

6.1.13: External Change Management

Learning Objectives

- Discuss external change management and stimulating innovation

We believe that Web-based retailing will continue to increase in popularity and market share as a distribution method for physical book, music, and movie merchandise. . . . The shift toward digital formats represents an opportunity for us as we continue to strengthen our Web-based capabilities.

—The second-to-last annual report filed by Borders for the fiscal year ending in January 2009.

BORDERS **Group**

Tom and Louis Borders were University of Michigan graduates who developed an inventory management system that was second to none in the world of bookstores. It allowed them to expand their one little bookstore on State Street in Ann Arbor into 21 stores that were ultimately sold to Kmart Corporation in 1991 for \$125 million. Kmart combined them with a group of mall stores they had in their arsenal called Waldenbooks and then spun them off with an IPO in 1995.

That's the story of how the country's second biggest big-box bookstore was born . . . in a quick four years, with a proud history of a management system that could manage physical inventories like nothing else could. Maybe, when you look at it that way, it doesn't seem so strange that they never saw the internet coming.

This is how they didn't see the future effects of technology:

- In the 1990s, Borders executives chose to invest heavily in music sales, morphing themselves into a multipurpose entertainment retailer. It was around that time that Apple hit the scene with iTunes and iPods. Music was changing, but Borders didn't see it coming. In fact, Borders developed and tested in-store machines where customers could build their own mix CDs, for a little less than the cost of a pre-recorded album. It was a feeble and misguided attempt to appeal to iTunes users, which included youngsters who were reveling in the notion that buying "singles" was once again an option in a post-CD, post-album-loving world.
- In 2001, after an unsuccessful attempt to launch an online store, Borders opted to outsource their online sales to an up-and-coming company called Amazon. (You've heard of them?) Borders-dot-com redirected all their customers to a co-branded site and they invited their customers to shop with Amazon to fulfill all their online shopping needs. What they didn't anticipate was that Amazon would become the go-to for book shoppers, and that people would literally begin shopping at Borders for a book, and then turn around and buy it online at Amazon for cheaper. Even going through Borders.com, Borders only received a commission on that book purchase. When Borders finally decided to take back their ecommerce business, it was too little too late.
- E-readers became the new way that Amazon built its unwavering customer base. Amazon customers could now have a new book with the click of a button, without going out to the store at all. Sleek, lightweight e-readers allowed reader to hold War and Peace in front of them for hours and their arms wouldn't get tired. What was not to love? Competitor Barnes & Noble came onto the scene with the Nook e-reader, but it took even longer for Borders to respond with the Kobo.
- Finally, Borders was invested in expanding their global footprint on a national scale. They were opening stores in the UK, Singapore, and Australia. Unfortunately, they were neglectful in responding to new marketing techniques and even providing their domestic stores with the tools to do their jobs correctly. In an article for The Atlantic, business writer and one-time Borders consultant Pete Osnos wrote, "I was startled to find, on a visit to Borders in Madison, Wisconsin, in 2007, that the store still had no Internet access, instead channeling all communications through Ann Arbor."^[1]

External forces for change—this time technological—had turned the book and entertainment industry on its ear during the time that Borders was most vulnerable. The company had become too big too quickly, and couldn't answer to these changes in time to make a difference. Their customers went elsewhere.

There were internal challenges for Borders that further hurt their ability to respond. Executive turnover at the C-level was steep and unmanageable. Store leases left little room for flexibility. And the company had acquired a suffocating amount of debt. Barnes and

Noble fared a little better responding to these technological challenges because they did not have the same turnover and debt to deal with.

What could Borders have done to survive from a change management perspective? Perhaps they could have pulled back on international development and restructured their budget and organizational structure to support their own innovation. Brett Clay, author of *Selling Change* suggests that those “other external challenges” such as inflexible store leases and debt lessened their agility and led to their demise. While managers have traditionally budgeted for return on investment, Clay suggests their focus should be agility instead. “If you are adapting to a change, you are already in a follower position. As the Borders case demonstrates, that position can be fatal,” says Clay. Borders is an example of what happens to those who do not lead.

