

## РОЗДІЛ 4

# ЕКОНОМІКА ТА УПРАВЛІННЯ ПІДПРИЄМСТВАМИ

УДК 005.342

**Muzam J.**

Department of Financial Management and Economic Security «KROK» University

### CORPORATE ENVIRONMENT DURING CHANGE IMPLEMENTATION PROCESS

This paper analyses corporate environment during change management implementation process. It examines the external and internal factors that boards of management which is to be considered during change implementation process. It also stated that beside known internal and external factors of the corporate environment, there are equally unknown or uncertain factors called chaotic factors which need to be considered. **Keywords:** change, decision making, chaos, corporate environment, strategy.

**The main problems.** Understanding the corporate environment and management during change management implementation is very vital in reducing, threats and creates better opportunities for organizational improvement. In view to implement change, corporations are at a fragile situation due to the fact that the outcomes of change are mostly unpredictable. A better understanding of the business environment and incorporation of environmental systems of change could help improve efficiency, create a better competitive advantage position, reduce cost and possibly avoid crises management.

Change management implementation involves several components associated to it. Change managers focus should not only be at the result they are aiming to achieve but rather on the processes toward the result. They are to take into consideration several factors which may come along the way unpredictable. After careful organizational diagnostic, they will now be able to know what to expect and the chaotic result that may be accrued. Change processes are complex and involve several analyses which might be internal and external. Internal analysis would have to deal with issue regarding the organization from inside such as decision making analysis, resistance, organizational culture, communication, etc. and external with analysis such as the PEST or PESTEL analysis, competitive analysis etc. The complexities of these processes make it difficult for management to know which change method to apply and to determine whether it is the right time to apply change. The complexities of this processes is due to chaotic factors which are hardly predictable. This paper is to describe the external, internal and chaotic factors involved in the corporate environment during change processes. The implementation of change management and their impact to organization usually differs for different companies, or even sectors, depending on a number of factors, such as personnel commitment, size and culture [1].

**Literature review.** Change is the continuous adoption of corporate strategies and structures to changing external conditions. It has been defined as the process of continually renewing an organization's direction, structure, and capabilities to serve the ever-changing needs of external and internal customers [2]. It also implies to plan, initiate, realize, control, and finally stabilize change processes on both, corporate and personal level. According to Tim Creasey of Prosci Change Management, it is the process, tools and techniques to manage the people-side of change and to achieve the required

business outcome. Change management incorporates the organizational tools that can be utilized to help individuals make successful personal transitions resulting in the adoption and realization of change [3]. Change is an ongoing process which may be implemented intentionally as a system or it came into force by chaotic variables. John Kotter's book on «Leading Change: Why Transformation Efforts Fail», cited research that suggested only 30 percent of change programs are successful [4]. Also, a 2006 study by Harvard Business Review found that 66% of change initiatives fail to achieve their desired business outcomes [5]. With chaotic systems into considerations, we will realize that things do not normally come the way we want it to be because of unforeseen outcomes. In chaotic systems, small disturbances multiply over time because of the dynamic, repetitive nature of chaotic systems. Organizational systems involves are subject to small random or chaotic influences and extremely sensitive to initial conditions. Sometimes, management models and principles are not build to safeguard the corporation from both external and internal threats. Some analysis like SWOT analysis was developed to solve these problems. However it has some limitation since it might in some domain deals with the surface level of the organization and may not be able to predict the unseen variables. Also it mostly gives lists of situational issue without concrete solution to it. The analysis considers data that is available at a particular moment and may become outdated quickly. For example, an element can be considered as strength today, can be a weakness tomorrow. Taking this into consideration we will realize that change involve people and management structures, so understanding all these elements from the interior of the organization will enable change managers and stakeholder develop well define strategy to secure the organization. This article aim is to describe an approach to evaluate corporate environment during organizational change management which can be an important step towards understanding corporate change. The article concludes with recommendations for further research.

**The purpose of this Article.** The goal of this paper is to understand corporate environment during change management implementation process. This understanding may give management a general understanding and information to be considered before making decision about the type of change methodology to implement and the environment of the organization, its competitors, and so on. Orga-

nizational diagnostics would enable the management to know when and how change can be implemented and to detect whether it is the right time to implement it.

