Why is organizational change so difficult? The inertia of organizations, especially large organizations, is the major impediment to transformation. The first step towards crafting a strategy of transformation is understanding the particular forms of inertia that are present in any given situation. With a nod to Michael Porter's "five forces," the sources of inertia can be organized into five groups, called the five frictions.

I Distorted Perception

Change begins with perception. If perception is distorted, then change may be impeded. The fundamental sources of perceptual distortion inducing organizational inertia are: myopia, hubris and denial, and grooved thinking. A firm suffering from myopia is unable to look into the future with clarity. Various individuals within the firm may be aware the future consequences of current action or inaction, but the organization, taken as a whole, acts as if only the short-term matters.

The simplest source of myopia is turnover. If a manager expects to move to another firm in the near future, the weight placed on future profits is diminished. When managers are myopic, the somewhat subtle consequence is that senior management will also behave myopically, expressing a rational disbelief in the claims of future threat or opportunity expressed by lower level managers.

Denial distorts perception through the rejection of information that is contrary to what is desired or what is believed to be true. Denial may stem from hubris—overweening pride in past accomplishments—or it may derive from fear. Hubris is explainable as superstitious learning—learning based on associating past success with factors that were coincidental with it but bear no causal relationship to the success.

Irving Janus has described as “groupthink” the restricted thinking that groups impose, punishing or rejecting ideas and information that deviate too much from orthodoxy. Another type of grooved thinking comes from the use of the “wrong” metaphor. Just as policy makers may struggle to decide whether the situation in Bosnia is “another Kuwait” or “another Vietnam,” a metaphor, once accepted, provides a powerful restriction on future thought.

II Dulled Motivation

Even if perception is accurate, organizations may resist change because the need is not felt with sufficient sharpness. The lack of sufficient motivation may be rational, or it may reflect agency or psychological problems. The most important motivational dampers are: direct costs of change, cannibalization costs, and cross-subsidy comforts.

It is likely that change temporarily increases the risk of organizational failure (mortality), disrupts operations, and involves a great deal of expensive effort. Even more importantly, change may imply the abandonment of costly sunk specific investments. If these considerations apply to the firm as a whole, they are rational impediments to change. Applied to individuals or groups, they point to agency problems.

When a new product’s success eats into the sales and profits of an older product, the older product is said to have been cannibalized. Cannibalization problems are often seen as impediments to change, a view which may be rational or simply reflect sub-group interests.

The motivation to change is inhibited when a problem business is subsidized by rents from another business. The subsidy may be direct, in the form of management’s toleration of losses in a business that are compensated for by gains elsewhere. Or, it may be indirect, obtained through artificial transfer prices or through bundling businesses together so that separate measures are not obtained.

III Failed Creative Response

If perception is acute and motivation sharp, change may still be blocked by other forces. In particular, it may be difficult for the organization to choose a direction out of its difficulties. The impediment may be in the analysis of the situation or in choice itself. The major categories of friction in this area are: speed and complexity, reactive mind-set, and inadequate strategic vision.

Analysis is blocked or frozen when things happen too fast. If a competitor can go around the “Boyd loop” of observation, orientation, decision, and action faster than an opponent, the opponent may not simply struggle along, he may freeze-up or collapse. When the decision situation is very complex, there may also be a similar blockage.
Change is inhibited when people adhere to the view that their problems are natural and inevitable. The most common reactive mind-sets are that the industry is “mature” that the problems are industry problems and not the fault of the firm. These points of view have great validity behind them—the weight of expert advice and analysis. They are also self-fulfilling. If all competitors define their market as mature they will surely be correct.

Even when analysis and choice have not been blocked, the direction chosen and especially its articulation may be so flawed that change is blocked. Vision can be inadequate because it is unresponsive to the clear challenges facing the firm. An unresponsive vision can hardly inspire commitment and change. Finally, vision can be ineffective because there is no trust in senior management’s commitment to the vision. If people believe that this “vision” is simply today’s plan, only to be replaced by another tomorrow, there will be no willing followers. If managers are to commit their energy, careers, time, and attention to a program of change, there must be trust that the direction chosen will not be lightly altered. Here we touch the central paradox that change may require the promise of future inertia.

IV Political Deadlocks

The three main sources of disagreement among men differ in personal interest, differences in belief, and differences in fundamental values. These are also the underlying themes of the three types of political deadlocks: departmental politics, incommensurable beliefs, and vested values.

Managers rarely act to unseat themselves or to terminate their own departments. Yet change inevitably involves winners and losers; some people and departments will gain resources and prestige and others will be lessened. Change will be fought by those who will clearly lose thereby and departmental wrangling over who will win and lose can slow change to a crawl. More interesting than the politics of self-interest is the problem that arises when different individuals or groups hold sincere but differing beliefs about the nature of the problem or its solution. When managers disagree, there is no “rational” way to combine their beliefs. If speed is important, leadership may have to abandon group decision processes. When process is important, and beliefs differ, inertia may well be the outcome.

The third source of political deadlock is the presence of vested values. Unlike the cases of differing interests or beliefs, here individuals and departments are taken to have strong emotional or value attachments to products, policies, or ways of doing things. These vested values and interests can easily be the greatest impediments to change.

Vested values lie at the heart of institutions. The defenders of vested values are usually the informal leadership network—the defenders of the society and of its norms. The paradox of change is that these same people, perhaps the best and the brightest, easily become the source of inertia. The problem of vested values is not with simple foot dragging, but with the organizational equivalent of patriotism.

Action Disconnects

The fifth source of friction concerns those forces which prevent action. Even if perception has been sound, analysis and choice have proceeded, and the problems of politics overcome, there may still be no change. The basic reasons for action blockades and disconnects are: leadership inaction, embedded routines, collective action problems, and capabilities gaps.

For change to begin, the leadership must articulate a vision for change, must alter incentives, must take direct action where possible, and must shift power. If it fails to do these things, change will be inhibited. Leadership may fail to act because of its attachment to the status quo. It is a commonplace in business that radical change in strategy or structure doesn’t happen without a change in leadership. Leaders may inaugurate change, but that change itself becomes the new status quo.

The life functions of a business are its processes—its ways of doing things. From a purely economics perspective, organizational change only requires a change in incentives. However, the habitual patterns of work have an inertial force that can be much stronger than any practical incentives.

Action can be blocked by a variety of collective action problems such as that of the “first mover”: If senior management has called for new initiatives, does it pay to be a first mover? In many situations the incentives are clearly in favor of waiting to see how the first mover does. In such cases, the equilibrium is for no one to move at all.

The more complex collective action problem is that best described as cultural. A dysfunctional culture may block change and itself be virtually impervious to alteration.

The final action blockade is simply a gap or disconnect between the tasks that need to be performed and the competencies and capabilities within the firm. Hamel and Prahalad have introduced the term “stretch” for the sense of tension between reality and aspiration, and have argued that healthy organizations are in a constant state of stretch. But, too great a gap is discouraging and is more likely to inhibit than induce change.