Restructuring Novartis across a turbulent pharmaceutical landscape
An exploratory case study on strategic change management in a globalizing economy

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EXECUTIVE SUMMARY

The motivation behind this research area was to investigate the implications of internal communication on Novartis’ strategic change management planning in the context of a globalisation paradigm. Recent advances in technology, the global debt crisis, shifting political and economic forces, and the increasing buying-power of the emerging markets have created a turbulent and challenging global business platform; this environment has engendered increasing urgency for organisations to consider major change to maintain and build their competitive advantage. This dissertation therefore focuses on understanding the causes for major strategic change, the potential of internal communication to influence strategic change management, and Novartis’ mode of best practice in the current contexts. The theories used range from Kotter’s eight-step model on change management to Barrett’s Strategic Employee Communication Model. The findings and implications revealed that in a world where globalisation is gaining momentum, effective employee communications across international borders and motivational leadership roles are imperative in the successful implementation of change programmes. It was also found that in a socially constructed reality that is our globalisation paradigm, it is counterproductive to fight the emergent forces that are implied; integrating communicative and strategic objectives into the change programme is necessary to ensure a shared understanding of future goals. Therefore, it is recommended that in order for change to succeed, change agents are constantly aware of their own communicative roles in the strategic change process, as well as the potential and actual strategic roles of change recipients.
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1 INTRODUCTION
In 2011, newly appointed CEO Joseph Jimenez distributed a memorandum to all Novartis associates that reaffirmed its mission ‘despite external challenges’ after the publication of Novartis’ 3rd quarterly (Q3) results (Jimenez, 2011: 1). Key Q3 successes of a net sales growth of 12% in constant currencies and various drug approvals are juxtaposed with the challenges facing contemporary global business; an environment that has become increasingly turbulent and competitive with globalisation pressures (op. cit. 1-2). The pharmaceutical industry is not exempt, and is aggressively cutting costs where possible in response to mounting government austerity measures (Jimenez, 2011: 2). A 5% price reduction on drugs this year alone by select European governments support the generic drug market; a market that pharmaceutical companies who earn a significant share of its revenue from patents don’t have much experience in (Bennett, 2011). By creating a leaner cost base, keeping R&D high and optimising productivity, Novartis is taking an ambitious global strategy head on to face the global debt crisis and imminent industry-wide patent expirations (Jimenez, 2011: 3).

In order for Novartis to succeed, Jimenez advised his associates that change is necessary and the next 3-5 years will bear witness to an organisation-wide restructuring involving the consolidation and reallocation of select divisions and resources (ibid). Novartis did not waste any time and had already cut 1.400 US sales jobs by early 2011, as well as shut down a production site in the UK (Bennett, 2011). 1.100 Swiss jobs and 900 US jobs will be obsolete over the course of the initiative, whilst 700 new positions in China and India will be created in the extended plan of action (ibid). Hiring cheaper labour in the emerging markets will strategically offset the jobs lost at the manufacturing facilities that were shut down in Europe (two in Switzerland and one in Italy) (ibid). The job cuts approximate 1% of Novartis’ entire workforce, allowing the organisation to generate savings of $200ml annually\(^1\) (ibid).

1.1 Problem Field
It was Heraclitus, an ancient Greek philosopher, who was famously quoted for saying, “You cannot step into the same river twice”; suggesting that time is linear and sequential (Wagner, 1995: 8). His basal belief was that everything is in ‘constant flux’, and that the flow of change is continuous and

\(^1\) The ‘$’ symbol will refer to USD for the remainder of the paper.
never-ending (ibid). In the words of Dye (1974), \textit{“All things are in process and nothing stays as it was”} (op. cit. 9). His convictions on the nature of change, and our role in influencing and responding to it, are analytically helpful in understanding modern management paradigms aligned with humankind’s millennial struggle with the subject. He further argued that inexorable change is the basis of reality, and that stability is an illusion (ibid). This posits that change is necessary and uncontrollable. When viewed critically in a contemporary business context, change has, therefore, no purpose due to the simple fact that its occurrence is just the way it is (ibid). His beliefs were radically challenged by his peers Aristotle, Plato, and Parmenides, whose assertions are still equally relevant today (op. cit. 8).

Parmenides was perhaps the most emphatic challenger to the Heraclitean flux, and suggested that change is an impossible phenomenon. He argued, \textit{“Thou canst not know what is not – that is impossible – nor utter it; for it is the same thing that can be thought and that can be”}, and therefore even speaking the truth will become an impossibility (op. cit. 10). Following Heraclitus logic, Parmenides contended that change would be a logical contradiction in paradoxically suggesting that reality can never be, due to it already becoming something else simultaneously (ibid). By accepting constant change as reality, it implies the inability of leaders, specifically, to know their company, learn from past experiences, and control the environment (ibid).

Both arguments have valid points, but for the purposes of this paper it is clear that in a business context, change management has posed as much a challenge for managers and leaders, as it has as a philosophical event for millennia. The past has revealed that a less globally competitive and slower-moving business environment was the ideal climate for a norm of stability; \textit{“If it ain’t broke, don’t fix it”} (Kotter, 1996: 18). With ever growing pressure on organisations to gain competitive advantage in an increasingly globalising economy, companies need to find ways to navigate the macroeconomic forces at work in order to compete and prosper, but also simply to survive. This can be achieved by, while not eliminating other methods, reducing costs, improving quality and productivity, and detecting new growth opportunities. However, human beings are creatures of habit and therefore tend to resist the idea of change. Strategic change management has therefore become ever more pertinent and its impact on internal communication will be the focus of the
case. These assumptions contend that change in an organisation is not possible without the cooperation of its internal stakeholders; specifically, its employees.

Resistance to change is one of the biggest problems that managers face when introducing and implementing change, bearing in mind that resistance can present itself both internally and externally of the organisation (op. cit. 4). Common errors made that pose resistance to change include allowing too much complacency, failing to create a powerful and efficient guiding coalition, underestimating the power of vision, failing to create short-term wins, declaring victory too soon, and neglecting to anchor changes in the corporate culture (op. cit. 4-14). These pitfalls tend to result in unsuccessful or incomplete change attempts. It is therefore imperative that internal communication is effectively addressed in order to cultivate support, ensure strategic objectives and acknowledge the importance of employee morale. Similarly, Senge (1990) points out that “(...) redrawing the lines and boxes in your organisational chart without addressing the way people within the organisation interact [and communicate] may be like rearranging the deck chairs on the Titanic”.

1.2 Aim and Contribution Significance

This thesis sets out to explore the strategic changes that are and will be taking place at Novartis over the course of its restructuring efforts, and the internal communicative implications on managing change that will need to be considered. Furthermore, it does not attempt to analyse actual methods used, but rather to offer a consultative discussion and recommendations. The significance of this is to offer context-based insights into the complexities of strategic change management initiatives in an increasingly more competitive globalising economy. Globalisation is a socially constructed and constantly evolving phenomenon, and is therefore an unprecedented and knowledge stimulating realm for analysis in contemporary business studies.

Constantly reinventing organisations in a globalisation paradigm encompasses unprecedented complexities in change and its management; thus this thesis sets out to add value to a relatively young field of research. Specifically, value will be added in identifying the origins of change at Novartis (and on a lesser scale, the pharmaceutical industry), discussing how Novartis can use internal communications concepts in influencing its strategic change, and proposing
recommendations based on a critical analysis of change in the context of our current global economy.

Novartis was chosen as a case due to personal interest in the complexities and challenges of development in the pharmaceutical industry. Last year, Novartis announced a global restructure that would play out over the course of the next 3-5 years which provides the ideal opportunity to analyse the relevant concerns. The proximity of Novartis’ case to current events rather than as a historical frame of reference justifies the claim that the significance of this thesis for future reference.

1.3 Problem Statement
As mentioned earlier, Novartis has decided to undergo a global restructuring of its operations over the next 3-5 years. The reasons for this are to adapt its strategy to its current challenges in the pharmaceutical industry in order to maintain and increase their competitive advantages on a global scale. The impact of such a decision on internal communication alone is a monumental task in itself, and therefore will be interesting to explore in the contextual frame of a globalisation paradigm. As a result, the following problem statement was formulated: **What implications will Novartis’ restructuring plan have on its strategic change management from an internal communications perspective?**

1.4 Research Objectives
Approaching the problem area and addressing the problem statement can be greatly facilitated by including guiding research objectives that will aid in preserving the research focus:

- **RQ1:** *Identify* the strategic change origins of implementing such a vast overhaul of Novartis’ global operations.

- **RQ2:** *Discuss critically* how Novartis can use internal communications concepts in influencing the planning of its strategic change management.

- **RQ3:** *Formulate* Novartis’ mode of best practice in successfully implementing change internally in the context of the globalisation paradigm.
2 THESIS DESIGN AND METHODOLOGY

2.1 Research Purpose
The purpose of the research is to reveal the origins of the change decision, and to gain a better understanding of how the reasons for change are or will be impacting future internal communication practices. Furthermore, the research will reveal best practice methods of strategic change management and how these will translate to a practical real-time case within the internal frame of reference.

2.2 Research Paradigm
This section will present a theoretical and methodological framework within which the problem statement will be answered. The ontological, epistemological, and methodological elements of the research paradigm address the scientific method of knowledge creation that was chosen as best suited to the case, and why. In order for the reader to better understand the research and interpretative process, philosophical grounds upon which the author has decided to generate meaning will be discussed and reflected upon within the context of the case. The reader should keep in mind that the philosophical grounds upon which the author has built their argument will be inherent throughout the thesis, and will be conclusively critical in the final discussion and recommendations. Furthermore, they will also be helpful in ensuring the authenticity and trustworthiness of the research, as well as dispelling any visible biases.

The qualitative nature of this thesis indicates to the author that subjectivity will be a more salient research issue than the objectivity of quantitative research (Daymon & Holloway, 2010: 89). Therefore, rather than concealing the author’s subjectivity, the research paradigm will acknowledge its existence in the research and leverage it towards a better understanding of the author’s research process and avenue of thought (ibid). As a point of departure towards discussing the scientific school of thought behind the paper’s argumentation, the social constructivist\(^2\) paradigm was chosen as the most relevant and insightful for the chosen topic.

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\(^2\) Please note that ‘social constructivism’ is interchangeable with ‘social constructionism’ throughout the paper.
2.2.1 Ontology
Knowledge is partly constructed by the assumptions held by the observer, and one of those assumptions is the ontological (Kure, 2009: 6). Ontological assumptions represent what is said to exist, or in other words, how the world is (ibid).

Social constructionism is a scientific approach to knowledge that suggests that human beings construct knowledge through their mutual interaction in the course of social life (Burr, 2001: 4). In other words, we as humans are able to create a shared meaning that manifests itself as we interact with each other, and this meaning can be subject to change as our social contexts change. It follows, therefore, that there cannot be one single truth, but merely various versions of the truth as there are various ‘social constructions’ of the world around us (op. cit. 5).

Furthermore, social constructionism argues that objectivity cannot exist due to our reliance on constructing our realities out of the shared meanings we have created through our interaction (op. cit.: 6). This philosophy implies that knowledge cannot be found in our social structure nor our individual psyches, but rather in the actual process of interaction (op. cit. 7). Hence, knowledge is something people do together, and not something one can have (op. cit. 8). It advises us as subjective entities that we can never take our assumptions and perceived realities for granted (op. cit. 3).

2.2.2 Epistemology
The other assumption is the epistemological, and it aims to represent how knowledge about the world is created (Kure, 2009: 6).

Due to historical and cultural differences in our world, social constructionism suggests our understanding of it is dependent on those differences. Harré, who draws upon the philosopher Wittgenstein, proposed that language plays a major factor in our understanding of us and our world (Burr, 2001: 8). Our use of language largely depends on our historical and cultural backgrounds.

This ties in with the Novartis case, a Swiss company, in that a move to China or India would mean historical and cultural differences will still be at work. Such a move would involve communication practitioners to keep in mind that their social contexts are no longer the same throughout the
corporation itself, let alone their future business practices China or India. From the perspective of historical and cultural views, social constructionists would argue that with regards to this change there would be created a new understanding of the organisation and business practices. This would involve changes in social contexts for employees that have been dismissed, for employees that will be relocated, and for all employees that would have to communicate within this new context.

The vital difference between ontology and epistemology is that ontology is predicated on the school of thought that the world just is; the objects we see around us are objective and therefore subject-object relations are rarely a matter of concern. Meanwhile, epistemology considers the subjectivity of our perceptions on the world and therefore, that knowledge is created from those perceptions rather than accepting the world as just an objective entity. Following this train thought, it is logical to assume that since social constructivism relies heavily on subjectivity, that its epistemological arguments are most relevant here.

The arguments made so far would suggest that critical theory with an underlying theme of Habermas’ interpretative theory of hermeneutics would have been a relevant school to utilise. However, the Frankfurt School on critical theory aims to take action in order to create ‘ideal communication’, whilst realising emancipatory interests “(...) specifically through a critique of consciousness and ideology” (Klikauer, 2008; Carr, 2000: 209). It takes account of the Marxist and neo-Marxist notions on power and inequalities in society, and that reality is determined by the social, political, economic, ethnic/gender values, and the inequalities herein (Daymon & Holloway, 2011: 103). Critical theorists in this sense aim to achieve “(...) some sort of empowerment and emancipation of those whose voices may not be heard” (ibid).

Critical theory was not popularly discussed until Horkheimer’s essay on traditional and critical theory in 1937 (Carr, 2000: 209). He argued in traditional theory that the social and natural sciences were different in that knowledge could not be created from the experiences of humans in themselves, but rather that our individual realities can only be understood from our inherent beliefs, ideas, and previous experiences. Naturally, the same concept would apply as a researcher when conducting a study in order to create knowledge (ibid). The researcher is therefore part of the environment in which he is operating, and will be caught in the historical context in which
ideologies shape the research (ibid). Horkheimer argues that theory would be dependent, and inevitably, predicated upon the previous ideas and experiences of the researcher, rather than the research experience as an objective entity (op. cit. 210). This would suggest that there is not one true interpretation of an experience, and that each interpretation is unique to every individual.

In contrast, critical theory focuses on finding one ideal truth, ‘ideal communication’, and is predicated upon the assumption that the empowered in an organisation would use “(...) instruments of domination, distortion and oppression” (Klikauer, 2008: 21). In the context of this thesis, the assumption that there is only one ideal method of communication is vastly generalised, and unreasonable to suggest when taking into account a multi-faceted practical real-life situation. Therefore, while this thesis is focused on the internal aspect of communication and thus involves employees, it does not in any way seek to either falsify or improve upon a single model for ‘ideal communication’.

Social interaction between human beings is rich and complex, and quantitative measurement and generalisation cannot justify the subjectivity that is inherent. Varey (2004) commented on the trend that, up until recently, research in change communication has been predominantly positivist and therefore quantitative. This suggests that social relations have been largely ignored or gone unrecognised, resulting in that “(...) humans are treated as things (to be observed and manipulated), personal identity is reduced to ownership of commodities (brand), social relations are conceived in marketing terms (buyer-seller), and the question of the contribution of management work to the social good is unasked by most”. In order to accommodate for this imbalance, the ontological framework used will recognise and position the relevant stakeholders within a socio-political context, while the epistemological will seek to interpret that context. Carey defines communication as “(...) a symbolic process whereby reality is produced, maintained, repaired and transformed”, and suggests that no assumptions can be made about the communicative process prior to the future decisions of actors have been made (Carey, 1989: 23). This further supports the interpretative framework of the social constructivist view as the most effective, as opposed to the previously counter-argued critical approach. Therefore, taking the interpretative stance accepts the “(...) ontological assumption associated with interpretative/constructivism that multiple realities exist, that are time and context dependent (...)"
will gain an understanding of the constructs held by people in that context” (Mertens, 1998: 161). In addition, understanding the world within an interpretative framework can, arguably, “(...) only be accessed through social interaction, and (that) such interaction in turn is understood in terms of the context of the interaction (time and space)” (Biggam, 2008: 222).

2.2.3 Methodology
The business ontology of the interpretative framework combined with the humanistic element of the case suggests that a qualitative approach to the research methodology will be most effective. The nature of case studies allows researchers to increase their knowledge in actual contemporary context-sensitive communication events (Daymon & Holloway, 2010: 105).

A qualitative research methodology is grounded in the interpretative worldview, which supports previous arguments made for a social constructivist approach and yet still allows for a multi-pragmatic focus with regards to philosophical paradigms (Daymon & Holloway, 2011: 105). The versatile nature of qualitative research is advantageous in various contexts, and still serves as the basis for our methodological decision-making in choosing a case study approach.

Despite the flexibility and insights that qualitative research can provide, it is still important to keep in mind that the method should fit the research problem and is therefore problem-driven, rather than method-driven (ibid). Extrapolating from this recommendation, the embedded single case study seemed most appropriate within the framework of a qualitative research methodology. Traditionally in communications and public relations practices, case studies have been used as preliminary or pilot studies in points of departure towards an extensively broader quantitative research study (Daymon & Holloway, 2010: 106). However, this thesis attempts to use a case study approach to qualitatively centralise the issues that will arise from a strategic change plan. This is done by:

- “Undertaking a detailed analysis of a particular case and its setting;
- Trying to understand it from the point of view of the people involved;
- Noting the many different influences on, and aspects of, communication relationships and experiences that occur within the case;
- Drawing attention to how those factors relate to each other;
- Often also noting the broader social forces and regimes of power in which the case is embedded.”
The case study, when applied as a research approach, is described as a deep, narrow exploration concentrating on real events in their real-life contexts with a holistic view on the taken-for-granted as well as the noteworthy and strange, and must therefore be securely bounded in space and time (Daymon & Holloway, 2010: 107). The high contextual nature of the chosen subject would suggest that a case study allowing for a blend of multiple methods, sources, and viewpoints for a single purpose differentiates itself from “(...) other qualitative approaches because of their specific, in-depth focus on a phenomenon in its naturalistic setting as an object of interest in its own right” is most suitable (Daymon and Holloway, 2011: 114). In order to clarify on this point, Novartis’ plan of action requires tremendous human effort and time on its part for which the approach offers a well-rounded solution towards examining the dynamic processes that will extend over quite a substantial period of time (as change is something that must be continually maintained and adjusted). As Weidersheim-Paul & Eriksson (1997) point out, the case study methodology focuses on the role of actors, studies of historical causes and events, and has the ability to effectively communicate reality.