Although some companies address change differently depending on their goals, size and method of applications, they however have common factors to consider before implementing change. Whatever the nature of their application, most companies follow a similar series of factors and analysis when addressing change and the impact on its corporate environment. For the purpose of this article, there are going to be grouped into three sections which are the internal, external and chaotic factors:

**The Main Points of the Articles.** Corporate internal environment consist of a lot of ambiguous factors that managers and stakeholders need to take into consideration before embarking on major change implementation process. It involves internal environment analysis such as the SWOT Analysis, which involves identifying the business' strengths and weaknesses, by analyzing its competencies. In conducting internal analysis, change managers are able to identify its strengths and weaknesses, such as process efficiencies, powerful machinery, or outdated technology, and thus capitalize on these, as they are to be factored into the strategy formulation process.

All decisions taking are faced with some level of uncertainty. Managers need to evaluate the decision taking to implement change at what time and stage of the corporation. What is the probability that some certain results would be attained? Are employees ready to undertake such change implementation? Sometimes management seems to take decisions base on deterministic model. By simply taking decision based on deterministic model, we tend assume certainty in all aspects. In this case a good decision is judged by the outcome alone. However, in probabilistic models, decision makers are concerned not only with the outcome value but also with the amount of threat each decision carries, which sometimes is very difficult to evaluate[6]. The concept of probability occupies an important place in the decision making process, whether the problem is one faced in business, in government, in the social sciences, or just in one's own everyday personal life. Decision makers are to shift their interest from the deterministic observation to probabilistic models using subjective statistical techniques for estimation, testing and predictions. Here change managers are to compute and predict these entire probabilistic model in order to assess the level of risk involved before any change can be implemented. Therefore risk assessment is necessary which should include adaptive risk management process. Risk assess implies a study to determine the outcomes of decisions along with their probabilities. An idealized iterative adaptive risk management process includes clearly defining the issue, establishing decision criteria, identifying and incorporating relevant information, evaluating options, monitoring and revisiting effectiveness. The process can be used in situations of varying complexity in change processes. While it can be more difficult for complex decisions, the incorporation of an iterative approach makes it possible to adjust decisions as information improves. These can be undertaken through collaborative processes that facilitate incorporation of stakeholder values in goal-setting and review of decision options [7; 8].

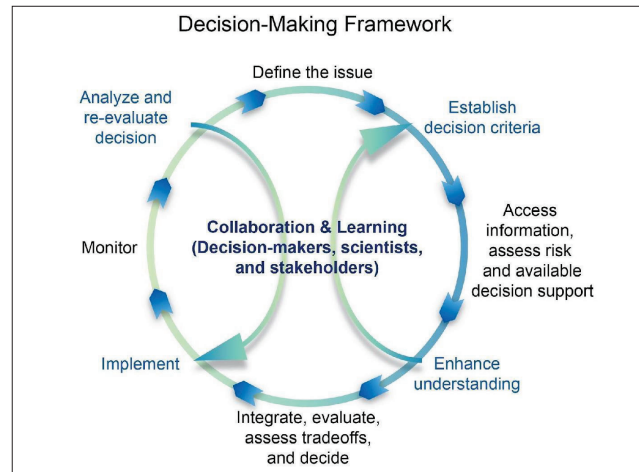


Figure 1. An example of a good decision making framework

Source: Adapted from Willows, R.I. and Connell, R.K [9]

Unilever implemented this probabilistic analysis of decision making and it is yielding positive result and thus contributing to the success of Unilever. However, the success of Unilever cannot just be credited to this decision making aspect policy alone, for there are several other internal and external variables that were contributed to it.