PRactice Question

<https://assessments.lumenlearning.co...essments/14009>

Stimulating Innovation

Among the contemporary change issues that managers face is the challenge of stimulating innovation. Borders may not have realized that they were in a business that needed innovation (libraries and books had been on shelves for users since Alexandria, for goodness sake!) but Brett Clay may have been right that agility and leading change may have produced a very different result for them. And in fact, managers look to stimulating innovation as a change management technique meant to stay ahead of, rather than respond to, environmental changes.

Innovation is a new idea applied to initiating or improving a product, process or service. Jeff Bezos was innovating when he created an online bookstore in 1994. New innovations can be products, services, new production technologies, new structures, new administrative systems . . . pretty much a new anything.

- **Structural variables** have been the most studied source of innovation. If you recall from our organizational structure module, organic structures produce the most innovation. But it’s been shown that managerial tenure provides legitimacy and knowledge of how to accomplish tasks and create desired outcomes. And having a lack of resources can also nurture innovation.
- Organizations with cultures that encourage **experimentation**—that award successes and failures and don’t punish mistakes—also foster innovation.
- Finally, **idea champions**—individuals who take an innovation and actively and enthusiastically promote the idea, build support, overcome resistance, and ensure that ideas are implemented—are also of benefit to organizations that need innovation to stay fresh.

Borders didn’t have any of that. A relatively small company in 1991 with 21 stores, they might have been able to achieve an organic structure, but they got big very quickly, and their hierarchical structure didn’t support innovation. Their C-level managers changed with the seasons, so no one manager could step in and provide the innovative support needed. And Borders’ culture didn’t support innovation either. There was no room for a mistake—their increasing debt did not allow for the time or expense of that kind of culture.

References

Clay, Brett. “Borders Books Liquidation Shows Change Management Doesn’t Work, Says C.” PRWeb. July 19, 2011. Accessed May 08, 2019. <https://www.prweb.com/releases/2011/7/prweb8652866.htm>.

Frazier, Mya. “The Three Lessons of the Borders Bankruptcy.” Forbes. February 16, 2011. Accessed May 08, 2019. <https://www.forbes.com/sites/myafrazier/2011/02/16/the-three-lessons-of-the-borders-bankruptcy/>.

Noguchi, Yuki. “Why Borders Failed While Barnes & Noble Survived.” NPR. July 19, 2011. Accessed May 08, 2019. <https://www.npr.org/2011/07/19/138514209/why-borders-failed-while-barnes-and-noble-survived>.

Sanburn, Josh. “5 Reasons Borders Went Out of Business (and What Will Take Its Place).” Time. July 19, 2011. Accessed May 08, 2019. <http://business.time.com/2011/07/19/5-reasons-borders-went-out-of-business-and-what-will-take-its-place/>.

Vickers, Amy. “Amazon Takes over Borders.com.” The Guardian. April 11, 2001. Accessed May 08, 2019. <https://www.theguardian.com/media/2001/apr/11/newmedia.citynews>.

-
1. Osnos, Peter. “What Went Wrong at Borders.” The Atlantic. January 11, 2011. Accessed May 08, 2019. <https://www.theatlantic.com/business/archive/2011/01/what-went-wrong-at-borders/69310/>. ↩

Contributors and Attributions

CC licensed content, Original

- External Change Management. **Authored by:** Freedom Learning Group. **Provided by:** Lumen Learning. **License:** [CC BY: Attribution](#)

Public domain content

- Borders group logo. **Provided by:** Borders group. **Located at:** https://commons.wikimedia.org/wiki/File:Borders_group.png. **License:** [Public Domain: No Known Copyright](#)

6.1.13: External Change Management is shared under a [not declared](#) license and was authored, remixed, and/or curated by LibreTexts.

- **15.13: External Change Management** has no license indicated.