2.2.4 Data Collection
In order to keep the pure theoretical foundation upon which a consultative analysis can be formed, data collection was constrained to the secondary sources that are publicly available on the Internet and in print. These would include industry and corporate documents, as well as case related articles in the media and academic literature.

The information gathered from these secondary sources serves the purpose of orientating the reader about the organisation’s position, as well as industry conditions, and ensuring a truthful and credible “big picture” that will serve as this paper’s point of departure. Furthermore, secondary data gathered from relevant academic literature will instruct the theoretical assumptions that needed to be made in order to intelligently discuss the problem, and to offer a substantiated recommendation.

2.3 Delimitations
In order to provide a clear and comprehensive overview of the delimitations, this section will be divided into subsections: methodological and scope.
2.3.1 Methodological
Methodological approaches to knowledge creation have its own individual strengths and weaknesses that make each unique to its use. In the current context of using case study research as the favoured methodological approach, the main limitations as summarised with the help of Daymon & Holloway will be presented.

The boundaries of time and place that characterise a case study approach contribute to its own limitations. These boundaries are a limitation in that by defining them, one risks not knowing where the boundaries are; “(...) the boundaries of a case are difficult to define, such as who is an organizational member and who is not, or when a case study begins and ends” (Daymon & Holloway, 2010: 115). As a consequence, it can become difficult to identify the relevant data and concepts.

In the boundaries of place, social boundaries define the stakeholder groups that are taken into consideration. Meanwhile, the boundaries of time clearly outlines the period in which the research is conducted in; Daymon & Holloway noted that all “case studies should have a clear beginning and end” (op. cit. 113). Therefore, in order to add clarity to the purpose and parameters of the case study, the time period in question will focus on the pre-change activities (such as the planning and announcement of change, and managing the reaction). Thereafter, recommendations will be offered on the change management activities that need to be acknowledged. Identifying the social boundaries was a challenge as many stakeholder groups are inevitably linked and may overlap, and the hidden and informal forces in an organisation are difficult to observe as an outsider. Choosing to limit this thesis to the social boundaries of the internal stakeholders serves the purpose of clarifying the purpose and parameters. Furthermore, it serves the purpose of emphasising analysis on the influence of, specifically, employees and internal communication on strategic change management activities in a globalisation context.

2.3.2 Scope
The thesis seemingly sets out to present long-term change recommendations that only can be determined by years of planning, designing, implementing and evaluating a change initiative in an oversimplified manner. However, the scope of this thesis is much narrower than that in the interests of offering a well-argued and cohesive text, accommodating to time and size constraints.
The sheer magnitude of exploring a large company like Novartis, a company operating on a global scale, requires that under these circumstances a delimitation of scope is integral towards maintaining clarity, cohesion and concision. Therefore, this thesis strives to concentrate on the main strategic change activities that are influenced by internal communication concepts as a facilitator in the change process, with particular emphasis on the two-way communication flows between management and employees. It should finally be pointed out at this juncture that the global context will be evident throughout the paper. However, a superficial discussion of the implications of the emerging markets, particularly China, on internal communication will only be presented. The purpose of this is to provide focus on the implications of internal communication on strategic change management while still maintaining a global context, but also allowing for further research to be conducted that would link the concepts together in a more cohesive and structured fashion.

3 THEORETICAL FRAMEWORK & DISUSSION

“Everything is born in strife and is in constant flux; and whatever lives, lives by destroying something else” -- Heraclitus (Wagner, 1995: 8)

This chapter aims to present and critically review the main theories that will facilitate the analysis process. The literature review begins with an explanation of the core concept of change, and its origins, followed by a discussion in change management. Subsequently, the realm of internal communication will be introduced, to be included with a brief discussion on globalisation’s irrevocable link to communication and change. For the purposes of this paper, a comprehensive literature review on managing change will not be presented. Rather, existing literature on leadership, resistance to change, and the normative models for change will be imparted to highlight the issues that are believed to be especially pertinent for illustrating the mutually beneficial synergies between internal communications and managing the change process.

3.1 Concept of Change

Heraclitus’ suggestion that change is constant and that the world is never the same at one point to the next aptly describes the dynamic nature of the organisation. Strategic decisions made within an organisation inevitably involve changes for the stakeholders concerned. Cornelissen (2008: 201)
supports the assumption “[that] large organizations are prone to initiate and implement many organizational changes (...). All of these changes affect employees in one way or another and their successful implementation often crucially depends on communication. Poorly managed change communication may result in rumours and resistance to change”. Understanding the concept of change in the organisational and strategic context, as well as how change is met and by whom, is important to understanding the fundamental concepts change management theories are built upon.

3.1.1 Organisational and Strategic Change

“Change is an on-going and never-ending process of organizational life”

-- (Van de Ven & Sun, 2011: 58)

Organisational and strategic change can easily be confused and are not necessarily mutually exclusive. Therefore, it is helpful to understand the difference between the two in order to proceed with an in-depth discussion of the change phenomenon. Lynch (2009) stresses the importance of making distinctions between the different change concepts, and accordingly presents a brief explanation in his book Strategic Management. Organisational growth and change, according to Lynch takes place organically and continuously within an organisation, and the pace can be represented by “slow organisational change” at one extreme and “fast organisational change” at the other (Lynch, 2009: 563). The two extremes are at first self-explanatory, however, the consequences of each vary. Slow change is gradual and has a tendency to be met with less resistance. Thus, the process advances smoothly with high commitment from the stakeholders involved (ibid). Conversely, fast change is introduced unexpectedly and usually occurs as a measure of a significant strategic initiative. As a result, it is prone to encounter substantial resistance, despite sound management (ibid).

Strategic change, on the other hand, refers to a proactive approach towards change and may be associated with faster change rapidity (Lynch, 2009: 564). This entails that the organisation actively takes the initiative to seek improvement and manage new strategies made at the decision-making process, as well as administrating its impact on the stakeholders involved. Despite appearing prescriptive in its top-down approach, the prevalent strategic change theory is emergent due to the iterative nature of the respective change process in accordance with its social
constructionist approach. Additionally, the present fast-changing global market illustrates a situational environment in which Novartis continuously is required to develop organically, and to be aggressively proactive in adapting and leveraging its competitive advantage in order to remain competitive. This is consistent with the less disruptive and generally low-cost disposition of emergent theory (op. cit. 582). The prescriptive approach has a propensity to be forceful on the stakeholders involved, and Lynch (2009) therefore does not recommend “imposing” change on stakeholders in a situation in which co-operation is critical (op. cit. 576).

3.1.2 Responding to Change
Organisational change involves introducing new discourses by shifting existing patterns of discourse, which would inevitably elicit some form of resistance upon whose conversations are being shifted (Ford, Ford & D’Amelio, 2008: 368). Understanding the causes and cures for resistance to change has been extensively researched throughout the ages, and there is now much prevailing literature on the responses and how to deal with them.

In shaping his model on leading change, Kotter investigated resistance and the methods for dealing with it. Due to the prevalence of Kotter’s theories throughout this paper, it would only be appropriate to include his model on the methods for dealing with resistance:
TABLE 3.1 – Methods for Dealing with Resistance to Change

<table>
<thead>
<tr>
<th>Approach</th>
<th>Commonly used in situations</th>
<th>Advantages</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education + communication</td>
<td>Where there is a lack of information or inaccurate information and analysis</td>
<td>Once persuaded, people will often help with the implementation of the change</td>
<td>Can be very time consuming if lots of people are involved</td>
</tr>
<tr>
<td>Participation + involvement</td>
<td>Where the initiators do not have all the information they need to design the change, and where others have considerable power to resist.</td>
<td>People who participate will be committed to implementing change, and any relevant information they have will be integrated into the change plan.</td>
<td>Can be very time consuming if participators design an inappropriate change.</td>
</tr>
<tr>
<td>Facilitation + support</td>
<td>Where people are resisting because of adjustment problems.</td>
<td>No other approach works as well with adjustment problems.</td>
<td>Can be time consuming, expensive, and still fail.</td>
</tr>
<tr>
<td>Negotiation + agreement</td>
<td>Where someone or some group will clearly lose out in change, and where that group has considerable power to resist.</td>
<td>Sometimes it is a relatively easy way to avoid major resistance.</td>
<td>Can be too expensive in many cases if it alerts others to negotiate for compliance.</td>
</tr>
<tr>
<td>Manipulation + co-optation</td>
<td>Where other tactics will not work or are too expensive.</td>
<td>It can be a relatively quick and inexpensive solution to resistance problems.</td>
<td>Can lead to future problems if people feel manipulated.</td>
</tr>
<tr>
<td>Explicit + implicit coercion</td>
<td>Where speed is essential, and the change initiators possess considerable power.</td>
<td>It is speedy and can overcome any kind of resistance.</td>
<td>Can be risky if it leaves people mad at the initiators.</td>
</tr>
</tbody>
</table>

(Kotter, 2008: 136)

Similar conclusions on dealing with resistance were made by Ford, Ford & D’Amelio in their analysis of change agents’ four contributions to resistance and utilising resistance as a resource. They argued that change agents themselves could propagate resistance when their communication systems breakdown.

Kotter’s first approach advocates ‘education + communication’ where communication breakdowns occur in the transference and understanding of information and analysis to legitimise the change process in the minds of change recipients. Legitimising change is critical to establishing the discursive justifications that will in all likelihood increase acceptance and participation, as well as
accelerating its acceptance (Ford, Ford & D’Amelio, 2008: 366). They stress that it is important for change agents not to dismiss change recipients’ discursive interactions with the change process, and to exploit their resistance by providing the compelling justifications that recipients need to turn their resolve (ibid). This will inevitably create ‘engagement value of resistance’ and similarly ‘strengthening value’, which is a stronger commitment than mere acceptance to the change initiative because recipients felt threatened, and therefore become engaged in the change process to express their concerns (op. cit. 368-389). They are rewarded with mutual acceptance on the progression of change, and a strengthened conviction in the change initiative.

The arguments here are similar to those acknowledged by Van de Ven & Sun (2011) (q.v. Section 3.3.1) in that they assume the mental models of change agents are correct, when in actuality it is possible that they are flawed. Conflicting parties’ beliefs can give insights into the possible flaws of the proposed change, resulting in synthesis or mutual acceptance.

The second breakdown is misrepresentation of the information provided as result of either inflated optimism or inflated egos (op. cit. 367). These misrepresentations are dangerous because as change unfolds and recipients realise that the results of their efforts have been exaggerated, the credibility and trustworthiness of the guiding coalition (q.v. Section 3.3.3.3) is damaged and very difficult to repair again due to the anticipation of future inconsistencies (ibid).

The third breakdown occurs when there is plenty of dialogue about change, but no action (ibid). Change fundamentally cannot occur without mobilisation of the resources and activities that are implicit in the process (ibid). Change agents are mistaken in believing that merely disseminating change discourse to ensure the justification and acceptance for change by recipients is enough to activate it; performance discourses are specifically designed for that purpose (ibid). This suggests that in order for change to begin, both change and performance discourses are necessary. Complementary to this concept is that of the ‘existence value of resistance’ (op. cit. 368). Despite arguing that both discourses are necessary, for the sake of this case let us focus on the value of resistance to change discourse.

Simply resisting talk about change, keeps change alive (ibid). Without these conversations, there is no engagement and interaction; both aspects that are necessary for inducing change (ibid). The
following is an example from a pharmaceutical company attempting to introduce a new product:

“Using [the] data was very strong, something like ‘shock therapy,’ but it gave us the opportunity to get our foot in the door. We wanted as many people as possible talking about the issue; we wanted to create a debate. In the beginning, we weren’t concerned whether people were talking in a positive or even a negative way, because either way, it was bringing attention to our issue” (ibid; Reputation Management, 1999: 59).

The final breakdown is resisting resistance itself. Change agents can also become resistant when they begin to resist the ideas, proposals and counteroffers of change recipients (op. cit. 367). This is not only detrimental in hindering productivity, but it also places barriers for change agents to collaborate with recipients to optimise their problem-solving capabilities. Furthermore, the defensiveness of their resistance will result in a vicious cycle disagreement and persistence; resistance begets resistance (op. cit. 368).

Kanter, Stein & Jick (1992) (q.v. Section 3.1.3) proposed that out of the three political actors in the strategic change process, it is the change recipients that represent the majority group of resistance, “Change recipients represent the majority group of the three that need to adopt and adapt to change (...) [they] appear in organisational change literature as the principle sources of resistance” (Vas, 2005: 133)³.

3.1.3 Political Actors in the Strategic Change Process
In their prescriptive approach towards strategic change, Kanter, Stein & Jick (1992) proposed a finite solution to what they had already determined were the three main causes for strategic change (q.v. Section 3.2.2). Their model outlines three categories of political actors in the strategic change process in their respective roles: the change strategists⁴, the change implementers, and the change recipients⁵ (Kanter et al., 1992).

³ The quote was originally referenced in a French journal of management, and has therefore been translated for the purposes of this paper. The translation was prepared by the author of this paper, hence the original French translation can be found in Appendix 8.19 to ensure validity and transparency.
⁴ For the purposes of this paper, ‘change strategists’ is interchangeable with ‘change agents’.
⁵ For a more comprehensive model, please see Appendix 8.1 Kanter, Stein & Jick: The Three-Stage Prescriptive Approach
3.2 Origins of Change
To facilitate answering the first research statement regarding the strategic change origins of Novartis’ overhaul, it is logical that the causalities of change need to be explored. Identifying the causes will be important when attempting to understand and better manage the change process. The theories presented in this section will address the two most widely known works in change causality, Tichy (1983) and Kanter et al. (1992). As Kotter’s theories will be the primary baseline for analysis, it will be beneficial as well to include his model on the economic and social forces that drive the need for major change in organisations.

3.2.1 Tichy: The Four Main Causes of Strategic Change
Tichy (1983) recognised four main causes for change: environment, business relationships, technology, and new entrants to the organisation, particularly new leadership. He argued that despite the challenges that organisations will inevitably face in the dynamic and structurally complex dimension, the change circumstances can be managed to produce valuable strategic results (ibid).

3.2.2 Kanter, Stein & Jick: The Big Three Model
Alternatively, Kanter, Stein & Jick (1992) proposed the Big Three Model, which combined the macro- and micro evolutionary forces with the political to bringing about change. They posit that the change process can adopt three forms, and therefore the people involved in the change process can be placed in the three categories of political actors (q.v. Section 3.1.3).

The first form is in that of the environment; when disparities or shifts appear in the relationship between the organisation and its environment, a call for strategic change reflects the inconsistencies that threaten the organisation’s identity (ibid; Lynch, 2009: 574). The second finds itself in the form of life cycle differences, and involves the divergence of co-ordination and resource allocation issues between the parts of the organisation (ibid; ibid). Political power changes inside the organisation makes up the third; the changes in balances of power and control throughout the organisation’s and its subsystem’s various political actors and coalitions may force strategic changes (ibid; ibid).

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6 For a more comprehensive model, please see Appendix 8.2 Tichy: The Four Main Causes of Strategic Change
Concluding the model’s presentation, the authors suggested that the origins of strategic changes were relentlessly fluctuating. These fluctuations would be fast at times and slower others, but fundamentally the causal events of these inconsistencies urged the need for strategic changes (Lynch, 2009: 568). Note that Kanter et al.’s classifications should not be utilised with expectations of a guiding model, but rather a guideline for pinpointing the origins of change needs (e.g. Hatch [1997] disparaged the theory as being so simplistic it merely served the function of providing the framework for compounding other theories).

3.2.3 Kotter: Economic and Social Forces Driving the Need for Major Change
While Tichy and Kanter, Stein & Jick are very much concerned with the shifting forces internally and in the environment that propagate organisational change, Kotter focuses slightly more on the economic and social forces that drive major strategic change (Kotter, 1996: 19). These forces will be important in discussing Novartis’ case in relation to globalisation and the turbulent change dynamics of the pharmaceutical industry. Below is provided an interpretation of his model:
His model argues that the slower fluctuations of globalisation and competition in the past had justified norms that valued stability and a static business context. However, with the proliferation of the internet, the increased speed of knowledge transfer, increased global competition, and shifting political forces, the environment has become increasingly unpredictable and dynamic. Organisations have had to adapt to these new challenges, and realise that these challenges pose opportunities as well as hazards.
3.3 Change Management

“It follows that an acceleration in the rate of change will result in an increasing need for reorganization. Reorganization is usually feared because it means disturbance of the status quo, a threat to people’s vested interests in their jobs, and an upset to established ways of doing things. For these reasons, needed reorganization is often deferred, with a resulting loss in effectiveness and an increase in costs.”

-- (Bower & Walton, 1973: The Conference Board)

The contemporary business climate has seen increasingly more managers having to deal with new government regulations, new products, growth, increased competition, technological developments, and a changing workforce; all by-products of the continually evolving globalisation phenomenon (Kotter & Schlesinger, 2008: 130). The recent turbulence in the business environment has forced companies to respond in kind, with most companies undertaking “moderate” organisational changes annually, and significant changes every four-five years (op. cit. 132). Reinvention through organisational change is crucial to the long-term survival of the business, and the instinctive nature of humans to resist changes on any level has rendered leading change as both “absolutely essential” and the “ultimate test of a leader” (Kotter, 1995: 96). In order to begin answering the second research statement, it is critical to understand the applicable theories and models that contribute to the field of change management so that one may begin to appreciate how internal communication can be used in symbiosis. This section will introduce texts about the change processes that exist, the models of change management, and change leadership.

