ORGANIZATIONAL CHANGE- DIFFERENT APPROACHES

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Abstract

As organizations decide to expand on other markets, managers are facing with new problems and realities. If thirty years ago, companies afford to ignore the international business environment, today they need to think globally.

This new dimension of international business was made possible by unprecedented growth of telecommunications, technology, transport and the existence of international standards. The article aims to analyze the main reasons for organizational change, in terms of contingency theory and strategic approach.

Key Words: *organizational structure**, contingency theory, strategic approach*

JEL Classification: M14, M16

1. Introduction- organization size

Economic, technological, and competitive forces have combined to push many companies from a domestic to a global focus. The importance of the global environment for today's organizations is reflected in the shifting global economy. As one indication, Fortune magazine's list of the Global 500, the world's 500 largest companies, indicates that economic clout is being diffused across a broad global scale. In Exhibit 1, each circle represents the total revenues of all Global 500 companies in each country. Although the United States accounts for the majority of the Global 500 revenues, a number of smaller and less-developed countries are growing stronger.

Exhibit 1. *New global environment for multinational companies*
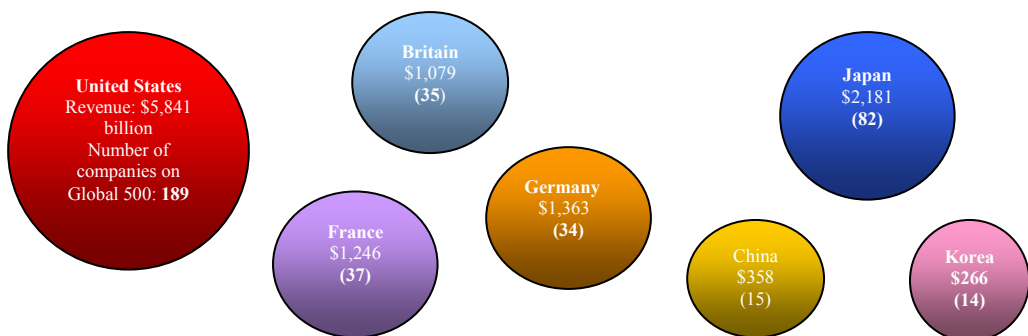
Source: *Morgan Gareth, Images of Organization, Sage Publications, Thousand Oaks, California (2006)*

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Other countries with fewer companies are*: Spain, Mexico, Switzerland, Netherlands, Canada, Sweden, Finland, Australia, Malaysia, India, Brazil and Italy.*

The dream of every businessperson is to have his or her company become a member of the Fortune 500 list, to grow fast and to grow large. Sometimes this goal is more important and urgent than to make the best products or show the greatest profits.

But my question is: is bigger better? Huge resources and economies of scale are needed for many organizations to compete globally. Only large organizations can build a massive pipeline in Alaska, for example. On the other hand, the competing argument says small is better because the crucial requirements for success in a global economy are responsiveness and flexibility in fast changing markets. Small scale can provide significant advantage in terms of quick reaction to changing customer needs or shifting environmental and market conditions.

For example, Dow Chemical's company main objective in the 90's was: *becoming the largest, most competitive and profitable company in its branch.* In 2008, after reorganizing the company's organizational structure the Dow Chemical company main objective is: *being the most competitive and profitable in its branch.*

The paradox is that the advantages of small companies sometimes enable them to succeed and, hence, grow large. Most of the 100 firms on Fortune magazine's list of the fastest-growing companies in America are small firms characterized by an emphasis on being fast and flexible in responding to the environment. Small companies, however, can become victims of their own success as they grow large, shifting to a mechanistic structure emphasizing vertical hierarchies and spawning "organization men" rather than entrepreneurs. Giant companies are *"built for optimization, not innovation".*

2. Organizational design theories

Managers are concerned with three related goals when they make design decisions:

- To create an organization design that provides a permanent setting to which managers can influence individuals to do their particular jobs.
- To achieve a pattern of collaborative effort among individual employees, this is necessary for successful operations.
- To create an organization that is cost effective- one that achieves the first two goals with a minimum of duplication of effort, payroll costs, and so on.

Recent managerial experience and organizational research have provided an approach for thinking about organization design issues. This approach emphasizes that the characteristics of an organization are contingent upon various situational factors, the tasks that members must perform to accomplish the firm's strategy in this environment, and the psychological characteristics of the members.

The framework of **contingencies** (denominated "situational" by Lorsch-1977) emphasizes the need to study the influence of circumstances (contingencies or situations) on organizational structure and administrative behavior, while the **strategic choice approach** shifts the focus to the decisions made by the organization's leaders in terms of products and markets and their impact on organizational forms, i.e. it integrates strategy into the model and assumes that manager' perceptions, preferences and choices interact with the process of adjustment to the requirements of the environment in order to achieve objectives (Child, 1972).

Although the contingency framework has generated numerous (mainly empirical) studies of the different factors that contribute to organizational design, this research has mostly focused on describing their influence individually and in isolation. This type of analysis concludes that bureaucratic organizational structures are more appropriate in stable and predictable environments, while a less formalized and centralized organizational structure is more suitable in unstable and unpredictable environments (Burns and Stalker, 1961); furthermore, a functional hierarchy is argued to be desirable in situations where products are related in terms of technology, but with increasing diversity of products and markets (diversification), divisional structures (Galbraith and Kazanjian, 1986) are more desirable. Finally, more flexible (decentralized and divisional) organizational structures are needed in new markets, while over time, as the organization acquires experience and tasks become increasingly predictable, a more centralized and functional structure is required (Hollenbeck, 2000).