*“Prior to the analysis, key decision makers were in disagreement and considering several alternative options (including cancelling the project outright) – whereas, the application of Decision Making Under Uncertainty(DMUU) won senior management commitment to a single course of action that drove the pro.activ product on the market. This analysis resulted in major product launches in all major European countries within 9 months, with global sales in excess of €160 million per annum [9]”.*

Monitoring the organization's external environment is very vital during change implementation process. External environment of an organization are those factors outside the company that affect the company's ability to function. Some external elements can be manipulated by company marketing, while others require the organization to make adjustments. When planning change strategy, management has to classify and prioritize its most essential components. The company's environment includes potentially everything outside of its boundaries. A company's competitive strategy, that is a long-term plan to achieve and sustain a competitive advantage, influences its structures and processes.

The external environments build the image and protect the economic security of the corporation. Corporations are to determine factors that characterize its environment in order to avoid uncertainty during change. The external environment is sometimes classified into task and general business environment. The general environment is a relatively remote environment and the elements that compose it and have an indirect influence on the organization such as social culture, demographical factors and natural environment. The task environment is the closest environment of the organization and the elements that made it is influencing the organization directly. It consists of factors such as consumers, competitors, legislators, labor market, industry and financial resources [10].

In a globalized world, firms face many new challenges daily and its ability to adopt change will determine its success and sustainability. Environmen-

tal scanning as one of the important components of change and strategic planning process give space to explore new opportunities and to identify threats for making important change decision. Before implementing change, corporate management board needs awareness and understanding of the external operating environment of their firms in order to align its change strategies with external environment conditions. Its possibility to directly challenge its competitors and to achieve entry and remain sustainable in the market place is only possible thorough examination of corporate external environment. With the aid of external analysis, there are able to recognized adaptive businesses opportunities, threats and adapt market change. It helps increase efficiency and effectiveness of corporate planning. Generating relevant information about the external environment can greatly contribute to performance. Therefore before embarking on a major change process, there must be sufficient understanding of the external environments [11; 12].

For change can be incremental, development or transformational change. When and how it is implemented can determine the hostility of the corporation and its environment. Competitor can take advantage of this period and overtake it market share. Companies need proper preparations and plans to cope with changes as they face dynamically changing environments especially when change result may be unpredictable. However, opportunities for businesses are hidden in the external environments of the businesses and its external environment can affects their ability to create or discover opportunities. Environmental understanding facilitates the ability to exploit the resources, acquiring resources, as well as identifying opportunities to create competitive advantage [13; 14].

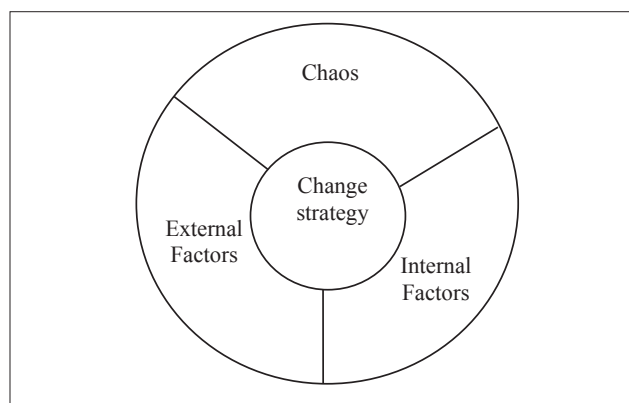
External analyses are very crucial to secure the corporation. Change can make the corporation very fragile or very progressive in terms of its dominant share in the market. An example of external analysis during change implementation can be the PEST analysis.

Most theoretical models tend to assume relatively simple linear relationships existing between various organizational components. They try to classify firms and industries and to describe appropriate strategies for each class. Most often such models are based on recurrent and are usually too many exceptions for the models to have much predictive value. In the real world, the impact of change is often difficult to predict. For example, it is almost impossible to determine the exact outcome of a new technology in an industry. This sometimes is due to chaotic factors that may arise during and after change implementation. The fundamental problem is that industries evolve in a dynamic way over time as a result of complex interactions with other factors in its environments such as firms, governments and suppliers.