3.3.1 Van de Ven & Poole: Processes of Change in Organisations (and their Breakdowns)
Van de Ven & Poole offered four process models of organisation change, which they envisioned would represent the various sequence of events and motors that would explain how and why change occurs (Van de Ven & Poole, 1995: 511). The benefits of choosing to examine Van de Ven & Poole’s models are that each motor acts as a theoretical primitive which, when integrated, can offer parsimonious explanations of the various interplays on complex organisational changes and developments that occur over the course of each new paradigm (op. cit. 532). They strongly advise that the processes as separate theoretical perspectives only provide a limited view of a complex

7 Van de Ven & Poole (1995) refer to ‘generative mechanisms’ as ‘motors’.
social construct and are therefore juxtaposed and integrated, whilst preserving their distinctive theoretical perspectives simultaneously; “We contend that such integration is possible if different perspectives are viewed as providing alternative pictures of the same organizational processes without nullifying each other” (op. cit. 511). They further mention that integration of the theoretical perspectives would bring into focus the contrasting perspectives of social change and development, as well as allowing for outwardly divergent interpretations to interact and provide opportunities for learning (ibid).

Human beings have an inherent need to be in control of their environment, and are therefore susceptible to be resistant to those changes that would displace them from their comfort-zones. Consequently, when “(...) organizational change often does not unfold in expected ways”, it is necessary for humans as organisational beings to be prepared for those contingencies (Cornelissen, 2008: 201). These breakdowns in models of change occur when change agents experience discrepancies between the observed change processes and their mental models of change processes appear (Van de Ven & Sun, 2011: 58).

Breakdowns in the ideal processes generally force change agents to rethink their strategy to one of two: action and reflection. Action strategies resemble a prescriptive approach to problem-solving in that it attempts to directly correct the people or processes that prevent the change agents’ mental models from unfolding as expected; reflective strategies, on the other hand, are rather emergent in its approach and involve change agents “(...) mak[ing] sense of and socially construct understandings of the ‘buzzing, blooming, and confusing’ changes they experience in organizations” (Van de Ven & Sun, 2011: 59; Weick, 2011). The liability that can be detrimental if misconstrued here is that the action strategy assumes that the change agents’ mental models of change are the correct, and therefore need to be resurrected and maintained if deemed misaligned (op. cit. 58). Van de Ven & Sun advocate that both strategies can be effective to an extent as they represent the core activities in the processes of double-loop learning during change implementation, and are limited in their influence as they stand (op. cit. 59). Integration of the

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8 Consistent with their scale to approaching change models, Van de Ven & Sun offer the ‘constructive’ view of problem-solving. For the purposes of this paper, the term ‘emergent’ was used to help illustrate the similarities between the different models and theorists.
two strategies is directly linked with their recommendations to integrate the four process models of change when considering approaches on managing organisational change.

The ensuing discussion addresses the four process models of organisational development and change (Figure 3.1), their breakdowns, and their respective remedies as acknowledged by Van de Ven & Sun⁹.

**Figure 3.2 – Van de Ven & Poole’s Four Process Models of Organisational change**

<table>
<thead>
<tr>
<th>Multiple Entities</th>
<th>EVOLUTION</th>
<th>DIALECTIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population scarcity</td>
<td>Variation → Selection → Retention</td>
<td>Thesis → Anti-thesis → Conflict → Synthesis</td>
</tr>
<tr>
<td>Environmental selection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unit of Change</th>
<th>LIFE CYCLE</th>
<th>TELEOLOGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interlocked</td>
<td>Stage 4 (Terminate)</td>
<td>Prescribed Mode of Change</td>
</tr>
<tr>
<td>Stage 3 (Harvest)</td>
<td></td>
<td>Search/Interact</td>
</tr>
<tr>
<td>Stage 2 (Grow)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Immanent program</td>
<td>Implement goals</td>
</tr>
<tr>
<td></td>
<td>Regulation</td>
<td>Set/Envision goals</td>
</tr>
<tr>
<td></td>
<td>Compliant adaptation</td>
<td>Purposeful enactment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social construction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consensus</td>
</tr>
</tbody>
</table>

| Single Entity | | |
|----------------||Constructive|
| | | |
| | | |
| | | |

(Van de Ven & Poole, 1995: 520)

Teleology is a philosophical school of thought that is defined by having a purpose or goal as the cause for change (Van de Ven & Sun, 2011: 61; Van de Ven & Poole, 1995: 514. Teleological (or Planned) change is a recurrent and disconnected sequence of events that are initiated respectively by a unified dissatisfaction with the status quo, which then instigates a repetitive socially constructed℠ cycle of goal formulation, implementation, evaluation, and modification that

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⁹ For a broad overview on all points, please see Appendix 8.3 Van de Ven & Sun Breakdowns and Remedies in Process Models of Organization Change.

¹⁰ For a more comprehensive overview, please see Appendix 8.4 Van de Ven & Poole Conditions for Operation of Change Theories

¹¹ A brief discussion on the link between the school of social constructivism and the teleological/dialectic modes of change with relevance to the case will be presented in Section Discussion 3C.
emerges from a collective desired state (ibid). Life cycle (or Regulated) change is linear, irreversible, and prescriptive in nature, and is governed by the routines of nature, logic, or institutions (op. cit. 62; ibid). Change here is prescribed upon change recipients by a change agent, and submissive obedience to mandated change is implicit. Dialectic (or Conflictive) change is a recurrent and discontinuous sequence of contradictory forces and synthesis that arguably reflects nuances of chaos theory (Van de Ven & Poole, 1995: 514). The status quo is maintained by the exertions and compromises of conflicting parties within the organisation; dialectic change occurs when that status quo is tipped, and the conflict’s resolution between the challengers’ proposed change thesis and the opposition’s anti-thesis allows for problem-solving in synthesis (Van de Ven & Sun, 2011: 63). Evolutionary (or Competitive) change is recurrent and cumulative, with probabilistic evolution of variation, selection, and retention activities (Van de Ven & Poole, 1995: 514; Campbell, 1969). The characteristics that define evolutionary change are comparable to the central concepts of the resource-based view of strategic management; emphasis on the need for change is dependent on competitive advantage and resource scarcity.

**TABLE 3.2 – Van de Ven & Sun’s Breakdowns and Remedies**

<table>
<thead>
<tr>
<th></th>
<th>Teleology</th>
<th>Life cycle</th>
<th>Dialectic</th>
<th>Evolution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Typical breakdowns</strong></td>
<td>- Lack of recognition</td>
<td>- Resistance to change</td>
<td>- Destructive conflict</td>
<td>- Requisite variety</td>
</tr>
<tr>
<td></td>
<td>- Decision biases</td>
<td>- Lack of compliance</td>
<td>- Power imbalance</td>
<td>- Lack of scarcity</td>
</tr>
<tr>
<td></td>
<td>- Groupthink</td>
<td>- Monitoring and control</td>
<td>- Irresolvable differences</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Lack of consensus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Remedies</strong></td>
<td>- Triggering attention</td>
<td>- Responding to complaints</td>
<td>- Conflict management</td>
<td>- Niche development</td>
</tr>
<tr>
<td></td>
<td>- Critical thinking</td>
<td>- Local adaptation</td>
<td>- Negotiation skills</td>
<td>- Marketing</td>
</tr>
<tr>
<td></td>
<td>- Consensus building</td>
<td>- Internalizing mandates</td>
<td>- Political savvy</td>
<td>- Strategies for competitive advantage</td>
</tr>
</tbody>
</table>

(Van de Ven & Sun, 2011: 61)

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12 Birger Wernerfelt (1984), a highly reputable author in the field of strategic management, believed that there was a relationship between an organisation’s resources and products. Based on the premise that firms are heterogenous, these resources and products can be leveraged to increase competitive advantage and profitability (Wernerfelt, 1984: 171). Priem and Butler (2001: 31) criticised the tautological, or ‘self-verifying’, nature of the RBV as essentially circular in its reasoning.
A teleological approach to planned change requires a pre-agree upon shared organisational goal that runs the risk of breaking down when change recipients have diverging views on recognising the need for change and/or its commitments to courses of action (op. cit. 65). Similarly, the routine and effective changes that transpire under the life cycle model break down when systems in place fail, and resistance to change begins to mount (ibid). Meanwhile, power inequalities and counter-productive conflict resolution methods pose barriers to the dialectic processes of order-out-of-chaos confrontations that occur between opposing parties (ibid). Finally, evolutionary processes breakdown when product differentiation in the market dwindles to homogeneity, resources are ample, and competition is relatively passive (ibid).

3.3.2 Lynch: The Change Options Matrix

Lynch (2009: 586) submits The Change Options Matrix as an alternative model to understanding change processes to facilitate the decision-making process on the appropriate strategic change to be used in accordance with the model’s two factors: areas of people activity (formal/informal organisation structure, people and tasks) and three main areas of strategic change (technical and work changes, cultural changes and political changes)\textsuperscript{13}. Note that the model is not suitable as a master guide, but rather as general guidelines; Lynch (2009: 586) expresses his concern that most organisations will still find a need to concentrate their efforts and monitor the results. For the purposes of this paper, the relevant options from the matrix are found in Table 3.1.

TABLE 3.3 – Lynch’s Change Options Matrix

<table>
<thead>
<tr>
<th></th>
<th>Formal organisation structure</th>
<th>People</th>
<th>Tasks</th>
<th>Informal organisation structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical and work changes from the strategy to be undertaken</td>
<td>- Organisation of work and reporting</td>
<td>- Selection, training</td>
<td>- Consider environment, technology, learning, competitor activity</td>
<td>- Understand and monitor</td>
</tr>
<tr>
<td></td>
<td>- Strategy and structure</td>
<td>- Matching of management style with skills</td>
<td>- Learn and carry out new tasks</td>
<td>- Feed with ‘good news’</td>
</tr>
</tbody>
</table>

Nadler & Tushman (1997) developed a similar model called The Congruence Model, in which heavy emphasis was placed on the individual, team and organisation. They postulated that

\textsuperscript{13} For a more comprehensive model, please see Appendix 8.5 Lynch: The Change Options Matrix
organisations were systems of subsystems, and were exposed to external stimuli in the form of strategy, resources, and environment. These then translate into a transformational process of managing change where the four subsystems are interdependent; ideally resulting in overall improved performance. Figure 3.1 will visually interpret the process based on the information provided.

**FIGURE 3.3 – Transformational Process of Managing Change**

![Transformational Process of Managing Change Diagram]

### 3.3.3 Models of Change Management

"It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things."

-- Niccolò Machiavelli, *The Prince*

Included in the following models are Lewin’s Three-Step Model, Pettigrew & Whipp, Kotter’s Eight-Step Model, and Nadler & Tushman’s Congruence Model. Many scholars have now criticised Lewin’s model as too simplistic and outdated, but his model has been included for credibility purposes as he was one of the first theorists who studied group dynamics and organisational development (Burnes, 2004: 312).

#### 3.3.3.1 Lewin: The Force-Field Model

In the 1950s, Kurt Lewin developed a three-step model of the change process as part of his Force-Field analysis, which combined concepts from group dynamics, action research and field theory as well (Burnes, 2004: 311). He stated that, “one should view the present situation – the status quo –
Restructuring Novartis across a turbulent pharmaceutical landscape – An exploratory case study on strategic change management in a globalising economy

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as being maintained by certain conditions or forces” and posited that any changes in organisational behaviour stem from changes, large or small, in the force field (Lewin, 1943: 172; Lewin, 1947). Lewin (1947: 228) was concerned with the permanency of change initiatives, and how changes toward higher levels of performance frequently are short-lived. This indicated to him that merely reaching the desired level of change would not suffice; permanency at the new level was required, which was why he developed his three-step model (ibid).

The three-step model consisted of phases: 1) unfreezing current attitudes, 2) moving to a new level and finally, 3) refreezing attitudes at the new level (Burnes, 2004: 313). In order for successful change to be brought about the stakeholders affected must first feel a need for change, and not have change imposed upon them (Lynch, 2009: 574). This can then be followed by a search for new solutions that would better suit the organisation’s future development and vision (ibid). The final phase refreezes the new solutions in satisfactory circumstances for permanency. Ideally, the progression involves constant positive reinforcement and support for the decision-making process to ensure relative permanency (op. cit. 575).

Lewin believed that the key to resolving social conflict was learning and enabling people to facilitate planned change (Burnes, 2004: 311). He therefore stressed the criticality of communication in planned changed, so that the phases of his three-step model feed into and support each other (ibid).

As mentioned earlier, some scholars criticise his theory for being outdated, and perhaps they are right. The last two decades have shown that organisations are transitioning into a phase where focus has been on rapid, transformational change; rendering Lewin’s work as outdated and irrelevant to the modern organisation (op. cit. 309). However, Burnes (2004) does still argue that Lewin’s Field Theory still serves continuing relevance in its ability to draw parallels with the non-linear systems and dissipative structures of complexity theorists (op. cit. 310).

3.3.3.2 Pettigrew & Whipp: The Five-Factors Theory of Strategic Change

In 1991, Pettigrew & Whipp developed a model departing from emergent theory that attempts to yield a general examination of the five interrelated factors that contribute to successful strategic

14 For a more comprehensive model, please see Appendix 8.6 Lewin : The Three-Step Model
change (Pettigrew & Whipp, 1991). For the purposes of this paper, leading change, linking strategic and operational change and strategic human resource management are the most appropriate factors to take into account within the limits of Novartis’ internal focus.

FIGURE 3.4 – Pettigrew & Whipp’s Five-Factors Theory of Change

\[\text{(Lynch, 2009: 579)}\]

Pettigrew and Whipp (1991) emphasise the strong interrelatedness of the factors, and recommends the observer to view the iterative process as parts of a whole. Two additional components were added to the model by the researchers when they realised that the organisation needs to be able to adopt a balanced approach to change; focused and efficient internal conditions (primary conditioning features), and successful adaptation to external changes (secondary mechanisms) (Lynch, 2009: 580). The secondary mechanisms can only come into effect once the primary conditions have been met (ibid).

Addressing the factors that have been pointed out, each serves its purpose in facilitating an informed response to the final research statement apropos the suggested mode of best practice. Linking strategic and operational change is critical in ensuring the alignment of the change

\[\text{For a more comprehensive model, please see Appendix 8.7 Pettigrew & Whipp: The Five-Factors Theory of Strategic Change}\]

\[\text{A detailed representation of these mechanisms can be found in Appendix 8.8.}\]
initiative and the organisation to minimise resistance to change (Pettigrew & Whipp, 1991). In *leading change* the organisation must consider the factors that enable leaders to successfully lead change and finally, *strategic human resource management* necessitates strong human resource skills and a double-loop learning approach\(^\text{17}\) (*ibid*).

Lewin’s model exudes qualities in the change process that can, for the purposes of this paper, draw links between Kanter et al.’s (1992) Big Three Model and Kotter in order to offer a cohesive integrated discussion of their theories. Lewin’s model suggests that *change strategists* have the ability to ‘unfreeze’ the organisation by shedding light on the problems and needed changes in an organisation’s strategy in relation to its environment (q.v. Section 3.1.3). Meanwhile, Kanter et al.’s *change implementers* play the role of ‘moving’ or making change happen by manipulating the micro-dynamics of the change process, including the interplay of the various groups, constituencies, and processes within the organisation. Respectively, these stages are characterised by Kanter et al.’s macro-evolutionary forces between the organisation and its ‘environment’, and its micro-evolutionary forces and the organisation’s evolving ‘life cycle’ (q.v. Section 3.2.2). *Change recipients* are the political actors that are most affected by change efforts and processes, and ironically, they also have the least power to influence change until Lewin’s ‘refreezing’ stage. At this stage the ‘political power changes’ that occur within the organisation will contribute towards ‘refreezing’ the attitudes that have been moved; the change recipients’ role in this stage is that they are responsible for the new culture that will be anchored in the organisation, which implies that they have influence on the political changes that occur as well.

### 3.3.3.3  Kotter: The Eight-Step Model

John Kotter is best-known for his work on the anatomy of organisational change, and is still intensely relevant a decade after he first published his thoughts on leading change (Kotter, 2007: 96). Important characteristics of his model are that he altered the predominant rhetoric at the time in his work from *managing* change, to *leading* it, and emphasised the use of communication and human resource management by constantly stressing the crucial people factor of change. He stresses his point by drawing attention to communication’s ability to present itself in both actions and words, and that the former was the most powerful form of communication (*op. cit.* 100).

\(^{17}\) “*Double-loop learning occurs when error is detected and corrected in ways that involve the modification of an organization’s underlying norms, policies and objectives.*” (Argyris and Schön, 1978: 2–3)
Therefore, he underlines the importance of consistency and leading by example (ibid). Despite the Eight-Step Model’s focus on leadership through change, his model outlines the rudimentary critical success factors (and their order) of an effective change management strategy and is therefore applicable to the case due to its heavy communication focus. It is interesting to note that Van de Ven & Sun’s (2011) change breakdowns as well as Schaffer’s (2010) breakdowns in leadership communication can occur at various stages in Kotter’s model (q.v. Section 3.34 & 3.3.2).

Step 1: Establishing a sense of urgency requires broadly and aggressively communicating the situational urgency of an impending crisis, and the reactive and/or pre-emptive reasons for implementing a change (Kotter, 2007: 97). When motivation is lacking, change efforts are futile; the cooperation of the people is necessary and can be garnered by facilitating their understanding of the decision-making process (ibid). Ensuring the correct rate of urgency will increase the motivation for change. Negative balance sheets and cash flows can sometimes be a blessing in disguise by drawing attention to the increasing urgency and need for change (op. cit. 98).