One of the most common and relevant research topics in the field of contingency or situational theory involves analyzing the effect of a set of mainly external factors on the design of an organization in order to verify the most efficient organizational structures (Powell, 1992; Baligh et al., 1996; Forte et al., 2000; Pettigrew et al., 2000; Meilich, 2006).

This theory began with the work of Burns and Stalker (1961), who argued that the appropriateness of an organizational structure depends on environmental conditions. According with this, Lawrence and Lorsh (1967) state that companies which match their internal characteristics to environmental requirements perform better. Accordingly, it is not possible to establish an ideal organization for all situations (Galbraith, 1973).

The work of these authors reflects the main foundations of contingency theory:

- The focus is on the business environment, with less importance being ascribed to internal elements.
- The alignment between organizational designs and environmental factors leads to better performance.
- There is no optimal organizational form for all circumstances

In contrast to this theoretical approach, which seeks to downplay a company's ability to influence its performance (in the form of adaptation to the chosen environment) in favor of a purely reactive response to the demands of the

environment, the approach known as strategic choice gives greater importance to the effects of strategic decisions made within the company itself.

Although some authors in the field of situational theory (Chandler, 1966; Rommel, 1974) considered strategy as the process by which an organization adapts to environmental pressures but without being able to influence them, the strategic choice perspective places greater emphasis on the active role of leaders, the powerful impact they can have on organizational design, and how they respond to the situational factors that contribute to their preferences (Child, 1972, 1997; Miles and Snow, 1986).

3. Changing organizations

All organizations must constantly adapt and innovate not only in products and services but in management structures and working practices. Organizations are told that they must reinvent themselves. The magnitude and the extent of the changes to be made are important and can generally be classified as follows:

- **Macro level change.** This type of change is transformational, comprehensive, revolutionary and discontinuous. It represents a break with the past. It generally results in a complete overturning of previous organizational structures and processes.
- **Micro level change-** which occurs daily at the operational level. This type of change is localized and evolutionary in nature, building on past performance over time, leading to improvements such as better team work and improved communications

Leavitt[3] suggests organizations can create change by intervening in 4 areas:

- *Tasks; goals and strategies on one level to individual jobs*
- *Organization; structures, systems and procedures*
- *Technology; new equipment, work methods, information systems*
- *People; replacing, reducing, expanding, re-training*

Change is usually associated with progress, however, today's organizations have to predict and create their own change. Change is being driven by the need to develop the ability to compete, grow and survive in an increasingly competitive environment that is re-shaping the very nature of business.

The key pressures for change can be attributed to the following environmental forces:

- *Market forces*:
- *Technological advances*

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[3] **Leavitt, H. J**. (1964) *"Applied organizational change in industry"*, in Cooper, W. et al *New Perspectives in Organizational Research,* Wiley

- *Political and economic*
- *Internally*

The three step model, attributed to Lewin[4], observed that changes and consequent improvement in group performance is short lived. After a period of time, behaviors revert back to previous. In order for change to succeed, old patterns of behavior must be discarded before new behaviors are adopted. For this to occur there must be recognition for the need for change to occur. Therefore if change is to be successful the new behaviors must be embedded in and secured for the future. To do this he suggests three steps (table 1).

Table1. *Lewin's three step model*

Step 1 **Unfreezing the present**	*Forces that maintain current behavior are reduced through analysis of the current situation. Imperatives for change are realized through dialogue and re-educational activities such as team building and personal development.*
Step 2 **Moving to a new level**	*Having analyzed the present situation, new structures and processes are put in place to achieve the desired improvements.*
Step 3 **Refreezing the new level**	*The changes implemented are then 'frozen' in place to ensure that they become part of normal working procedures. This is done by putting in place supporting mechanisms such as policies, procedures and reward systems.*

The three step model is somewhat general and broad and over the years has been developed and expanded by other commentators.

The contingency theory of leadership and change offers some help to manage change effectively. Leaders must do whatever the circumstances necessitate. In other words 'it all depends'. This is an attractive concept to some. It avoids prescriptive suggestions and is non-judgemental, but such an approach could be seen as inconsistent. The approach suggests that the best approach to use 'depends on the circumstances'. The aim is to distil useful generalizations about various change management strategies and apply them to given certain conditions. Nonetheless, when individuals have not been prepared for or involved in the change to take place, rumor can abound resulting in concern and resistance. This can be due to:

- *fear of losing job, loss of status*
- *inability to see the need for change*
- *unfavorable view of the person leading the change*
- *not consulted*

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[4] **Lewin, K.** (1958) *"Group decisions and social change"*, in Swanson, G. et al. *Readings in Social Psychology,* Holt, Rhinehart & Winston

- *perception that change will create more work*
- *the negative influence from others, colleagues and peers.*

Change can be particularly threatening for individuals during times of economic uncertainty. However getting people on board is crucial to any change effort.

On the other hand, acceptance of change can be influenced by perceptions of:

- *improved working conditions, increase in pay, benefits*
- *opportunities for growth, development, recognition, promotion*
- *potential for new challenges*
- *a feeling that change is required*
- *respect for the person or department introducing the change*
- *being able to contribute to the change.*

4. Conclusions

The challenge facing today's organizations is how to implement change that will drastically affect the organization's ability to improve performance. Change management skills will be vital for organizations to succeed in the next century. Managing change is now a core competence for all organizations, not just for those with structural or financial problems: Regardless of the industry, all organizations will have to create new rules and identify the team players that will help them take it forward.

How to transform your organization or manage change cannot be prescribed by any one model of change management. Extract the key principles of change that seem to 'fit' with your organization, its strategies and culture. It is hard to offer a clear answer regarding which to be the size, the moment or the strategy that a company should follow in order to achieve success.

Future organizations will have to create a more dynamic and flexible environment as structure and culture, in order to face global competitiveness, economical change, industry changes and innovation,

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