

Change at whirlpool: an analysis essay



**ASSIGN
BUSTER**

Abstract

Over the years 1994 – 2003, white goods producers Whirlpool Corporation initiated and implemented changes to their business model to enable them to move from a previously engineering focused organisation to a more customer focused entity. The structure and processes they put in places has since embedded itself in the company's culture.

This report analyses the 2005 Harvard business Review case study ' Change at Whirlpool Corporation' using the Hayes and Hyde model of change, Higgin's 8-S model, Hayes Stakeholder management grid and Kotter's Model of leadership to examine how senior management were able to initiate and implement the new changes and steps they took to embed these new initiatives in the firm's culture and value systems.

Introduction

In the late 1990s, Whirlpool encountered stagnating market share, profits and revenues. According to the company's analysts, this was due to the lack of innovation in the product line. Additionally, Whirlpool employees seemed out of touch with their customers' needs. Whirlpool hired a small consultancy firm, Strategos, to help them develop their strategy and structure to adopt a more pro-innovation mindset, which in turn would increase revenues and help revive the depreciating market share. The case also illustrates the steps taken by Whirlpool's management to implement the planned changes. These efforts by the Corporation created consistent growth, increase in market share and in revenue (Rivkin et al, 2005). In 2003, the company reported earnings of USD 830m and sales of USD 12, 176m.

Their profit margin was 6.8% (Rivkin et al, 2005). Senior management attributed this increase in revenue to the direct effect of demand for Whirlpool's new innovative products produced and marketed by the company. The current CEO Jeff Fettig said that Whirlpool's performance was attributed to "innovation, productivity, and leverage from our global operating platform" (Whirlpoolcorp. com, 2006). The 2005 Harvard Business Review case 'Change at Whirlpool Corporation' illustrates the steps taken by Whirlpool's top management team to make innovation a core competence and to bring forward a change in their corporate culture.

Analysts felt that these efforts had facilitated pursuant growth in Whirlpool's revenues since 2002. The HBR case illustrates the consistent improvement (OD) initiatives the Whirlpool put in place to create a new culture that focused on innovation and value creation within the organisation. Whirlpool had successfully managed to reinvent itself and to prevent itself from a possible loss of market share and revenue. Innovative corporate culture also helped them develop and accumulate the ability to further increase market share and compete in the competitive white goods market (Rivkin et al, 2005).

Type of change

We would describe the change that took place at Whirlpool as a paradigm shift as the company was moving from a technical focus (engineering) to customer focused (emotion). They were shifting from producing a product to providing a service. This is the punctuated equilibrium model as there was an attempt to break from the past and the old way of doing things to now

doing things differently (Hayes, 2010). The company's new focus was on developing an emotional connection with the customer and increasing brand loyalty.

The change was to re-positioning the company towards a customer service approach. This later became the business model that other white good manufacturers would benchmark themselves against. The CEO at the time made it clear that, the company was aware of changing consumer trends, and wanted to appease the customer's hybrid needs. Nancy Snyder, who was appointed Whirlpool's Vice President of Leadership and Strategic Competency Development, said, " You begin to see the magnitude of infrastructure that has to change to support it (plans to reinvent the corporate culture to embed innovation as a core competency). And remember, we weren't adding on to a core competency. We were creating one that didn't exist" (cited in Rivkin et al, 2005).

Forces For and Against Change

The key force for change was firstly the economic change. Given the rise of globalisation and in turn increased competition, change played an important part to maintain market share and further more increase it. Secondly change in pricing trends created the need to offer added value and new innovative products that would offer value for money (Rivkin et al, 2005).

Change in such an organisation is complicated, as it is highly technical, and the focus in the 90s was on improving current products in relation to energy efficiency. Secondly, the organisations chain of command is top-down, thus creating red tape and stifling new ideas. Even with the saturated domestic

market in 1994, Whirlpool could still be described as a successful corporation. Their success possibly made it hard to acknowledge the need for change.