Step 2: Creating a powerful guiding coalition begins with the one or two people who initiate a change programme (op. cit. 98). After the initial starting phases of starting the programme, a few more members should join the guiding coalition to expand its influence against resistance (ibid). Establishing support from prominent members of the organisation is not limited to senior management, but anyone that can be an authoritative influencer in the areas of title, information and expertise, reputations and/or relationships (ibid). Without amassing the mutual pledge of a strong coalition dedicated to excellent performance throughout change, the necessary momentum needed to successfully carry out the initiative will not be sufficient (ibid).

Step 3: Creating a vision is essential in every successful transformation (ibid). The guiding coalition needs to create a vision of the future that is easy to communicate and appealing to stakeholders (ibid). It is essential to maintain direction throughout a chaotic change effort, and having a clear vision will help inform the guiding coalition’s strategic vision for the organisation (op. cit. 99). A vision that cannot be translated and communicated into reality will dissolve the transformation effort into chaotic incompatible disarray. Kotter suggests that, “If you can’t communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not yet done with this phase of the transformation process” (op. cit. 99-100).
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August 1, 2012

Step 4: Communicating the change vision is critical to ensuring the cooperation needed from employees (op. cit. 100). Without clearly, comprehensively and repetitively communicating the necessary information, credibility falls along with morale; employees will not be willing to make sacrifices for a cause they don’t believe will be remedied other than by the possibility of a useful change effort (ibid).

Step 5: Removing obstacles to the new vision involves empowering the organisation’s employees for broad-based action by successfully communicating the latest direction of the company (op. cit. 101). This would prevent narrow organisational structures from undermining change efforts, and encourages employees to take risks on non-traditional ideas, activities and actions (Kotter, 1996: 21).

Step 6: Generating short-term wins are crucial for maintaining high morale and support for the change effort. Therefore, the guiding coalition needs to ensure planning for and creating wins, and recognising and rewarding those individuals who made them possible (ibid).

Step 7: Consolidating gains and producing more change involves avoiding the complacency trap and declaring victory too soon (ibid). When the status quo is in such a fragile state, allowing for the changes to embed themselves into the corporate culture will take time and are at risk at lapsing (ibid). Hence, renewing the change effort with updated projects and themes will add credibility, reinvigorate the process and motivate the troops (ibid).

Step 8: Anchoring new approaches in the new corporate culture, as mentioned earlier, take time and when successfully embedded they define the new “way [of how] we do things around here” (Kotter, 2007: 103). Ensuring the relevant stakeholders recognise the benefits of the changes made and can perceive strong leadership will expedite anchoring those new approaches (ibid).

Kotter’s main overarching argument as the goal of all change efforts, be they total quality management (TQM), reengineering, rightsizing, restructuring, cultural change, and turnaround, is to make central changes in conducting business to facilitate survival-of-the-fittest in a new, more competitive business environment (op. cit. 96). He further highlights that the two most universal lessons he learned from studying organisational change are that the change process is concluded over a series of phases that usually require a considerable amount of time (no shortcuts!), and
that mistakes in the completion of any of the phases may result in slowed momentum and negated progress (op. cit. 97). Kotter introduced his model bearing in mind that successful efforts would be characterised by tailor-made approaches towards dealing with each specific resistance group, and a clearly considered, cohesive and non-incremental strategy that addresses each step (Kotter, 2008: 137).

Interestingly, Kotter’s model can be very easily compared to Kanter, Stein & Jick’s model in their book *The Challenge of Organisational Change* (1992): 1) analyse the organization and its need for change; 2) create a shared vision and common direction; 3) separate from the past; 4) create a sense of urgency; 5) support a strong leader role; 6) line up political sponsorship; 7) craft an implementation plan; 8) develop enabling structures; 9) communicate, involve people, be honest; 10) reinforce and institutionalize change. These steps, although not explicitly stating that they are communicative in essence, cannot be achieved without it (q.v. Section 3.4.2). Creating a sense of urgency, creating a shared vision and common direction, communicating the change, empowering employees and anchoring new approaches are all examples that require communication to create shared meanings out of the constructed reality of the change process. Without using communication to create a shared understanding of the process, change cannot be incurred due to disparities in the change tactics, objectives, and goals.

In order to add some more substance to otherwise simplified theories on the reality of organisational change, Lewin’s model could be applied to Kotter’s by suggesting that his first four steps of creating major change serve the purpose of ‘unfreezing’ organisational attitudes. Establishing a sense of urgency, creating a guiding coalition, developing a vision, and communicating that vision are all activities that are directed towards convincing people that there is a need for change. The next three steps of empowerment, recognizing short-term wins, and consolidating gains to produce more change are clearly efforts at ‘moving’ the organisation into a new direction, and these steps can only be achieved once attitudes have been unfrozen. Without the acceptance of change, moving an organisation is not possible. Finally, Lewin’s ‘refreezing’ of organisational attitudes is evident in Kotter’s final step of anchoring new approaches in the culture.
3.3.4 Change Leadership

From the above discussion, it has become clear that change cannot be realised without strong inspirational leadership; “Enlightened leaders know how to get their people excited about their mission. By expanding the purpose into a vision, they effectively draw out the inspiring and energizing aspects of purpose so their people can become focused and excited about it” (Oakley & Krug, 1991: 171) In today’s economic climate, leaders in particular are increasingly challenged by great leadership expectations from their stakeholders to implement strategic change in order to pragmatically and effectively adapt to the shifting status quo. Particularly in the emerging markets are leaders consistently faced with challenging decision-making in rapidly changing economic climate, and yet are allowed high levels of latitude due to weak market regulations and an absence of a method of best practice (Chung & Luo, 2012: 6).

These are, however, only scratching the superficial surface of the challenges that leaders face in times of economic turmoil and rapidly changing dynamics. Four behaviours barring organisational change that founder of Schaffer Consulting, Robert H. Schaffer, identified were the deepest rooted in the managerial psyche were:

1. **Failing to set proper expectations.** Leaders announce shifts in goals or direction without spelling out specifics, saying who’s accountable, or setting clear deadlines.
2. **Excusing subordinates from the pursuit of overall goals.** Managers allow employees to focus narrowly on their units, and so responsibility for the companywide performance gets “delegated” upward.
3. **Colluding with staff experts and consultants.** Executives permit experts to deliver solutions without assuming responsibility for outcomes.
4. **Waiting while associates prepare, prepare, prepare.** Endless preparation gives the illusion of progress but ultimately gets in the way.

(Schaffer, 2010: 89)

The first danger of failing to set the proper expectations can be avoided by refraining from what Schaffer calls the “seven deadly sins of setting demands” (Schaffer, 2010: 91). These transgressions are found in the forms of establishing too many goals so that they overwhelm the change recipients; not making a clear and well-communicated plan of how and when these goals are to be
achieved; neglecting to be firm with pushing through decisions for significant improvement for fear of resistance; not assigning key people to key goals of the change process; signalling hopeful expectations of cooperation rather than a well-informed message of the vision and outcomes; taking on reverse assignments (“sure, boss, I can get it done if you will to it that…”); and ensuring goals are feasible and definable (ibid). It is clear that the last danger is important in guaranteeing the creation of a clear goal message that will be justifiable, and Schaffer’s description is arguably comparable to the SMART objectives of goal setting or Key Performance Indicators (KPI) as popularly outlined in various works of literature on project management and employee performance management. These objectives ensure that goals are (S)pecific, (M)easurable, (A)chievable, (R)ealistic, and (T)imed (Pickton & Broderick, 2005: 299).

Departing from these mistakes that leaders have a tendency to make during change processes and how they can be avoided, Schaffer further suggested a new conceptual way of leading change processes through the evaluation and adaptation of multiple change successes. This concept assumes that by incrementally completing test programmes through the ‘innovative experimentation’ of change processes, evaluating their success factors and possibilities for improvement, and then rolling out the change programme throughout the rest of the organisation (ibid). This would suggest that the seemingly emergent approach he offers will find more success in implementing change effectively and in a timely manner in the face of resistance, as opposed to creating and imposing a full-blown change programme. Schaffer explains, “Breakthrough experiments create a kind of dynamism through focus and success. If carefully selected and designed, they nearly always deliver. Once that happens, their fruits multiply rapidly” (ibid).

Similarly, Woodward & Hendry felt that many models in contemporary change management literature were all too often prescriptive or, as Collins (1998) termed them, ‘n-step’ recipes (Woodward & Hendry, 2004: 166). They argued that utilising purely prescriptive methods of approaching change would provide weak theoretical justifications, and that a constructive approach would view change as a recursive organising of the social processes ascribed to changing and learning (ibid). Their focus on the social construction of the change paradigm as a social process is implicit in their model, and is extremely relevant to the chosen scientific school of thought that has instructed this theoretical framework. They support their argument in advocating
that within a transactional world-view, the “persons, processes and contexts mutually define one another and serve as aspects of the whole, not as separate elements. These aspects do not combine to yield the whole; they are the whole and are defined by and define one another” (ibid; Weick, 1979; Hosking & Morley, 1991).

The reasons given by senior managers and employees for why change programmes fail are analogous, and therefore suggest that a shared construction and understanding of the problems that have arisen already exists (ibid). However, Woodward & Hendry argue that present change management theories are limited in addressing the alignment of leading and coping with change processes and have therefore developed a framework for that exact purpose:
TABLE 3.4 – Woodward & Hendry’s Change Leadership Model

<table>
<thead>
<tr>
<th>Change process</th>
<th>Learning interventions</th>
<th>Leading and resourcing change</th>
<th>Employee adaptation</th>
<th>Individual and organisational failure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase 1</strong></td>
<td>New role experiences</td>
<td>Create new directions and situations</td>
<td>Assess situation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restructure expectations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Create climate and resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Phase 2</strong></td>
<td>Training and coaching for new competencies</td>
<td>Provide support for learning</td>
<td>Develop new skills to manage and change situations</td>
<td>Low sense of autonomy and control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Share control of performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Phase 3</strong></td>
<td>HR systems for individual development</td>
<td>Alter policies and practices on staffing</td>
<td>Success in meeting new requirements</td>
<td></td>
</tr>
<tr>
<td><strong>Phase 4</strong></td>
<td>Organisational reinforcement</td>
<td>Consolidate and formalise</td>
<td></td>
<td>Failure of change programme</td>
</tr>
</tbody>
</table>

(Woodward & Hendry, 2004: 168)

They explain that in line with the social processes that inform the change initiative, it is imperative that leaders and managers understand that the “reality-building process” of change is constructed on communication that isn’t viewed as merely a ‘transmission’ through an organisational conduit (op. cit. 167). Communication, they contend, should be constructed out of the social interactions
that occur in an organisation going through an emergent process of change in order to encourage a coordinated change effort (ibid). Therefore, their model attempts to illustrate the process relationships, and how human interactions are interpreted to socially construct new organisational contexts through the new roles that change incurs on its recipients (ibid). The intrinsic nature of a holistic change process would then suggest that a shifting organisation is merely altering its intrinsic value: the relationship, competencies, and capabilities that define it (op. cit. 169). Support from recipients for a change effort is necessary, and is not possible without ensuring positive employee experiences in the changing workgroup dynamics (op. cit. 167). The model addresses these issues similarly to a double-loop learning approach, and advocates that change progresses as a holistic learning process of problem-solving and improvement (ibid). Therefore, as change progresses and the coping capabilities of employees to constantly evaluate and adapt wear thin, the drive for change will be met with resistance (ibid).

3.3.4.1 Leadership Succession and Change

Novartis’ case announced plans to initiate change shortly after a shift in CEO leadership, and when considered objectively it was likely no coincidence. The following section will attempt to add clarity and relevance to how new leadership succession can significantly influence and even call for change in an organisation.

According to Kanter (2003), strong leadership is a vital factor in the successful implementation of any turnaround, and hence, any change initiative. The predominant view of contemporary leadership used to be that it was trait-driven and, therefore, innate; this view changed, however, and was replaced with behavioural traits that focused on the adopted leadership styles (O’Kane, 2006: 118). This suggested that there was only one best practice, and it was therefore disparaged as it didn’t take into account the situational factors that would influence the context within which leadership emerges. Comparable to Van de Ven & Sun’s (q.v. Section 3.3.1) suggestion that it is important for change agents to have the ability to master and integrate a repertoire of mental models of change, Leithwood et al. summarises: “what is important is how leaders respond to the unique organisational circumstances or problems (...) there are wide variations in the contexts for leadership and that, to be effective, these contexts require different leadership responses (...) individuals providing leadership (...) are capable of mastering a large repertoire of leadership
practices” (Leithwood et al., 1995: 15). Kotter further supports these assumptions in positing that the two most common mistakes that leaders make are limiting their approaches to one or a few regardless the situational factors that call for more suitable approaches, and approaching change with an inconsistent, fragmented and ill-considered strategy (Kotter, 2008: 137).

Despite their interest in leadership in the emerging markets, Chung & Luo were more focused on the impact of a change in leadership on firm performance in an emerging markets context. Similar to O’Kane’s postulations on whether leadership is innate or context-specific, they identified multiple factors of influence that they compiled from previous research, and were found relevant in understanding the implications of Jimenez’ appointment prior to the change: successor’s skills, experience and adaptability to change, their access to network resources, disruption to organisational routines, and the response of key stakeholders (Chung & Luo, 2012: 6; Kesner & Sebora, 1994; Giambatista et al., 2005). They correspondingly argue that external and internal successors have both advantages and disadvantages on influencing the processes of change; internal appointments have from initiation much better access to the company’s firm-specific knowledge and its internal networks and resources without posing a threat to existing coalitions (ibid; Cao et al., 2006; Shen & Cannella, 2002). These are a few of the tools that will be critical for a smooth transition of leadership, which should be considered a prerequisite factor for undisruptive and successful change management (ibid).

3.4 Internal Communication
To facilitate a discussion on the implications of internal communication on strategic change management, the ensuing discussion will centre on the essence of internal communication, the potential it holds to influence change management, and how it can be utilised.

Predominant literature in internal communication has used the term interchangeable with ‘employee communication’, ‘staff communication’, and ‘internal communication’ (Cornelissen, 2008: 195). Internal communication is defined by Cornelissen (2008: 195) as communication between internal key stakeholders as part of an effort to both align the organisation’s strategic direction and identity with the external organisational image and reputation, as well as facilitating the effective communication and transference of knowledge and information. With the proliferation of technological advances, these boundaries between the internal and the external
have, however, blurred slightly and will continue to do so in a rapidly globalising business environment (ibid). Cornelissen submits that with the advent of social media and the internet, effective methods of internal communication include blogs, emails, social networking sites, forums, webinars, corporate TV etc. and it is clear that in the modern age of communication, physical boundaries are no longer prevalent (ibid). Internal communication suggests now that employees and their managers are able to communicate on various platforms that are not necessarily internal, and are subject to external reflection.

The implications of blurring boundaries are significant for organisations and the way they plan their communication strategies. Organisations need to rethink how they communicate with their key internal stakeholders as the channels for communication are now predominantly dictated through the preferred mediums of these stakeholders.

Furthermore, internal communication is attributed by Clutterbuck & Hirst (2004) to “assist people in an organization to work together and learn together in pursuit of shared goals and/or the mutual creation of value”. The social constructionist perspective lends credence to the validity of this claim, and further supports it in its philosophical stance that knowledge and meaning is created out of the shared interactions of respective internal stakeholders. Therefore, its implications are that internal communication encompasses all internal stakeholders and the changes that divergent views on shared realities incur.

Change communication is an inherent aspect of the internal communication effort, and the same principles of internal communication effectiveness will naturally apply to change communication (op. cit. 201). The popular consensus on effective communication advocates its facilitation in improving and optimising employee engagement, coordination, knowledge-sharing and commitment. In conclusion, “internal communication (…) is the catalyst if not the key to organizational excellence and effectiveness” (Grunig, 1992).

### 3.4.1 The Importance and Use of Internal Communication during Strategic Change

The discussion so far has touched upon the importance of strategic change, and its causes; the common inference is that strategic change is necessary to facilitate an organisation’s declining competitive advantage, and that it is usually the root cause for change. The changing economic and political landscape has spawned a desperate search for organisations to become ever more
adept and agile in a world where globalization, technological innovation and economic fluctuations threaten an organisation’s competitive advantage as the competition proliferates. In today’s economy, sustainable competitive advantage is critical to stay ahead of the fast-moving technological and global operational curve, which is why this paper has begun to take on a resource-based view of internal strategic capabilities on competitive advantage. These capabilities include the internal processes of knowledge and communication transference, and are integral in creating sustainable competitive advantage (Tucker, Meyer & Westerman, 1996: 57).

Deriving from this logic, it is asserted that internal strategic capabilities can potentially create competitive advantage:

“The firm’s resources will be defined as transferable input factors controlled by the firm that are converted into outputs using a range of firm assets and bonding mechanisms such as management information systems, incentive systems, or trust between management and labour. These resources consist of proprietary know-how, financial or physical assets, human capital, government licenses, etc. Capabilities, in contrast, are tangible or intangible assets that are firm specific and are created over time through complex interactions among the firm’s resources. They can be thought of as intermediate goods generated by the firms to provide enhanced productivity of its resources as well as flexibility and protection for its final product or service. Capabilities are based on developing, carrying, and exchanging information through the firm’s human capital” (Amit & Shoemaker, 1990: 4-5).

Disregarding whether or not strategies are emergent or prescriptive, what defines them are that resources are needed inputs to produce performance and financial indicators of performance outputs (Tucker et al., 1996: 58). Following these assumptions of the resource-based view, all inputs are therefore resources that can produce goods, and communication and the transference of knowledge are resources as well. Clearly, communicated knowledge is one of the most important sources of competitive advantage, particularly when recognised on a global scale (ibid). An organisation that is able to design effective internal communication plans across oceans and governments are geared towards sustainable competitive advantage by having the capability of establishing R&D and manufacturing centres of excellence, for example.
3.4.1.1 Communicative Role of Change Agents

Change agents have a pivotal role in the design and implementation of the overall change process, and while it is implied that they are leaders and managers, it is important to recognise that they can be any organisational members that have influence on communication and business strategy. After having typified that communication is a critical element in successful change, it stands to reason that the communicative role of change agents should not be underestimated, and certainly not neglected. In an analysis conducted by Lewis, Schmisseur, Stephens & Weir, three communicate themes were revealed that describe the purpose of change agentry: *promoting communication and participation, facilitating the change process and creating a vision* (Lewis et al., 2006: 118).

