfreezing stage. For that reason, structural changes are most effective when used in Step 4.

Theory into Practice

Think of structural change in terms of Lewin's refreezing, not in terms of unfreezing.

To understand the power of appropriate sequencing of interventions in impacting effective implementation, let's look at IBM. That company's highly decentralized divisional structure allowed responsiveness to multiple national markets served by this giant corporation. Global customers such as American Express now demanded greater coordination across national boundaries. *We're a global company,* customers were telling IBM. *We expect you to be a global supplier. We don't want to be dealing with multiple national mini-IBMs with little capacity to provide consistent and seamless service.*

Gerstner's new strategy for IBM counted on taking advantage of the company's depth and scope. He drove that renewed strategy by creating a global matrix structure: customer-based groups laid over a geographically divisionalized organization.

Gerstner's reasoning seemed solid: global responsiveness could be coordinated by global customer-group executives. That was the approach that Gerstner had experienced at McKinsey. It worked well there, so why not at IBM as well?

The problem Gerstner ran into had far less to do with the efficacy of the idea than the implementation process he called upon to introduce that idea. The structural change occurred early in the process of transforming IBM. Gerstner had failed to unfreeze attitudes by creating dissatisfaction with the status quo. Used to a high level of autonomy, country managers resisted. That resistance grew, in part, from their own habits, competencies, and preferences. It also grew from the process used to introduce change.

The country managers themselves had not been part of the diagnosis that led to the change, nor had the country and industry group managers worked collaboratively to develop well-defined roles, responsibilities, and relationships among the two groups; nor had IBM provided training on how to enact these new, complex roles. In essence, Gerstner jumped from a diagnosis formulated by a handful of corporate executives—mainly him and Ned Lautenbach—to a new structure.

Faced with fierce resistance on the part of country managers, he removed and replaced a number of them. Despite all his formal authority and the power of his vision for a truly global IBM, it took three years of what Gerstner himself called pain and tumult before the desired new behaviors began to take hold in the organization.

This is not to say that pain and tumult can be avoided entirely in implementation. The point, rather, is that the approach of using structural change as a driver rather than a reinforcer helps create heightened levels of resistance, some of which might have been avoided.

Structural change typically unfolds as a top-down intervention. It is the task of leadership, after all, to design the architecture of the organization in order to enable outstanding performance. However, if structural change takes place late in the change process, restructuring will not be experienced as a unilateral imposition from above.

Remember the old adage: People don't resist change; they resist being changed. If structural change occurs early in the process, it will be experienced by employees as being changed. If new structures are used to reinforce new behaviors, employees are more likely to support the change.

Theory into Practice

When structural change occurs early in a change process, employees can be confused by its purpose, unsure of what new competencies are being required, and unwilling—or unable—to make appropriate alterations in behavioral patterns.

Using Incentives to Support New Behaviors

Compensation represents one of the strongest, perhaps most immediate tools that can be called upon to change patterns of employee behavior. Do we need a more performance-driven culture? Let's place employees on a pay-for-performance incentive. Need to attract young, highly skilled employees to our start-up business? Let's dangle huge stock offerings. Having trouble implementing activity chain process teams? Let's try team-based performance bonuses.

Organizations expend a huge amount of resources on pay—time, energy, not to mention money (anywhere from 40 percent to 70 percent of sales revenues). What value are they gaining in return for that expenditure? How successful are monetary incentives in shaping and altering employee behaviors?

The answer may seem obvious: *Of course* money can shape and alter behaviors. The real question, however, relates to long-term effectiveness. What role can compensation play in efforts to implement organizational change? To answer that question, we need to understand both the nature of pay's impact on behavior as well as the choices available to organizational leaders.