This inability to see the need for change due to success is known as a ‘death syndrome’ (Hayes, 2010). It was probably due to hesitant and complacent attitudes that led to Whirlpool's two previous failures to bring about change. What further hampered the change process was management confusion and hesitant attitudes during the preliminary change process. They were initially unclear about new job descriptions and there was miscommunication about the innovation processes. The recession also made them more cautious.

When it came to mergers that Whirlpool had previously undertaken there were alignment issues with technology and skills that further hampered efforts to change (Rivkin et al, 2005).

Initiating Change

The company first identified why they had to change. They researched other companies of similar expertise, but failed to produce the much needed information. They brought in a consultant who was very aligned with their new mission to help them with their new endeavour to be more customer focused (Rivkin et al, 2005).

Whirlpool used resources like the CEO's seed fund and reward incentive like the 30% bonus for managers that got their team to innovate. Structural change was necessary and it evolved into a more de-layered and dynamic structure (I-teams, I-board etc) helped breach the comfort zone of

employees. These teams consisted of mixed employees (different departments, ages, lifers etc), which created an array of expertise and views which helped innovate and brainstorm ideas from various angles (Rivkin et al, 2005). The initial teams formed their ‘guiding coalition’ for change (Hayes, 2010).

Strategy and Purpose

Whirlpool adopted different strategies during its history. Increased domestic competition and Electrolux’s moves in the USA as well as decreasing profit margins forced Whirlpool to take a decision to operate in the global market. Their initial strategy was to improve its cost and quality levels. However, their profit margins continued to decline due to competition and local market’s being at a mature level. Therefore, a new strategy guided by the vision ‘Reaching Worldwide To Bring Excellence Home’ was approved by the executive committee to operate globally in 1988.

As a result of the globalization strategy, Whirlpool purchased a majority stake at Philips (European Appliance Business) and established alliances in Brazil and joint ventures in Asia. As a result, Whirlpool operated 44 facilities in 13 countries (Rivkin et al, 2005). Under Whitwam’s management, the company tried to shift its focus from operation to customers with different strategies. ‘Dominant Consumer Franchise’ was the first initiative on focusing customers aiming to be appealing to customers not only with competitive prices.

New features were added to the existing products which caused increase in cost and service incident rate and this initiative failed (Rivkin et al, 2005).

Whitwam's aim to move the company's focus from operational/manufacturing to customers continued and as a result, the executive committee approved the new vision of ' Every Home...Every Where...with Pride, Passion, and Performance'. The strategy to meet this vision was identified as ' Brand Focused Value Creation'. This strategy focused on brands to achieve customer loyalty through creating embedded competencies such as innovation. To create focus on brands Whitwam moved Profit & Loss responsibility from product categories to individual brands (Rivkin et al, 2005).

Structure

With the start of globalization strategy, the company's structure changed through alliances, joint ventures and purchasing new companies abroad. After announcing the new vision of ' Every Home...Every Where...with Pride, Passion, and Performance' a customer passion team, an employee pride team and a shareholder performance team were established to gather information and create a relevant strategy.

With the information provided by these teams, senior management created the ' Brand Focused Value Creation' strategy (Rivkin et al, 2005). The structure of the company also changed to support Brand Focused Value Creation strategy. New roles and teams were created with the aim of achieving high levels of customer loyalty through innovation. New positions to facilitate this new initiative were created like a Global VP of Innovation, Regional VP and GM of Innovation to build and embed innovation in the company.

The seniority of the positions displays the importance given to the innovation initiative. I-teams consisting of 25 people in each region were created. I-boards consisting of senior leaders in each region were also created to supervise the I-teams. There was initial misalignment as the I-teams were focused on creating innovative products outside the realm of what Whirlpool produced. This problem was solved by giving the ownership of the innovation to brand management teams rather than separate I-teams (Rivkin et al, 2005).