These normative practices denote similar themes to those that are in line with change management and leadership with regards to employee communication and empowerment. The first of promoting communication and participation encourages managers to delegate the requisite resources and knowledge to organisational members to implement the change process (*ibid*). Similar to Kotter’s empowerment step, Belasco (1991: 50) argues that with change, change agents must empower organisational members to experience and live the change vision, “*The common thread throughout all success stories is the action of leaders – at all levels in an organization – to create a right new tomorrow – and then empower people to achieve that tomorrow*”. The aim here is that by empowering their members and delegating responsibility, leaders and managers can espouse a change culture where the communicative channels and contexts centre more around employee communication and feedback – eventually, this will promote the necessary engagement and commitment to initiating the needed changes. Kriegel & Brandt (1996: 252) state the issue quite succinctly: “*Barring profit sharing, the best way to create ownership is by giving employees as much control over their destinies as possible. In other words, they may not be able to own the company, but they can “own” their jobs (...) it’s equally true that this kind of ownership is a great way to get people excited about change. In fact, the more ownership, the more motivation*”. Establishing and emphasising a purpose and vision for change is part of change agents’ roles to facilitating the change process, and is supported by Kotter’s ‘unfreezing’ steps of gearing employee’s mentalities toward the need for change through communicating that same vision (Lewis et al., 2006: 119).
3.4.1.2 Specific Communicative Tactics for Change

Lewis et al. further analysed the specific communicative tactics for change that change agents can utilise in their planning and implementation. Concurrent theories on change management and leadership provide an ideal platform where communicative tactics for change need to be aligned with the strategic direction of the entire change effort. Therefore, the symbiotic integration of change management, leadership, and internal communication agree in advocating that change communication tactics need to ask for input; use informal networks and knowledge of key stakeholders; disseminate information; manage the style and content of communication; be motivational in communication; formulate and follow a communication plan; create and communicate vision; and, despite its less than popular theme, use threats, punishments, and intimidation (op. cit. 123-128).

Again, popular themes emphasising the significant need for managers to address employee communication strategies have permeated internal and change communication literature (q.v. Section 3.4.2). Asking for input suggests that change agents need to acknowledge the mutually beneficial value of feedback and response, and that they need to ensure a participative environment for employees; this would include encouraging questions, a ‘listening’ culture, and every perspective to be heard (ibid). There is an overall consensus as well that communication need not always be formal and indirect, but that a balanced degree of direct and informal ‘face-to-face’ communication between key stakeholders is advocated (ibid).

Disseminating information and managing the style and content of communication need to be aligned with the change management strategies that ensure change recipients are well-informed and knowledgeable about the reasons for change and how it will be implemented; as discussed earlier, this is essential to facilitate a change initiative (ibid). General advice given in these tactics are quite universal; provide clarity, cohesion, and structure regarding tasks, roles, strategy, objectives, and processes, while emphasising the positive and de-emphasising the negative (ibid). Connor (1992: 98-99) counters, however, that these “pain messages” need to be disseminated truthfully to motivate change recipients to accept change; Davidson (2002) concurs with Connor and suggests that inflicting pain in change implementation messages will produce the best
responses to change. The reasoning is that by allowing employees to see the big picture, including the problems and difficulties that may arise, they are more willing to accept them.

Motivational communication is implied in the role of leaders and managers, and therefore requires little discussion. It plays an important role giving leaders and managers the resource to create and effectively communicate their change vision, a communicative step that is critical in Kotter’s change implementation steps and Lewin’s border between ‘unfreezing’ and ‘moving’ an organisation towards change. The final piece of advice that was given is, as suggested, slightly unpopular in its context but authors have identified that a punishing strategy can be effective in ‘kick-starting’ change (ibid).

Erickson (1992) highlights a brief list of criteria that will compliment these tactics in their delivery. Similar to the characteristics of SMART goals, the 7C’s of effective communication ensure that it is concrete ([M]easurable), concentrated ([S]pecific), coordinated ([T]imed), consequent ([R]ealistic and [A]chievable), contrast creating (the situational condition differs from before communication), contact creating (two-way communication to encourage dialogue and idea sharing), and continuous (suggestive of socially constructed meanings in communication that are by definition emergent and constantly changing).

3.4.2 Change Communication

General theories on change management have proliferated significantly in recent years, and for the purposes of this paper a top-down communication model by Clampitt et al. was used to introduce the concept of change communication during change to provide a baseline for the following discussion (Miller, 2006: 225). Change managers approach top-down change communication differently according to their effectiveness and information load:
TABLE 3.5 – Managerial Strategies for Communicating About Change

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spray and pray</td>
<td>Management showers employees with all kinds of information in the hope that employees will be able to sort out significant and insignificant information.</td>
</tr>
<tr>
<td>Tell and sell</td>
<td>Management selects a limited set of messages regarding core organizational issues. Management ‘tells’ employees about these issues, and then ‘sells’ employees on the wisdom of the chosen approach.</td>
</tr>
<tr>
<td>Underscore and explore</td>
<td>Management focuses on fundamental issues related to change success and allows employees the creative freedom to explore various possibilities.</td>
</tr>
<tr>
<td>Identify and reply</td>
<td>Management listens to and identifies key concerns of employees and then responds to those issues as they are brought up.</td>
</tr>
<tr>
<td>Withhold and uphold</td>
<td>Management withholds information as much as possible. When management is confronted with questions and rumors, they uphold the party line.</td>
</tr>
</tbody>
</table>

(Miller, 2006: 225; Clampitt et al., 2000)

From a cursory gland it is immediately obvious that the ‘withhold and uphold’ strategy goes against much of the previously discussed literature on leading and managing change, while ‘underscore and explore’ proves to be comparable to the suggestions of Kotter, Kanter et al. and others. Clampitt et al. argued that the ‘underscore and explore’ strategy was the most effective, while ‘spray and pray’ and ‘withhold and uphold’ were found least effective (op. cit. 224). In order to provide a visual comparison, Cornelissen (2008) developed a graph that depicted the effectiveness of each strategy against the amount of information that needs to be disseminated:
The top-down approach outlined is extremely simplistic, and it isn’t recommended to utilise it on its own. Again, it merely depicts a general strategy that managers can investigate as part of an integrated communication model. Clearly, change communication is much more complicated and emergent than described above and as it is the key to any successful change endeavour, it shouldn’t be underestimated as communication practices are the reason organisations can exist. The shared meanings that are constructed out of communicative interactions define the organisation’s culture, strategy and identity; these elements are what construct an organisation’s reality. Correspondingly, Van de Ven & Poole (1995) argue that once a goal has been attained by an entity, it is not necessary that the goal will remain within the status quo. The status quo is constructed out of the shared realities of participants, and therefore, both goals and organisations can be subject to influences in the external environment or its own political instabilities that can force further changes.

"Without the right words, used in the right way, it is unlikely that the right actions will ever occur (...) without words we have no way of expressing strategic concepts, structural forms, or designs for performance measurement systems. In the end, there is no separating action and rhetoric"
Employee communication and consistent communication during major change is therefore implicit in the planning of a change programme. Effective change communication requires that managers convey clear and consistent messages to educate employees in the company’s vision, strategic goals and change initiative; motivate employee support for change; encourage higher performance and discretion; limit misunderstandings and rumours that risk damaging productivity; and aligning employees behind the new strategic goals (Barrett: 2004). The strategic employee communication model developed by Barrett is designed to facilitate managers identify the best-practices of change communication approaches to address these objectives (ibid).

3.4.2.1 Barrett: The Strategic Employee Communication Model
Barrett’s Strategic Employee Communication Model presents a framework for assessing and improving communicating change to employees by capturing the major components of employee communication and tying them to the organisation’s strategy and objectives (Barrett, 2004). Her model is designed to fulfil the three primary purposes of illustrating how effective communication can be used in a ‘high-performing’ organisation, providing an analytical tool to identify the strengths and weaknesses in a company’s communications system, and finally to facilitate improving employee communication and creating an appropriate change programme (Barrett, 2002: 220). She explains, “Thus, it works analytically to break employee communication down into manageable, recognizable parts; at the same time, it shows how intertwined and interdependent each part is when employee communication is positioned strategically as it must be to facilitate change” (Barrett: 2004).
Strategic objectives: The strategic objectives, including the central strategic messages of vision to performance, need to be aligned with the chosen communication objectives and communicated as such to all employees (*ibid*). Employee communication here is intended to reinforce the company’s strategic objectives (*ibid*).

Supportive management: Top-level and mid-level management must be integrated and directly involved in change activities, while assuming responsibility for ensuring effective communication throughout the organisation up, down and across (*ibid*). Barrett advocates that managers need to be change role models for the rest of the organisation and ‘walk the talk’ (*ibid*). Kanter (2003), Kotter and Woodward et al. (2004) would agree with Barrett on this point, and that leadership is critical in forming a united front for change. Without the support of change recipients, change is not possible and therefore leaders must be effective in communicating in all directions to ensure a common goal.

Targeted messages: Communication needs to be targeted by tailoring information to the audience (*ibid*). This is to ensure clarity, consistency, and relevance. This suggests that change agents convey messages to their respective audiences out of the shared meanings that are constructed in their interactions, consistent with the interpretative framework that was chosen at the outset of this

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**FIGURE 3.5 – The Strategic Employee Communication Model**

(Barrett, 2004)
paper. This notion is further supported by Kotter’s strategic change model, in which he stresses that it is important to target tailor-made messages with respect to the various resistance groups that can form (q.v. Section 3.3.3.3).

**Effective media/forums:** While there are many forums for communication for managers to choose from, it is important to acknowledge that it is necessary to incorporate numerous strategies into one integrated communication plan. More importantly, however, managers need to realise the benefits of direct, face-to-face communication over indirect, print or electronic media (*ibid*). Therefore, interpersonal communication training, meeting management, and facilitation skills are necessary skills for managers to master (*ibid*).

**Well-positioned staff:** The communication staff is critical in the strategic and business planning phases, as well as facilitating the change process (*ibid*). Their involvement in the organisation’s strategy and decision-making is important to ensure Kotter’s and Kanter et al.’s steps of creating a strong guiding coalition of change agents, communicating the vision effectively, and responding to resistance. If communication staff is left out of the decision-making process, managers run the risk of not fully understanding the critical role of communication in the integrative change process and therefore not optimising communication and change outcomes.

**On-going assessment:** In any strategy, it is important to ensure constant learning and improvement; as with the communication strategy, it is important that managers constantly evaluate and measure the effectiveness of the communication needs against the strategic goals of the company (*ibid*). Evaluating the effectiveness of communication as part of employee performance appraisals shouldn’t be neglected as they are an integral part of the change process; without effective communication on the part of employees in order to create a shared reality of the change effort, implementing change will be difficult.

**Integrated processes:** It has been implied that change initiatives are an integration of various strategies and tools, one of those being communication strategies. Integrating these processes requires that communication strategies become part of the business process and its planning, and therefore communication milestones should be integrated alongside operational milestones (*ibid*).
Figure 3.6 - Three-phased Communication Strategy Plan

<table>
<thead>
<tr>
<th>Perform analysis/design strategy</th>
<th>Refine communication/start workshops</th>
<th>Continue workshops/monitor results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Form a strategic communication team (SCT)</td>
<td>- Develop and test preliminary messages</td>
</tr>
<tr>
<td></td>
<td>- Assess current communication</td>
<td>- Launch cascading vision, strategy, job redefinition workshops</td>
</tr>
<tr>
<td></td>
<td>- Measure against best practices</td>
<td>- Develop continuous communication plan</td>
</tr>
<tr>
<td></td>
<td>- Conduct interviews and audits</td>
<td></td>
</tr>
<tr>
<td>1st month</td>
<td>- Develop change communication plan</td>
<td>- Continue change communication/job redefinition workshops until all employees reached</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Measure results</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Establish ongoing feedback processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Build link to business plan</td>
</tr>
<tr>
<td>2nd – 3rd month</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd month – until all employees reached</td>
</tr>
</tbody>
</table>

(Barrett, 2004)

Barrett’s three-phased communication model supports the emergent perspective that has been taken throughout the entire paper. It is designed to make it possible for organisations to map out its communication programme as adapted in their individual strategies. The feedback loops indicate an organisation’s double-loop learning approach towards influencing the action plan as strategy emerges.

The first phase of performing an analysis is critical to designing an effective and calculated strategy, and is also usually the most underappreciated by change managers (ibid). Avoiding examination and analysis of employee communications and its effectiveness is tantamount to an organisation “shooting in the dark in developing the change communication programme” (ibid). Neglecting analysis can result in communication breakdowns, similar to Van de Ven & Sun’s (2011) breakdowns in producing change. The end results of the communication programme are intended
to fulfill four strategic objectives: 1) forming a strategic communication team (SCT); 2) assessing current communication practices; 3) conducting cascading vision, strategy, job redefinition workshops; and 4) monitoring the results (Barrett, 2004). As discussed above, it is beneficial for organisations to form a communication team; a full-scale change communication programme has too large a scope and goal to be managed by one manager. An SCT is designed to offer a multi-level cross-functional communication platform for employee-management communication in all aspects of the change programme (ibid). This is only possible if managers remember to integrate their communication staff as strategically placed change agents into their overall strategy and processes. The role of the SCT is to fulfill four of their own objectives: 1) assess the company’s current communication practices; 2) address any employee communication improvement gaps; 3) design and implement the change communication programme; and 4) serve as change ambassadors (ibid).

4 DATA ANALYSIS
Understanding the contextual reality of the case is critical to intelligently and persuasively answering the research statements that have been posed to facilitate comprehending the influences internal communication can have on strategic change management activities. Consistent with the literature that has been chosen for discussion, information regarding Novartis, its leadership, challenges facing its industry, and its change initiatives has been included. Lastly, this chapter includes a section on how internal communication is used in the field of strategic change management, and its importance.

4.1 Novartis – the company
Basel, Switzerland is the headquarters of Novartis’ multinational operation that was the offspring of the Ciba-Geigy and Sandoz merger in 1996 (Novartis AG, 2011a). Novartis caters to various global healthcare needs that are provided by the five divisions that now make up Novartis: pharmaceuticals, the newly acquired Alcon Inc. (eye-care) in 2011, Sandoz, consumer health, and vaccines and diagnostics (ibid)\(^{18}\).

\(^{18}\) Appendix 8.8 Novartis’ Healthcare Portfolio
Restructuring Novartis across a turbulent pharmaceutical landscape – An exploratory case study on strategic change management in a globalising economy

August 1, 2012

When Daniel Vasella took over the position of CEO at Novartis in 1996, the company generated only 40% of its revenue from the health care division. After he took over the reins, he divested of Novartis’ agrichemicals business, medical nutrition business, and Gerber baby foods $8bn (Doherty, 2010). Furthermore, he has been predominantly responsible for Novartis spending at least $59bn in acquisitions from 2005-2010; Chiron Corp. (vaccines), Hexal AG (generics), and Eon Labs Inc. (generics) were three of the acquisitions that were completed in the period (ibid). In 2008, Vasella conducted an executive shuffle which resulted in the replacement of three of the four business units’ heads, and promoted Joerg Reinhardt (the head of Vaccines) to COO amongst speculation that he was being trained to succeed him as CEO (ibid).

Novartis’ mission now strives “to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life. We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company” while simultaneously its business strategy has been consistent in facing the challenges that the healthcare environment is posing under unique change circumstances (Novartis AG, 2011c/2011d). Novartis’ strategy now needs to take advantage of the opportunities globalisation and modern medicine presents in order to address an ageing global population, increases in costs of innovation, changing consumer lifestyles, economic growth in emerging countries, and society’s demands for better healthcare (ibid). Particular focus is currently directed at the emerging markets where a large portion of the population used to be unable to afford medicines, but is now quickly gaining buying power. Consistent with this focus is an announcement in 2010 that sales were expected to rise at a mid-single-digit percentage rate in local currencies, at that this postulation was “based on the rapidly growing contributions of recently launched products and targeted investments in emerging growth markets” (Doherty, 2010).

In February 2005 and 2012, two generic drug businesses and a generic dermatology company (Fougera Pharmaceuticals) respectively were strategically acquired by Novartis for about $8.3bn, and the former are already delivering strong results (Simpson, 2011: 16; Novartis AG, 2012a). This is a clear indicator of Novartis’ new strategy of focused diversification, and there are arguably several reasons for this focus. Due to the quickly falling profits that will result from patent
expires, growing government austerity pharmaceutical prices and the explosion of buying power in emerging economies that are already buying generic drugs (and will therefore not switch to more expensive patented brands) are three key realities for pharmaceutical companies in this globalising economy. Jimenez explains, “Focused diversification has helped make Novartis the best placed company in the healthcare industry, especially when you compare us to pure-play pharma groups. We’re innovative in pharmaceuticals, but our generics business, the second largest in the world, is flourishing (...) this means that less than 60 per cent of our product line is reimbursed by public partners, whereas with a pure play pharma that exposure might rise to 80-90 per cent. We’ve had price cuts – 20 per cent on all pharmaceuticals in Greece, for example – but we’re somewhat insulated against the effects of the cost containment. And we’re working with debt-strapped governments to develop innovative pricing mechanisms so we can work within their budgets to meet patient needs” (ibid). Furthermore, he argues that while generic drugs are more affordable and widespread, blockbuster drugs still have a future in focusing science into finding patterns and mechanisms in new breakthroughs so that they are multi-purposeful in several disease areas (op. cit. 17). Figures that may further help justify Novartis’ aggressive activities represent 30 major regulatory approvals and drugs between 2007 and 2009 alone, resulting in a tangible revenue of $4.7bn (op. cit. 16).