Chaos theory which was first introduced in physics, study the nonlinear dynamics of systems and can be useful to conceptualize the unpredictability of industries. In nonlinear systems small changes or small errors can have big effects and outcomes are subject to high levels of uncertainty and unpredictability. Nonlinear systems exhibit three distinct types of change behavior over time. These change behaviors are convergence to stability or equilibrium, stable oscillation, and chaotic. These change patterns can occur in a short term as well as long time such disasters, financial crises, and changes in quality. Thus, in real world situation, each behavioral type does not reflect permanent commitment only to that behavior; because the real world generates many different patterns in the data organizations create [15].

Chaos, in principle, makes non-predictable its evolution. On the other hand, being deterministic, and governed by systems of non-linear equations, it should be possible to predict and control the corporate environment once you know the mathematical relationships of the variables that influence it. That is why it is necessary to undertake the analysis of the main concepts, techniques and mathematics of chaotic principles during change. Often the control of chaos is defined as that set of techniques that have as objective to cancel and/or to stabilize the chaotic behavior. Controlling chaos consist in activating a chaotic dynamic process with the purpose of reaching a determined objective relative to the behavior of the system [16].

**Conclusion.** To ensure a better understanding of corporate environment and its stability, companies should not only focus on individual internal variables or external variable to implement change. Most companies focuses on issue such as individual model to get a better understanding of the corporation environment. Corporate change models often focused more on internal aspects without external variables. They will laid emphasis on one and forget about the other. On the external environment strong competitive strategy should be taking into account. This will cause managers to keep watching their competition for new product introductions, new advertising campaigns, or new plant construction. What is the demographic level about the availability of labour and consumer's trend, Is there pending legislation that may favorably or unfavorably affect labor or energy costs or require modifications to current operations. Managers should also be alert to how their competition performs critical activities and learn to perform them better by benchmarking them. Even studying seemingly unrelated firms may yield ideas on enhanced operational efficiency or new product development. The importance of this study is to give room for further study that can create models and theories that can enable corporations to better understand its internal and external factor and to secure the positive economic security indicators.



**Figure 2. Change strategy with relation to factors external, internal and chaotic factors**

Source: From author

The above diagram in figure 2 indicates that beside known factors which are internal and external factors that affect change there are equally other unknown factors known as chaotic factors. The later are uncertain and sometimes uncertain or nor foreseen during change implementation process. Some endogenous and exogenous factors of organizational are unpredictable. Change in one system has a direct change or indirect effect to one processes or

the other. Understanding the internal and external environment the organization would stand at better position for management to secure the economics security of the organization. Change management implementation can be conceptualized and modeled as complex, dynamic systems, which exhibit both unpredictability and underlying order when taking the environment into account. Employee engage-

ment also plays a key role during this process, for it is a key driver of shareholder value in a firm and is becoming a key metric for monitoring corporate performance by board and management. However, the top management role cannot be neglected or minimized, for they most act as agent of change and motivate others to follow throughout the change implementation process.