Staff Initially, the mindsets of the Whirlpool's employees were operations-focused. The company gained its supremacy from engineering and manufacturing. As the company was successful, employees were complacent with the current situation. There was strong probability of Whirlpool sinking into a death syndrome (Hayes, 2010) as employees did not consider future market insecurities, changing consumer preferences and improvement through innovation. This complacency was indirectly supported by HR systems which were characterized by low turnover and seniority-based promotion from within the company.

Besides, Whirlpool surveillance came to a conclusion that employees didn't have sufficient understanding of the end consumer needs. This created a strong desire to change employees' attitude. But it was faced by scepticism as employees were not very convinced that a customer focus strategy could lead to very profitable outcomes as they could not envision consumers could have an emotional connection to their white goods products (Rivkin et al, 2005). Whitwam tried to align the staff with strategy by changing staff attitude because he knew that change would fail if scepticism prevails.

Innovation was used as a tool for achieving customer loyalty. He encouraged his employees to engage in the innovation process. This is clearly evidenced when 6000 employees participated in giving innovative ideas. Also, Strategos consultancy was contracted to teach and guide the staff on how to be innovative. Strategos initiated a cross-functional team work and enhanced collaboration between employees from top, middle, and bottom levels. In addition, Whirlpool was concerned about knowledge development.

A Knowledge Management Global Director was hired for the purpose of developing staff knowledge (Rivkin et al, 2005).

Resources

According to Higgs (1995), the three most important organization resources are employees, money, and technology. As for the employees, in order to communicate and achieve the new vision, multidisciplinary teams were formed. The customer passion team was responsible for customer value and satisfaction. Employee pride team was responsible for developing capabilities and employee pride. The shareholder erformance team was responsible for interests of shareholders. In addition, threw was the formation of I-teams which consists of 25 members from each region. Their aim was to learn and develop innovation skills. Also I-boards were formed to support the efforts of I-teams and to provide guidance and supervision of the innovation process (Rivkin et al, 2005). As for the money, Whirlpool previously spent 2% of its sales profit on research and development and 1.7% on advertisement. After adoption of the innovation strategy, the company changed its resources funding policy.

In 2001, Whitwam recommended that 10% of capital investment must be targeted at the new innovation projects. This rate would be increased to 20% in 2002. In addition, he advised leaders from different regions to cut 1 million to 3 million of the budget to seed fund innovation. He also offered his willingness to fund important innovations even if they were rejected by innovation heads (Rivkin et al, 2005). Regarding technology, in order to track the progress of innovation, Whirlpool adopted a software system the 'I-Pipe'.

It facilitates the work of innovation team leaders by providing information about the experimental projects, implementation and suggested profit outcomes. Also, E-space was used as an online resource to teach employees how to initiate and develop innovation ideas. It helped employees to share ideas and innovation interests and post their suggestions online. Moreover, E-space included the 'Innovation Field Journal' where the innovators of Whirlpool from all over the world could write about their innovation experience (Rivkin et al, 2005). Shared values

At the beginning, Whirlpool culture was based on engineering and operation. Employees were goal-oriented. Their core competence was engineering and product improvement. The centre of their attention was cost reduction and profit maximization. It was more of a bureaucratic organization. There was little evidence of employee engagement in decision making. After adopting the brand focused value creation strategy, the company became more organic. Focus shifted to customers, empowerment, participation, autonomy, and cross-functional teamwork.

Employees were also empowered to come up with new ideas and make decisions. According to Weber (cited in Jamal et al, 2006), empowerment works at best when it is accompanied by cross-functional teamwork. In order to spread his vision, Whitwam pulled sceptic staffers to his side and communicated his vision clearly which helped him align employees with organizational values. Moreover, Whirlpool focused on competencies for value creation such as identifying and solving customer problems and quality management tools to achieve operational excellence to meet customer demands (Rivkin et al, 2005).