Novartis’ 2011 Q3 media release, in accordance with its mission and strategy, was careful to highlight that they would be “delivering against strategic priorities of innovation, growth and productivity” (Novartis Newsroom, 2011). These three key priorities underscore Novartis’ current strategy of growth based on scientific excellence leveraged across high-growth sectors in the industry, its commitment to R&D and the incessant search for productivity optimisation and venture capital flexibility, underpinned by its continuous focus on portfolio rejuvenation to fill the pipelines (ibid). Zurich-based Bank Vontobel commented that as Europe’s second-largest in volume sales of drugs, reducing expenses will be crucial to Novartis’ immediate strategy after acquiring Alcon for $38.5bn and facing two highly lucrative patent expirations (the Diovan® hypertension pill and the Gleevec® cancer medicine) (Doherty, 2010).

Novartis’ latest quarterly report stated that in Q2 the Pharmaceuticals division completed the restructuring of its US business in January 2012, and its net sales from emerging markets increased
by 6% in constant currencies, with particular focus in China where net sales rose by 23% since last quarter (Novartis AG, 2012b). The restructuring, now complete, has realigned the sales teams to support growth brands which has resulted in a strengthened long-term competitive position on the US market (ibid). Meanwhile, they have confidence in their future growth performance in China with the introduction of Onbrez Breezhaler, one of the eight drugs they just got approved for the market and a once-daily treatment for chronic obstructive pulmonary disease (ibid). They underline that productivity initiatives are on-going and envelope the various activities of procurement, resource allocation, manufacturing site shutdowns, and simplification of supporting infrastructure – productivity enhancing activities that will boost profitability and investment in order to sustain the growth strategy (ibid).

4.1.1 CEO Joseph Jimenez
On February 1 2010, 50-year-old Joseph Jimenez, former Pharmaceuticals head at Novartis, succeeded Daniel Vasella as CEO of Novartis (ibid). Consistent with Vasella’s statement in an interview, “He’s the right person at the right time and we have full confidence he’ll do a good job and he’ll prove it”, Jimenez was chosen above contending candidate Joerg Reinhardt, a German scientist who was indispensable in developing Novartis’ vaccine business over the last 28 years (ibid). He left after the appointment and was made redundant (ibid). The reasons for Jimenez’ promotion were his impressive international experience, career history, and leadership style; Jimenez had been the head of North American operations at H. J. Heinz Co., acted as adviser to the Blackstone Group LP, and was on the board of AstraZeneca Plc. (ibid). His impressive resume is most likely not a coincidence as it was noted Daniel Vasella’s constant search for candidates excelling the traditional “pharma” talent pool had also lead to the addition of new CFO Jonathan Symonds, a partner and managing director of Goldman Sachs (Simpson, 2011: 16). Despite speculations that Reinhardt was the intended CEO-to-be, Andrew Weiss, an analyst at Bank Vontobel, admitted that he was surprised, but that the present need for cost conscious management had made Jimenez the logical choice (Doherty, 2010). This acceptance is suggestively founded in the pragmatic leadership style that is “unfettered by industry or corporate tradition” Jimenez embodies and exudes (Simpson, 2011: 14). Jimenez eliminated a further two more corporate jobs, the heads of group quality and technical operations, and corporate affairs; he replaced himself as the former head of Pharmaceuticals with David Epstein, the head of their
oncology unit (Doherty, 2010). In February 2012 he named Brian McNamara as Naomi Kelman’s successor as Over-the-Counter (OTC) Division Head, commenting that he was confident in Brian’s strong leadership skills, and that he would be effective in focusing their new strategy on growing priority brands, steadily meeting quality standards, and exploiting key emerging markets (Novartis AG, 2012b).

In an interview with KPMG International’s magazine, Perspectives, it is possible to construct a more detailed image of the illustrious CEO; already from the beginning Jimenez stresses his ardent belief in the significance of engagement and communication in all aspects of life, private and business (Simpson, 2011: 14). Shortly after he was appointed head of Pharmaceuticals he began a blog on the Novartis intranet where he wrote posts every week and continues to do so as CEO. His commitment is sharply illustrated in his continual efforts to opening communication channels with his stakeholders, and especially in those he creates with his employees; he justifies his philosophy by explaining, “I have 100,000 employees in over 140 countries and had no way of communicating with them all. I was hesitant at first. If I started the blog and there was no interaction I wouldn’t accomplish anything (...) and then I wait a few days, look at the responses and then respond to them” (ibid).

His aggressive enthusiasm for employing social media in the business context is not born out of fad, but out of common sense (ibid). He admits that he perceives it a key tool for engaging and interacting with his employees; exploiting online forums like “ideapharm” has allowed for the fast-moving pace of knowledge creation and transfer around the company globally that has never been possible before until relatively recent technological advances (ibid). By mastering the application of organisational communication in coordination with the tools of social media, one can foster an efficient and operational environment for innovation and productivity (op. cit. 15). This is particularly true for a large global company like Novartis (ibid). Empowering his business units and employees by dispensing with the conglomerate mentality and organising them into concentrated components that comprehend and drive their markets facilitates the process of “decluttering” the company’s processes that have become overly complex, expensive, and misappropriated (ibid).

His particular leadership style sets itself apart in that when he asks “why” and the answer is “because we’ve always done it that way”, he immediately sets an example to initiate change (op.
His philosophy on taking initiative in recognising and acting on a need for change, and being proactive in one’s own development and improvement highlights his belief in constant innovation and seeking out the next great opportunity – in one’s career, business, and private life (op. cit. 17). His advice for CEOs of the future is, “Make sure you take responsibility for your own career. It should be 90 per cent your responsibility and 10 per cent the company’s. Don’t wait for the company to tell you what to do next. Identify the experiences you need and seek them out” (ibid).

4.2 Challenges posing the Pharmaceutical Industry

“In the long term, this is a growth industry. The global population is ageing and there are unmet needs which drive demand for the development of innovative new products”.

-- Joseph Jimenez (Simpson, 2011: 16)

The pharmaceutical industry today is presented with challenges that have not before been encountered and have only recently begun to make apparent that drastic action needs to be taken. Roland Berger, a strategy consultancy, conducted a survey that indicated of 50 top pharmaceutical executives, 65% accepted that their sector was confronting a “strategic crisis” and diversification was a prospective solution (Jack, 2010). Diversifying away from patented drug development was conceived out of budding scepticism vis-à-vis future returns on innovation (ibid). Future revenues from existing drugs on the market predominately shape the basis of current sector valuations while discounting those in R&D (Jack, 2011). Severin Schwan, head of Roche, once commented, “If you disappoint on R&D, it hits your share price [but] if you succeed, there is no upside” (ibid).

Meanwhile, KMPG published a report that examined the future of pharma, the challenges the industry faces, and the strategies it can consider to accelerate its transformation by 2020 (KPMG, 2011). According to their analysis, the pharmaceutical industry has been delivering consistently disappointing performance figures compared to other industries over the past decade, and it has been the result of several factors (op. cit. 2). They determined that the four key challenges facing the pharmaceutical industry were: delivering shareholder/stakeholder value, a low growth

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19 Appendix 8.9 illustrates the pharmaceutical industry’s performance relative to others since 2005.
business environment, R&D productivity, and rising risks and loss of trust (op. cit. 1). In order to succinctly and clearly illustrate the factors that influence delivering on shareholder value, a table has been created to give a quick overview.

**TABLE 4.1 – KPMG report on the Positive and Negative Factors Influencing Revenue and Profits**

<table>
<thead>
<tr>
<th>Factors influencing revenues</th>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Strong growth in emerging markets(^{20})</td>
<td>- Increasing speed and intensity of product competition(^{22})</td>
<td></td>
</tr>
<tr>
<td>- Aging populations</td>
<td>- Increasing rebates to government and third party providers in the US</td>
<td></td>
</tr>
<tr>
<td>- Prices increases in the US(^{21})</td>
<td>- Budget deficit driven price reductions in Europe</td>
<td></td>
</tr>
<tr>
<td>- Influenza pandemics</td>
<td>- Exposure to loss of revenues following patent expiration(^{23})</td>
<td></td>
</tr>
<tr>
<td>- Enduring willingness of payors to support demonstrably innovative therapies</td>
<td>- Ferocity of early generic competition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Higher regulatory hurdles, leading to greater uncertainty and fewer product approvals</td>
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</tr>
<tr>
<td></td>
<td>- Greater restrictions on reimbursement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Declining R&amp;D productivity</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors influencing profits and earnings</th>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>- An industry-wide drive to reduce costs and improve efficiency</td>
<td>- Royalty payments increasing due to greater collaboration and risk sharing</td>
<td></td>
</tr>
<tr>
<td>- Improved operating margins(^{24})</td>
<td>- Increased legal settlements with plaintiffs and governments</td>
<td></td>
</tr>
<tr>
<td>- Strong cash flow growth fuelling increased cash returns to shareholders through increased dividend pay-out ratios and share repurchase programmes</td>
<td>- Increased clinical trial demands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Increased regulatory filing requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- M&amp;A activity that has added complexity, whilst rarely generating obviously better returns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Growing safety requirements post-approval</td>
<td></td>
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</tbody>
</table>

(KPMG, 2011: 2-3)

Clearly, the negatives are outstripping the positives in quantity. These apprehensions grew from the inescapable; pharmaceutical groups are approximating a new chasm of expiring patents resulting in significant dips in short-term profits for all groups, Novartis not excluded (Jack, 2010).

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\(^{20}\) Appendix 8.10 presents a graph depicting how emerging markets are the key drivers of total spending.

\(^{21}\) Provided in Appendix 8.11 is a graph illustrating the average annual per cent change in US retail prices on blockbuster drugs from 2005-2009.

\(^{22}\) The speed and intensity of the competition is displayed in a graph in Appendix 8.12.

\(^{23}\) Appendix 8.10 also shows where these losses play a role in their spending.

\(^{24}\) Appendix 8.13 shows a graphical difference in operating margins between 2005 and 2010 in percentages.
Government austerity measures are squeezing drug prices, increasing pressure on global drug manufacturers to lower costs and enhance productivity (Reid, 2011). An industry-wide estimate by Roland Berger disclosed that 57% of 2008 pharmaceutical sales will lose its patents within three years, with 75% within five (Jack, 2010). The study further disclosed those pharmaceutical groups’ methods to implementing diversification strategies vary significantly across markets. The emerging markets provide ample opportunities for companies to expand and increase sales, with the majority of companies opting with a strategy centred on minimising risk by redeploying into manufacturing generic non-patented drugs and vaccines (ibid). Of these, many companies have also had to put sales forces of drugs going off patent and a few R&D jobs on the firing line (Reid, 2011).

The second challenge that KPMG identified is the low growth business environment (KPMG, 2011: 7). It is largely precipitated by the maturing in Western markets of $120bn of revenue stemming from patent protected products that are expiring from 2010-2015, and will hopefully be partially offset by exponential growth in the emerging markets and its generic drugs consumption as the major drivers of global pharmaceutical spending (ibid). According to the IMS Institute for Healthcare, global spending on medicines will reach $1.1 trillion by 2015 but its growth rate will reduce from 6% in 2005-2010 to 3-6% in 2010-2015; the combined US and European share of spending will fall from 61% in 2005 to 44% b 2015, while the emerging markets will flourish from 12% to 28% respectively (ibid). Forecasts predict that emerging market revenues will grow at a compound rate of 14% from 2010-201525 (op. cit. 8).

The third challenge based its assumptions out of the information provided by the American pharmaceutical industry, but is therefore still relevant enough to be correlated to global figures for the purposes of the discussion. The problem seems to be that while R&D spending has climbed significantly over the past decade at a compound rate of 10%, the R&D productivity rates that are based on the assumption of decreasing numbers of approvals by the FDA are declining (KPMG,

25 Appendix 8.14 provides a graph on the predicted compounded annual growth rate of the pharmaceutical industry in the different geographic markets from 2010-2020, while Appendix 8.15 translates the geographic contribution factor into a global pre-R&D operating profit factor. Appendix 8.16 offers a depiction of the impact of emerging markets on pre-R&D profit margins.
Industry drug to market introductions fell to a weak low of 4% between 2005 and 2009\textsuperscript{26} \textit{(ibid)}. For many companies, growing investor concerns are strong-arming them into scaling back on R&D productivity while optimising manufacturing productivity and shaping peripheral partnerships as opposed to investing in in-house production – an arguably counter-productive strategy in the long-term (Jack, 2011). A new study by KPMG consultancy revealed that current return on investment from R&D has halved since 1990; that figure has been enough to cover just 10\% of cost of capital last year \textit{(ibid)}. Notwithstanding, Novartis was the sole generator of positive cash flow according to a Deutsche Bank analysis \textit{(ibid)}. Many managers in the industry feel that present investor speculation is exaggerated; pointing out that the $27bn in revenue losses expected by 2015 from expiring drug patents will be offset by the new patents that are quickly filling up the pipelines \textit{(ibid)}.

The final challenge that the KPMG Pharmaceuticals analysts identified is the rising risks and loss of trust from employees, consumers, and governments due to a self-conceived perception that the pharma industry puts its own commercial goals above all other stakeholders (KPMG, 2011: 18). In our fast-moving and saturated information age, knowledge creation systems have become ever more complex. R&D centres run the risk of duplicating and/or forever developing the processes of knowledge creation between organisations and even subsidiaries of the same organisation (\textit{op. cit.} 16). They advise that the key is to understand the goal from the beginning: “\textit{Integrate information on what value a new drug or new drug class could bring and the attitude of those that will pay for the medicine as early as possible into the development process}” \textit{(ibid)}. The political risks are found in the pressures that governments are placing on medicine and treatment prices, while garnering favour with governments can facilitate a company’s investment and innovation in the country \textit{(ibid)}. In reference to political risks, the analysts advised that it would be important to align one’s corporate mind-set to that of the germane key emerging market’s governments in order to secure a strong position \textit{(ibid)}. Legal risks are also on the rise, and in the US alone have risen roughly 40\% in 2003–2009 \textit{(ibid)}. Due to the growth drivers that the pharma industry is experiencing and

\textsuperscript{26} Appendix 8.17 presents a worrying image of the growing disparities between the quantity of new drug approvals and R&D spending, while Appendix 8.18 illustrates the average post-tax returns on R&D expenditures.
the cultural shift in expenditure, the industry is also experiencing increasing risks in competition over the best qualified personnel, retaining the wrong employees for the job at hand, and allowing a passive senior management to let things slide (op. cit. 18).

Pharmaceutical companies are now faced with exploring other means to cut costs. Many drug companies have been forced to cut its R&D spending in favour of filling its pipelines with drugs developed in small biotech firms that have quickly been bought up on the precipice of a paradigmatic cultural and economic shift (Weisman, 2011). Downsizing, or ‘rightsizing’, has also been a popular choice and has been the source of multiple production sites being shut down across Europe and the US, with investments blossoming in China (Stephens, 2011). The Far East is experiencing a cultural and economic transformation that has created the ideal environment for justifying investing in pharmaceutical innovation’s exponential acceleration in the region, making the possibilities for drug groups highly attractive (ibid). Henrik Glarbo, ex-Regional manager at Mundipharma Asia, forecasts that “it will be the world’s biggest market within 15 years” (ibid).

4.2.1 A Key Emerging Market: China
Recent studies have increasingly been exploring the phenomenon that is China, its implications on the rest of the world, and the transformational shifts that have been occurring in, amongst others, China’s economy, politics, trade, infrastructure, and socio-economic status. To be more precise, China and other key emerging markets provide remarkable opportunities for companies to exploit developing economies in numerous ways. Jason Chang, KPMG Partner in Charge of the China Division in Australia, discusses the implications of the rising middle class in China (Chang, 2011: 20).

He stresses importance of realising in today’s business climate that China’s middle class is large, and will become massive in the near future (op. cit. 18). A study by the Economist Intelligence Unit showed that inland Chinese cities have begun to outperform the coastal cities; a paradigmatic shift from the powerhouses of import and export that the coastal cities once were for the past thirty years (ibid). They further forecast that within the next thirty years (even as early as 2019), the world will witness China surpassing the USA as the world’s largest economy, and will very likely become the major driver of world economic growth over the next thirty years (op. cit. 19). However, China’s cultural tradition has influenced their low consumption mentality, which poses a
small barrier to increasing consumption, and is estimated to be around 25 per cent of household income (op. cit. 20). The foreign companies that have targeted China’s elite have mostly been very successful with its investments, yet they are ignoring new urgent emerging opportunities in the growing middle class that still have a low consumption lifestyle (ibid). It is important that companies begin to realise that the luxuries they have been introducing are mostly targeting the small economic elite, and not exploiting the middle class by targeting their needs (ibid).

Chang goes on to argue that China is facing a decision on adopting the appropriate policies to allow for economic growth that is constructed on increasing domestic consumption figures, and undergoing a shift in policy would “stimulate overall economic growth, spur job creation, lift average household incomes and encourage the growth and expansion of new, domestically focused business enterprises. China would reduce its reliance on exports and its vulnerability to foreign shocks, diminish the need to accumulate foreign reserves, narrow its trade surplus and help ease the international tensions resulting from present global trade imbalances” (op. cit. 19). He advises that it is useful to keep in mind that China is a complex and volatile arena for the unaware and unprepared (ibid).

4.2.2 Accelerated Change Dynamics of the Healthcare Industry
It is clear from the discussion so far that the dynamics of the healthcare industry has changed so drastically in recent years that change in pharma business models has been, is, and will continue to be, unavoidable. In an examination of the change dynamics in the healthcare industry, Markus Pickel identifies two main causes for the transformation of the competitive landscape – changes in demographic conditions and the rising costs of healthcare, which is in large part due to increasing regulation (Pickel, 2008: 27). He goes on, however, to discuss the impact patent laws have on strategic product development and how they can alter the course of the company.