#### References:

1. George E. Pataki, and Erin M. C., Understanding and Implementing Environmental Management System, a step by step guide for small and Medium Size Enterprise. New York state department of environmental conservation pollution prevention unit.
2. RENE TODNEM, Queen Margaret University College, Edinburgh, UK "Organisational Change Management: A Critical Review" Journal of Change Management Vol. 5, No. 4, 369–380, December 2005.
3. Tim Creasey "Defining change management" Prosci and the Change Management Learning Center. <http://www.change-management.com/tutorial-definition-history.htm> <http://offers.prosci.com/research/Prosci-2014-Best-Practices-Executive-Overview.pdf>
4. John Kotter, "Leading Change: Why Transformation Efforts Fail", Harvard Business Review, March–April 1995.
5. Harold L. Sirkin, Perry Keenan, and Alan Jackson "The Hard Side of Change Management," Harvard Business Review, October 2006.
6. Taghavifard M. T., Khalili K. Damghani, Tavakkoli R. Moghaddam "Decision Making Under Uncertain and Risky Situations" Islamic Azad University, Science & Research Branch, Tehran, Iran 2009 by the Society of Actuaries.
7. Moss R., Scarlett P. L., Kenney M. A., Kunreuther H., Lempert R., Manning J., Williams B. K., Boyd J. W., Cloyd E. T., Kaatz L., and Patton L. 2014: Ch. 26: Decision Support: Connecting Science, Risk Perception, and Decisions. Climate Change Impacts in the United States: The Third National Climate Assessment, J. M. Melillo, Terese (T.C.) Richmond, and G. W. Yohe, Eds., U.S. Global Change Research Program, 620-647. doi:10.7930/JOH12ZXG.
8. Willows R.I. and Connell R.K. (Eds.). (2003). Climate adaptation: Risk, uncertainty and decision-making. UKCIP Technical Report. UKCIP, Oxford.
9. Michael C. Ehrhardt, Eugene F. Brigham, 2008 "Corporate Finance, A Focused Approach" <https://www.palisade.com/cases/Unilever.asp>.
10. Adeoye, Abayomi Olarewaju and Elegunde, Ayobami Folarin "Impacts of External Business Environment on Organisational Performance in the Food and Beverage Industry in Nigeria" British Journal of Arts and Social Sciences ISSN: 2046-9578, Vol.6 No.2 (2012).
11. Kraus S., Harms R. & Schwarz E. J. (2006). Strategic planning in smaller enterprises-new empirical findings. Management Research News, 29(6), 334-344. <http://dx.doi.org/10.1108/01409170610683851>.
12. Wasim Jan Khan M., and Muhammad Khaliqueb, Dec 2014 "Strategic Planning and Reality of External Environment of Organizations in Contemporary Business Environments Business" Management and Strategy, Dec 2014, Vol. 5, No. 2.
13. David F. R. (2013). Strategic management, A Competitive Advantage Approach (Concepts & Cases). (14th Ed.). New Jersey, United States of America: Prentice Hall, Pearson Education.
14. Hitt M. A., Ireland R. D., Sirmon D. G., & Trahms C. A. (2011). Strategic entrepreneurship: creating value for individuals, organizations, and society. Mays Business School Research Paper No. 2012-19.
15. Andrés Fernández Díaz, Lorenzo Escot and Pilar Grau-Carles, 2012 "what's new and useful about chaos in economic science" Cuaderno de Trabajo número 02/2012.
16. Douglas L. Kiel "What Disaster Response Management Can Learn From Chaos Theory" [http://www.library.ca.gov/crb/96/05/over\\_12.htm](http://www.library.ca.gov/crb/96/05/over_12.htm)
17. Brown Stephen P. Osborne "Managing Change and Innovation in Public Service Organizations" Book, 2012,, Page 12.

Музат Д.

Університет економіки і права «КРОК»

#### КОРПОРАТИВНЕ СЕРЕДОВИЩЕ В ПРОЦЕСІ ВПРОВАДЖЕННЯ ЗМІН

##### Резюме

Стаття аналізує корпоративне середовище під час процесу впровадження змін. Розглянуто зовнішні та внутрішні фактори, які слід брати до уваги раді директорів у процесі впровадження змін. Засвідчено, що крім відомих внутрішніх і зовнішніх факторів корпоративного середовища, існують також рівною мірою незрозумілі або невизначені фактори, відомі, як хаотичні елементи, які необхідно враховувати. Ця робота є основою для подальшого дослідження цього питання.

**Ключові слова:** зміна, прийняття рішень, управління ризиками, хаос, корпоративне середовище, стратегія.

Музат Д.

Университет экономики и права «КРОК»

#### КОРПОРАТИВНАЯ СРЕДА В ПРОЦЕССЕ ВНЕДРЕНИЯ ПЕРЕМЕН

##### Резюме

Статья анализирует корпоративную среду во время процесса внедрения изменений. Рассмотрены внешние и внутренние факторы, которые следует принимать во внимание совету директоров в процессе внедрения изменений. Засвидетельствовано, что кроме известных внутренних и внешних факторов корпоративной среды, существуют также в равной степени непонятные или неопределенные факторы, известные, как хаотические элементы, которые необходимо учитывать. Эта работа является основой для дальнейшего исследования этого вопроса.

**Ключевые слова:** изменение, принятие решений, управление рисками, хаос, корпоративная среда, стратегия.