Patents, it seems, are plagued with years and years of testing and approvals before it is allowed on the market by which time the they already have lost half of their shelf life (patents can only be protected for twenty years) (op. cit. 28). Faced with the substantial costs that are bound to developing and launching a new drug on the market, pharmaceutical companies also need to be continuously innovative within severe conditions (ibid). These pressures have lead companies to seek high profitability margins that has resulted in the previously mentioned preconceptions that
pharmaceutical companies promote its commercial interests above all others (ibid). Its concern with profitability margins and protecting its patents are, however, critical to its survival. Hence it is crucial that companies constantly and untiringly develop new promising drugs in order to fill its pipelines because, as Pickel points out, the “\textit{loss of patent protection usually leads to immediate revenue and profitability losses of between 60-80 percent (...)} if a blockbuster has to be withdrawn, or if a product fails at a late development phase (Phase III), a crisis scenario of undreamt-of proportions can develop overnight” (ibid). Given the financial crisis situation that companies the world over already are experiencing, a crisis of such gravity is an extreme risk for pharmaceutical companies. This assumption is supported by Pickel’s suggestion that the volatility of the pharmaceutical industry should force participants to realise the need to build strong expert knowledge and skills in change management and communication (ibid).

4.3 Change at Novartis

\textit{“Novartis is a science-based organisation with a long new product development timetable and lot of analysis going into decision-making. That is absolutely right for decisions about science. But we were applying the same analysis and timelines to decisions in sales, marketing and finance”}. 

-- Joseph Jimenez (Simpson, 2011: 16)

It seems clear already that the change initiative that was started at Novartis found its instigator in its newly appointed CEO, Joseph Jimenez. A brief general interpretation of the events that led up to Jimenez’ appointment and the period after would indicate that it was all signs to a new strategic focus for the company. Since his succession it has become clear that Jimenez is on the war path, and it will lead to the actualisation of three goals: “extending the company’s lead in innovation, turning innovation into growth and driving productivity to improve margins” (Simpson, 2011: 16).

At first glance it is easy to assume that his focus is on cost conscious management, but rather it also incorporates aspects for dealing with the acceleration of decision-making: for example, the executive committee was cut from twelve to nine members, and the sub committees were simply abolished (ibid). The drive, he says has resulted in a competitively advantageous position in relation to rivals by increasing the funding for innovation which has been the source of Novartis’ strong pipeline development; while Novartis’ rivals have been cutting R&D spending, Novartis has
been maintaining and even increasing it (ibid). In the same interview in 2011, he reaffirmed his confidence in his plan to invest in generics to offset the losses from its blockbuster blood pressure drug Diovan®, whose patent will expire sometime this year, amongst others (op. cit. 17). His earlier attempts at softening the blow were to acquire Alcon in 2011, which has been performing very well as a division for Novartis since the acquisition (Novartis AG, 2011f). His management of the Alcon acquisition is indicative of his belief in focused diversification, and allowing business units some level of autonomy, “Some acquisitions – we’ve seen them in this industry – have been about cost synergies. Our synergies with Alcon are about developing an even stronger leadership platform. The management team have done a fantastic job in eye care. They are very strong in the U.S. but we can help them in emerging markets. They can tap into our innovation power and help ensure greater success for the patients we’re serving” (Simpson, 2011: 17).

3.1.1 The Change Initiative – “a long-term strategy to grow in a dynamically changing healthcare environment”

Novartis disclosed in a media release on the 17th November 2010 that they would be embarking on a new long-term strategic shift that was deemed necessary to encourage growth in light of the dynamics of the changing healthcare industry (Novartis AG, 2010). It emphasised that the “cornerstone of Novartis strategy is focus on innovation through [the] most productive R&D program in the industry” (ibid). Its strategic priorities are built on expectations that the healthcare industry is a rapidly changing and dynamic arena, and will continue to grow well into the future (ibid). Immediate factors that will influence the development of the healthcare industry is the growing aging population, staggering escalations in obesity rates, government austerity on drug prices, and political healthcare reforms that will all force companies to reconsider its approaches (ibid). The strategic priorities are the three goals that were outlined earlier by Jimenez, and an overview of the main points under each is provided below.
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TABLE 4.2 – Three Key Goals for Novartis

<table>
<thead>
<tr>
<th>Extending the lead in innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Sustained research investments targeting areas of greatest patient need and scientific promise to fill unmet medical needs</td>
</tr>
<tr>
<td>- 142 pipelines projects in pharmaceuticals at various stages of clinical development, of which more than 35 are in Phase III or registration</td>
</tr>
<tr>
<td>- Planning for 39 regulatory submissions in pharmaceuticals before the end of 2012</td>
</tr>
<tr>
<td>- Industry leading vaccines pipeline with several first-in-kind candidates in areas of high unmet need</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accelerating growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Novartis has leading businesses in growing healthcare segments – pharmaceuticals, eye care, generics, vaccines &amp; diagnostics and consumer health</td>
</tr>
<tr>
<td>- By 2015 pharmaceuticals specialty and oncology portfolio is expected to account for 75 percent of sales; outcomes-based commercial model expected to increase value for stakeholders</td>
</tr>
<tr>
<td>- Strengthening leadership in biosimilars and first-to-market launches continues to drive performance in Sandoz</td>
</tr>
<tr>
<td>- Meningococcal vaccines accelerating growth in vaccines business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Driving productivity to reinvest in innovation and growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Four key areas identified for productivity improvements across business areas to drive cash flow and increase shareholder return</td>
</tr>
<tr>
<td>- Group wide review of supply chain, marketing, sales and procurement</td>
</tr>
</tbody>
</table>

( Novartis AG, 2010; Novartis AG, 2011g)

The investor presentation provided an overview of the main points under each strategic goal, and for the purposes of clarity and context, a representation of an action plan for optimising productivity that was included in the slide show will be added here.

27 8 of the regulatory submissions were approved in the summer of 2012, presenting instrumental milestones to realising Novartis’ future growth goals (Novartis AG, 2012 b/c).

28 The four key areas that were identified are critical to the development of a group wide program to review its manufacturing footprint (Novartis AG, 2010). An interpretation of their media release revealed that the four areas that the programme aims to develop are to optimise the network, optimise the cost structure, optimise marketing and sales (M&S), and to simplify and standardize processes and systems respectively. An interesting element of their network optimisation plan, and will most definitely be discussed in at a later stage in relation to global strategy, is their decision to develop ‘Manufacturing Centers of Excellence’ to support their global operations across divisions.
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FIGURE 4.1 – Novartis’ Plan of Action

Jimenez explains that in order to execute his strategy, four objectives need to be at the forefront of the change initiative: a diversified healthcare portfolio that will provide a platform for future growth in key healthcare growth sectors, leading innovation\(^{29}\) will ensure a filled pipeline, optimising productivity should spawn improved profitability, which feeds into a drive for re-investment in future growth and shareholder returns (ibid). Further in line with the objectives, Novartis will invest in maintaining high R&D spending throughout the restructuring and global financial crisis, and plan on anchoring a stronger commercial position in key emerging markets, with particular emphasis on developing businesses in the BRIC\(^{30}\) countries.

Already as early as January 2011, plans for a comprehensive restructuring that was to begin in the US were underway and Cambridge, Massachusetts was chosen as the site for Novartis Institutes, a dynamic and productive environment for R&D activities (Weisman, 2011). Novartis plans on committing to and investing $600ml into doubling the size of an office and lab complex, boosting research and innovation, and creating 200-300 more jobs to make the local workforce 2000 people (ibid). Later that year, they announced plans to augment its already 5000 strong sales force in China by the end of the year in an effort to take advantage of the growing buying power of

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\(^{29}\) “Novartis’ industry leading innovation has generated an ‘innovation premium’ to market growth and this is expected to continue with the current pipeline” (Novartis AG, 2010).

\(^{30}\) “BRIC” countries are four of the fast growing emerging markets that are arguably considered the most influential, and constitute of China, Russia, India, and Brazil.
consumers, which are driving growing sales to local hospitals and clinics (Burkitt, 2011). Government pressures in China have also lead Novartis to restructure its operations management by delegating the pertinent activities to the regional offices, rather than centralised at its Beijing HQ (ibid). As part of the global restructuring 500 jobs in Horsham, southern England, 1100 in Switzerland, and 900 in the US were cut over the course of 2011 (ibid; Bennett, 2011). The cuts will correspond with plans to reduce technical research and development, data management, clinical trial monitoring, drug safety and regulatory affairs while moving some R&D from Switzerland to the US, and establishing an R&D headquarters (Bennett, 2011). To compensate, Novartis added 700 new data management and trial monitoring jobs in China and India, and began construction on a new state-of-the-art pharma manufacturing site in St. Petersburg, Russia to be completed in 2014 (Novartis AG, 2011g). The site itself will swell Novartis’ capabilities in delivering innovative prescription drugs and high-quality generic drugs to the Russian public, as well as create more than 350 high-skilled jobs in the region (ibid).

Meanwhile, a media release from Novartis in mid-January 2012 announced plans of a full US business restructuring in anticipation of Diovan®’s patent loss in September 2012 and the culmination of the ALTITUDE study on the safety of its drug Rasilez®/Tekturna® (Novartis AG, 2012d). Originally, the plans were intended to combat the aftermath of losing Diovan®’s protection, however recent concerns over a negative outcome for Novartis on the ALTITUDE study have halted trials and seemingly increased the urgency for change. The increased urgency has caused Novartis to fast-track the plan’s progression (ibid). Novartis’ central plan in the US restructuring effort embodies the core component of reducing its cost base, and the focus of this reduction will centre on the restructuring of the General Medicines business on the US market (ibid). The purpose of the restructure is to continue focus on expanding Novartis Pharmaceuticals’ presence on the specialty businesses market. This has resulted in another planned reduction of 1630 jobs on the US sales force, an additional 330 jobs in order to realign functions to support the restructured organisation, and an expected exceptional charge of approximately $160ml (savings are expected to be approximately $450ml and half will already be realised by the end of 2012) (ibid).
4.3.1 Origins
The origins of change for Novartis are undeniably analogous to those of the pharmaceutical industry. The challenges that the industry is facing has caused numerous pharma companies to revise their strategies in the context of their fluctuating environmental conditions and life-cycle differences. The strategic changes that are taking place for Novartis implies a proactive approach towards improvement and, as the literature has suggested, these types of changes do have a tendency to hit resistance due to their imposing natures.

The environmental causes for Novartis’ decision for change are growing government austerity and safety measures that are significantly impacted by shifting global political and economic forces, as well as the accelerating rise of buying-power in the emerging markets. The global debt crisis has also played a critical role in pharmaceutical companies’ decisions for change; Novartis’ particular case has experienced the detrimental impact of the global debt crisis on floating exchange rates that have artificially depreciated their share price value. Globalisation is now a very real challenge as well as opportunity for many global companies in that it encourages aggressive competition on a global scale, driving pharmaceutical companies in particular to re-evaluate and adapt their strategy.

These changes are seen in the divergence of Novartis’ patent and generics strategy. Already, Novartis is aware of the future in generics, and the expiration of numerous high revenue patent royalties in their maturing markets. Recent criticism has proposed that without the suspended smokers cough respiratory drug, the new Novartis patents that are soon to be launched will still not be enough to make up the losses they will make once their Diovan® and Gleevec® patents expire (Bennett, 2011). Change managers in global companies have increasingly realised the value and unexploited opportunity the emerging markets are now presenting; with quickly gaining buying-power, emerging consumers can afford medicine but, due to socio-economic historical norms, generics are the prevalent health care choice. By staying competitive, Novartis has realigned their strategy to penetrate further into the emerging markets and capture as many new generics consumers as possible. This strategy is in accordance with Jimenez’ new scheme towards focused diversification into pharmaceuticals and generics - their second largest business after the recent purchase of the dermatological generics business. He explicitly states that the three key
goals for Novartis are now to extend their lead in technological innovation, accelerate their growth, and drive productivity to reinvest in innovation and growth.

As a new entrant to the organisation, Jimenez’ appointment to CEO holds also reasonable contention for causes of change. The shifting political powers that occurred are enough to propagate the necessary changes, and it is arguably one of the main reasons organisations undergo change. What is interesting to notice is that organisations tend to experience a shift in their political status quo right before an intended turnaround effort. Departing from this logic, it is reasonable to assume that due to the shifting meanings that are constructed out of new leadership contexts, a new shared idea of the future of the organisation is created that has the ability to change an organisation’s shared reality.

The technological advances that have occurred over the past few decades are deeply impacting the way organisations conduct change. Faster communication, faster transport, and a better network of knowledge-bases have made it possible for companies like Novartis to explore the opportunities for change that are available to them. Consolidating and reallocating their manufacturing facilities to the emerging markets are not only operationally, but also communicatively beneficial. The consolidation of manufacturing and R&D centres will facilitate the internal exchange of information and experiences that will prevent the duplication of knowledge, while accelerating the speed of innovation. The labour costs in the emerging markets are much lower, the learning opportunities greater, and the target consumer market is right there. The maturing markets of the West have driven organisations towards creating knowledge and manufacturing centres of excellence around the globe to take advantage of these technological and operational opportunities. The increased speed of transport and communication has made it possible for organisations to disregard the boundaries of space and time; a concept that many organisations have realised and is resultant in the augmentation of globalised rivalry. Barriers to entry have weakened with the increased pace of globalisation, but with that the competition has become greater. International borders have blurred to give way to increased global competition.
4.4 Using Internal Communication in Strategic Change

The following discussion will focus on the initial announcements for change and its design that Novartis and Joseph Jimenez disseminated throughout the media and their corporate forums. It will also discuss the possible benefits that certain internal communication models can have for their strategic change management efforts.

The internal communication aspects that are included here encompass only the relevant change strategists, change implementers, and change recipients. In the case of Novartis, the attribution of political actors for change will be kept simplified to facilitate an effective discussion focused on the general recommended strategy of internal communication. Change strategists here will involve Joseph Jimenez and his communication staff. Change implementers and recipients will include all employees that are affected by the change effort; the reasons for this categorisation are that in accordance with the emergent and socially constructed perspective that has been adopted, change implementers and recipients are one and the same. It is necessary for change implementers to act as recipients, and vice versa, for an effective two-way dialogue between management and employees be reached.

4.4.1 Novartis and the Strategic Employee Communication Model

Thus far, it is evident that Novartis’ focus on strategic employee communication will stem in large part from the leadership role, and disseminated and delegated further down the hierarchical chain of command. Jimenez has already expressed his fondness for social media in his efforts to communicate organisational messages with key stakeholders. His communication efforts and his leadership role is a critical step towards Novartis’ successful implementation of change. Therefore, through the use of specific elements of Barrett’s Strategic Employee Communication Model it will be possible to structurally examine where internal communication best practices can positively influence strategic change management. For the sake of clarity, these elements were selected to focus this thesis on strategic internal communication targeted specifically to the change management paradigms that have already been introduced. Post-change and tactical internal communications topics have not been included to avoid blurring the lines between creating a communication plan and actually discussing internal communication’s potential influence on change management.
4.4.1.1 Strategic Objectives and Targeted Messages

Novartis needs to be effective in communicating their strategic objectives. Kotter, Kanter et al., Van de Ven et al., Lewin, and Pettigrew & Whipp all advocate the consensus that change cannot be implemented without the acceptance and cooperation of its change recipients. In an interview, Jimenez mentions his deep appreciation for social media, and that he himself updates a corporate blog to ensure an element of face-to-face communication with his employees. He also mentions that he uses Ideapharm as an online community for employees to post their experiences in order to promote internal learning through communication. Clearly Novartis has some mechanisms in place that allow for strategic employee communication, and these will be critical in the current and future phases of their restructuring efforts.

In order for the new strategic objectives to be put in motion, Novartis needs to align their communication objectives with their new strategic direction. In accordance with internal communication best practices, Novartis must incorporate direct and indirect communication to facilitate the ‘unfreezing’ of current organisational attitudes. This gives way for the three new strategic goals that Jimenez believes is the best direction for Novartis in light of current global, political, and economic climate. Ensuring participative engagement with employees will garner positive attitudes by giving employees the chance to feel empowered in the decision-making processes for change. Consequently, Novartis’ change programme has already resulted in the elimination of thousands of jobs, and it is natural that such drastic change will be met with resistance; employees fear that they will lose their jobs in the change. This is where internal communication’s alignment with the strategic objectives plays a crucial role. In facilitating two-way communication between management and employees, Novartis will be able to convince employees that change is imperative for future sustainability, as well as opening channels to new perspectives and perhaps new ideas on the progression of change. Once employees understand and have ‘unfrozen’ their attitudes towards change, it will be possible for management to move forward.

This process of communication entails that change agents respect the intellectual and emotional capabilities of their employees; transparency, respectfulness, clarity, and full disclosure of the change process will foster a communicative environment that employees will feel safe in, and not
judged or victimized. Inflicting pain messages of the future change prospect will empower employees to own the change process, and make it their commitment to succeed as barriers to overcome for improvement. As discussed in the literature, the key to resolving social conflict is learning and enabling people to facilitate planned change. This suggests that an ‘underscore and explore’ strategy of top-down communication will initially help espouse the change culture that is needed to give way to emergent and ‘reflective’ strategies on change. Exploiting resistance to change, when done strategically, can turn a negative situation into a positive opportunity by including the experiences and concerns of recipients. Establishing a sense of urgency is critical in the beginning phases, and is directly linked to implementing the essential communicative strategies that will encourage employee motivation for change. Finally, communicating the change vision is an integral part of the strategic communication design that helps enlist the acceptance and active support of change recipients.

These internal communication tools will continually be relevant throughout the ‘unfreezing-moving-freezing’ of Kotter’s eight-step model to ensure employee support. Novartis’ move into the emerging markets will inescapably require some significant ‘refreezing’ and cultural anchors to promote a healthy change environment.

4.4.1.2 Supportive Management and Positioning of Staff

Already from the time that Vasella was still CEO, a strong guiding coalition was in the process of being created. It is arguable that Novartis’ had already anticipated the problems are currently arising, and had begun grooming top management for a monumental restructuring effort. One could argue that Jimenez’ appointment to CEO was the marking of a new era for Novartis, and that with new leadership radical change is inevitable. Before Jimenez even became CEO, he had been asked to update a corporate blog, which he has continued to do after his appointment. With the recent proliferation of social media and corporate use, a blog post updated by the CEO of a major corporation is unprecedented as these tasks are usually performed by the communications staff. This marks the dawning of a new social media era, wherein the hierarchal distance between management and its employees have narrowed.

Jimenez’ dedication to employee engagement is evident and already in line with the motivational leadership characteristics that are necessary for successful change. Jimenez needs to ensure that
his communicative messages do not set expectations that are not SMART, and that he encourages employees to own their change processes. By owning their change processes subordinates cannot be excused from pursuing key goals whose negligence can end in a continuous cyclical preparation for change without any resultant action.

He must also set in place communications staff that are able to mediate employee feedback and double-loop learning mechanisms, as well as ensuring a just and fair consideration of employee ideas and concerns. An effective strategic communications team should be able to anticipate resistance and methods of dealing with it, which should also involve aligning the overall strategic goals with the emergent strategies that are born from resistance. In doing so, Jimenez should be better able to prepare for leading and coping with the barriers that can arise; in being active in his engagement with employees, Jimenez is able to create a shared understanding with his employees. This understanding is crucial in facilitating remedies to resistance, and ‘moving’ and ‘refreezing’ the organisation in new multi-cultural realities.

5 FINDINGS AND IMPLICATIONS
The first research question was answered in Section 4.3.2 and it was concluded that the origins for change are numerous and interrelated in many ways. Due to growing government austerity, decreasing R&D productivity, maturing markets, the global debt crisis, and expiring patents, pharmaceutical companies are seeking methods of creating a leaner cost-base to remain competitive. This has also resulted in companies seeking opportunities in the emerging markets, exploring generics, and reallocating R&D and production in cheaper and knowledge-rich labour markets. These are precisely the opportunities that Novartis is considering, and the change initiatives that have been announced are arguably founded in the new leadership context that came with Vasella’s appointment of Jimenez as his successor and his grooming of the guiding coalition. Unlike their counterparts, however, Novartis has decided to reallocate their resources in order to create a leaner cost base, while simultaneously maintaining R&D expenditures higher than ever.

The second and third questions were discussed throughout the literature and analysis as an integrative effort of normative methods and actual methods. The thesis has attempted to
generate a big picture of the core issues that will influence strategic change management from an internal communication perspective. It is clear from the discussion above that change initiatives have become increasingly complex in contemporary business due in large part to the causes and effects that feed into and from the globalisation paradigm that has been constructed around us. This is an undeniable truth, and it is also undeniable that the future will continue to be uncertain as is the nature of change. All organisations can expect are that in change they need to place heavy emphasis on strategic employee communication models and leadership roles as well as adapting to the implications that come with globalisation.

The predominant theme of the discussion draws conclusions from the notion that our perspectives on change and its management should not revert to the old static “if it ain’t broke, don’t fix it” philosophy in our modern globalisation paradigm. Globalisation will only continue to evolve and change with the times, just as our social constructions of business conduct and strategy will change. Therefore, instead of focusing on communicative strategies that align themselves with prescriptive and imposing strategies of change management, organisations need to realise that the long-term benefits of instilling a change friendly culture through emergent change and participative two-way communication greatly outweighs its risks.
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**Newspaper and magazine articles:**

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8.1 Kanter, Stein & Jick: The Three-Stage Prescriptive Approach

Three major reasons for change:

1. *The changing identity of the organisation.* As its environment changes, the organisation itself will respond. For example, it may need to react to a shift in the political stance of a national government. The dynamic is likely to be slow rather than fast, unless a political or other major revolution occurs.

2. *Co-ordination and transition issues as an organisation moves through its life cycle.* Relationships inside an organisation change as it grows in size and become older. Whether such a precise event occur or not, the dynamic shifts associated with such change are predictable with regard to their pressures on groups and individuals. For example, the decision to create a separate division for a product range that is growing increasingly wide will give rise to change issues that are well now, but need management.

3. *Controlling the political aspects of the organisations.* This results directly from the political pressures outlined in Section 15.2.2. Sometimes an orderly shift in power can be made, but occasionally, a more radical move is required – for example, the sudden departure of a chief executive ‘after a clash over strategy and structure’.

Three major categories of people involved in the change process were also identified:

1. *Change strategists.* Those responsible for leading strategic change in the organisation. They may not be responsible for the detailed implementation.

2. *Change implementers.* Those who have direct responsibility for change management.

3. *Change recipients.* Those who receive the change programme with varying degrees of anxiety, depending on the nature of the change and how it is presented. They often perceive themselves to be powerless in the face of decisions made higher up the organisation. In extreme cases they may object – for example some of the managers at Hewlett-Packard.

(Lynch, 2009: 574)
8.2 Tichy: The Four Main Causes of Strategic Change

1. Environment. Shifts in the economy, competitive pressures and legislative changes can all lead to demands for major strategic change.

2. Business relationships. New alliances, acquisitions, partnerships and other significant developments may require substantial changes in the organization structure in order to take advantage of new synergies, value chain linkages or core competencies.

3. Technology. Shifts here can have a substantial impact on the content of the work and even the survival of companies.

4. People. New entrants to organisations may have different educational or cultural backgrounds or expectations that require change. This is especially important when the leadership of the organisation changes.

(Lynch, 2009: 568)
8.3 Van de Ven & Sun Breakdowns and Remedies in Process Models of Organization Change

<table>
<thead>
<tr>
<th>Key metaphor</th>
<th>Teleology</th>
<th>Life cycle</th>
<th>Dialectic</th>
<th>Evolution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Logic</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Imminent program; Prefigured sequence; Compliant adaptation</td>
<td>Organic growth</td>
<td>Competitive survival</td>
<td>Opposition, conflict</td>
<td>Purposeful cooperation</td>
</tr>
<tr>
<td>Natural selection among competitors in a population</td>
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<tr>
<td>Contradictory forces; thesis, antithesis, synthesis</td>
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<tr>
<td>Envisioned end state; Social construction; Equifinality</td>
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<tr>
<td><strong>Process cycle</strong></td>
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<tr>
<td>Dissatisfaction, search, goal setting, and implementation</td>
<td></td>
<td>Prescribed sequence of steps or stages of development</td>
<td>Confrontation, conflict, and synthesis between opposing interests</td>
<td>Variation, selection, and retention among competing units</td>
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<tr>
<td><strong>Situations when model applies (generating mechanism/motor)</strong></td>
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<tr>
<td>Social construction of desired end state; goal consensus</td>
<td></td>
<td></td>
<td>Conflict between opposing forces</td>
<td>Competition for scarce resources</td>
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<tr>
<td>Prefigured program regulated by nature, logic, or rules</td>
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<tr>
<td><strong>Event progression</strong></td>
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<tr>
<td>Recurrent, discontinuous sequence of goal setting, implementation, and adaptation of means to reach desired end state</td>
<td></td>
<td>Linear and irreversible sequence of prescribed stages in unfolding of immanent potentials present at the beginning</td>
<td>Recurrent, discontinuous sequence of confrontation, conflict, and synthesis between contradictory values or events</td>
<td>Recurrent, cumulative, and probabilistic sequence of variation, selection, and retention events</td>
</tr>
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<td></td>
<td>Resistance to change</td>
<td>Destructive conflict</td>
<td>Requisite variety</td>
</tr>
<tr>
<td>- Lack of recognition</td>
<td>-</td>
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<tr>
<td>- Decision biases</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>- Groupthink</td>
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<tr>
<td>- Lack of consensus</td>
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<tr>
<td>- Power imbalance</td>
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<tr>
<td>- Irresolvable differences</td>
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<tr>
<td><strong>Remedies</strong></td>
<td></td>
<td>Responding to complaints</td>
<td>Conflict management</td>
<td>Niche development</td>
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<tr>
<td>- Triggering attention</td>
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<tr>
<td>- Critical thinking</td>
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<tr>
<td>- Consensus building</td>
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<tr>
<td>- Local adaptation</td>
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<tr>
<td>- Internalizing mandates</td>
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<tr>
<td>- Negotiation skills</td>
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<tr>
<td>- Political savvy</td>
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<tr>
<td>- Marketing</td>
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<tr>
<td>- Strategies for competitive advantage</td>
<td>-</td>
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</tbody>
</table>
Van de Ven & Poole: Conditions for Operation of Change Theories

**Life Cycle Motor**
- A singular, discrete entity exists that undergoes change, yet maintains its identity throughout the process.
- The entity passes through stages distinguishable in form or function.
- A program, routine, rule, or code exists in nature, social institutions, or logic that determines the stages of development and governs progression through the stages.

**Teleological Motor**
- An individual or group exists that acts as a singular, discrete entity which engages in reflexively monitored action to socially construct and cognitively share a common end state or goal.
- The entity may envision its end state of development before or after actions it may take, and the goal may be set explicitly or implicitly. However, the process of social construction or sense making, decision making, and goal setting must be identifiable.
- A set of requirements and constraints exists to attain the goal, and the activities and developmental transitions undertaken by the entity contribute to meeting the requirements and constraints.

**Dialectical Motor**
- At least two entities exist (Each with its own discrete identity) that oppose or contradict one another.
- The opposing entities must confront each other and engage in a conflict or struggle through some physical or social venue, in which the opposition plays itself out.
- The outcome of the conflict must consist either of a new entity that is different from the previous two, or (in degenerate cases) the defeat of one entity by the other, or a stalemate among the entities.

**Evolutionary Motor**
- A population of entities exists in a commensalistic relationship (i.e., in a physical or social venue with limited resources each entity needs for its survival).
- Identifiable mechanisms exist for variation, selection, and retention of entities in the population.
- Macropopulation characteristics set the parameters for microlevel variation, selection, and retention mechanisms.

(Van de Ven & Poole, 1995: 525)
8.5 Lynch: The Change Options Matrix

<table>
<thead>
<tr>
<th>Three main areas of strategic change</th>
<th>Areas of people activity</th>
<th>Informal organisation structure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technical and work changes</strong></td>
<td><strong>Formal organisation structure</strong></td>
<td><strong>People</strong></td>
</tr>
<tr>
<td>from the strategy to be undertaken</td>
<td>- Organisation of work and reporting</td>
<td>- Selection, training</td>
</tr>
<tr>
<td></td>
<td>- Strategy and structure</td>
<td>- Matching of management style with skills</td>
</tr>
<tr>
<td><strong>Cultural changes</strong></td>
<td><strong>Managerial style</strong></td>
<td><strong>Individual and corporate values matched</strong></td>
</tr>
<tr>
<td>Style of company, history, age etc.)</td>
<td>- Mintzberg’s subcultures</td>
<td>- Management of groups and teams</td>
</tr>
<tr>
<td></td>
<td>- Handy’s cultures</td>
<td>- Leadership choice</td>
</tr>
<tr>
<td><strong>Political changes</strong></td>
<td><strong>Formal distribution of power</strong></td>
<td><strong>Use available skills and networks</strong></td>
</tr>
<tr>
<td>Interactions and power inside the organisation</td>
<td>- Balance of power between departments</td>
<td>- Match with new strategies</td>
</tr>
<tr>
<td></td>
<td>- Incentives and rewards</td>
<td>- Influence formal and informal groups</td>
</tr>
<tr>
<td></td>
<td>- Incentives and rewards</td>
<td>- Lobbying</td>
</tr>
<tr>
<td></td>
<td>- Formal distribution of power</td>
<td>- Develop structures</td>
</tr>
<tr>
<td></td>
<td>- Balance of power between departments</td>
<td>- Influence formal and informal groups</td>
</tr>
<tr>
<td></td>
<td>- Make contacts</td>
<td>- Attempt to manage</td>
</tr>
<tr>
<td></td>
<td>- Network and circulate</td>
<td>- Make contacts</td>
</tr>
</tbody>
</table>

(Lynch, 2009: 586)
8.6 Lewin: The Three-Step Model

<table>
<thead>
<tr>
<th>Typical activities in the organisation</th>
<th>Lewin model</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Realisation among group of need for change</td>
<td></td>
</tr>
<tr>
<td>- Signals from top management that ‘all is not well’ (perhaps even exaggerated news circulated)</td>
<td></td>
</tr>
<tr>
<td>- Data on nature of the problem made known throughout the organisation</td>
<td></td>
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<tr>
<td>- Specific call for change coupled with discussion of what is required</td>
<td></td>
</tr>
<tr>
<td>- Views gathered on possible solutions</td>
<td></td>
</tr>
<tr>
<td>- Information built on preferred solution</td>
<td></td>
</tr>
<tr>
<td>- Experiment</td>
<td></td>
</tr>
<tr>
<td>- Make announcement</td>
<td></td>
</tr>
<tr>
<td>- Reassure those affected</td>
<td></td>
</tr>
<tr>
<td>- News circulated to show that new solution is working</td>
<td></td>
</tr>
</tbody>
</table>

**UNFREEZING CURRENT ATTITUDES**

**MOVING TO A NEW LEVEL**

*(state of flux: reactions tested to proposed solutions; organised debate and discussion)*

**REFREEZING ATTITUDES AT THE NEW LEVEL**

(Lynch, 2009: 575)
### 8.7 Pettigrew & Whipp: The Five-Factors Theory of Strategic Change

<table>
<thead>
<tr>
<th>Environmental assessment</th>
<th>Leading change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary conditioning features</strong></td>
<td><strong>Leading change</strong></td>
</tr>
<tr>
<td>1. Availability of key people</td>
<td>1. Building a receptive context for change; legitimisation</td>
</tr>
<tr>
<td>2. Internal character of organisation</td>
<td>2. Creating capability for change</td>
</tr>
<tr>
<td>3. Environmental pressures and associated dramas</td>
<td>3. Constructing the content and direction of the change</td>
</tr>
<tr>
<td>4. Environmental assessments as a multi-function activity</td>
<td></td>
</tr>
<tr>
<td><strong>Secondary mechanisms</strong></td>
<td></td>
</tr>
<tr>
<td>5. Role of planning, marketing</td>
<td>4. Operationalising the change agenda</td>
</tr>
<tr>
<td>6. Construction of purposive networks with main stakeholders</td>
<td>5. Creating the critical mass for change within senior management</td>
</tr>
<tr>
<td>7. Use of specialist task-forces</td>
<td>6. Communicating need for change and detailed requirements of the change agenda</td>
</tr>
<tr>
<td>9. Sustaining coherence</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human resources as assets and liabilities</th>
<th>Coherence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary conditioning features</strong></td>
<td><strong>Coherence</strong></td>
</tr>
<tr>
<td>1. Raising HRM consciousness</td>
<td>1. Consistency</td>
</tr>
<tr>
<td>2. Use of highly situational additive features to create positive force for HRM change</td>
<td>2. Consonance</td>
</tr>
<tr>
<td>3. Demonstrating the need for business and people change</td>
<td>3. Advantage</td>
</tr>
<tr>
<td><strong>Secondary mechanisms</strong></td>
<td></td>
</tr>
<tr>
<td>4. <em>Ad hoc</em>, cumulative, supportive activities at various levels</td>
<td>5. Leadership</td>
</tr>
<tr>
<td>5. Linking HRM action to business need with HRM as a means not an end</td>
<td>6. Senior management team integrity</td>
</tr>
<tr>
<td>6. Mobilising external influences</td>
<td>7. Uniting intend and implementation</td>
</tr>
<tr>
<td>7. Devotion to line</td>
<td>8. Developing opposite knowledge bases</td>
</tr>
<tr>
<td>8. Construction of HRM actions and institutions which reinforce one another</td>
<td>9. Inter-organisation coherence</td>
</tr>
<tr>
<td>10. Managing a series of inter-related changes over time</td>
<td></td>
</tr>
</tbody>
</table>

(Lynch, 2009: 580)
8.8 Novartis’ Healthcare Portfolio

**Pharmaceuticals:** innovative patent-protected medicines

- **Alcon:** global leader in eye care with surgical, ophthalmology and consumer products
- **Sandoz:** affordable, high-quality generic medicines and biosimilars
- **Consumer Health:** self-medication products and treatments for animals
- **Vaccines and Diagnostics:** vaccines and diagnostic tools to protect against life-threatening diseases

(Novartis AG, 2011e)

8.9 Relative Share Price Performance from 2005

(KPMG, 2011: 2)
8.10 Emerging Markets are the Key Drivers of Total Spending

(KPMG, 2011: 3)

8.11 Average Annual Per Cent Change in US Retail
8.12 Speed and Intensity of Competition

(KPMG, 2011: 4)

8.13 Industry Pharmaceutical Division Operating Margins

(KPMG, 2011: 6)
8.14 Pharmaceutical Industry 2010 to 2020 by Major Geographic Market

(KPMG, 2011: 8)

8.15 Changing Geographic Contribution to Global Pre-R&D Operating Profit

(Growth of Emerging Markets could result in these countries together contributing as much to global profits as the US by 2020 (Figure 11).

(KPMG, 2011: 9)
8.16 Pre-R&D profit margins pressured due to Emerging Markets

This figure illustrates the profit margin impact of the growth of the industry in Emerging Markets.

(KPMG, 2011: 10)

8.17 New Medical Entity Approvals and Annual R&D Spending 1999-2010

(KPMG, 2011: 12)
8.18 Post-tax Return on R&D Expenditure

(KPMG, 2011: 14)

8.19 Kanter, Stein & Jick (1992)
<< Les Récepteurs du changement représente le groupe le plus nombreux (des trois groups presents) qui doit adopter et s’adapter au changement ... (Ils) apparaissent, dans la literature sur le changement organisationnel comme les sources de resistances principals >>