

THE ROLE OF CHANGE MANAGEMENT IN SMALL FIRM GROWTH

ULOGA UPRAVLJANJA PROMJENAMA U RASTU MALE TVRTKE

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Abstract: *How organisations change and develop has enormous consequences, not just for their employees and owners but for society at large. Given the importance attached to the role of managers in developing strategy and managing change, this work reviews through the case study of a small Croatian firm what managers do and how they do it. In particular, the role of leadership and management development is examined and related to approaches to change management as well as the reasons for change. The work concludes that if managers have considerable choice over what to change and how to change it, then this lays a considerable responsibility on their shoulders. Most organisation theories claim to show organisations how to identify where they are and where they should be. They also, either explicitly or implicitly, address the issue of change management. But, as this work shows, organisations are social systems where the leadership plays a key role in changing organisations and change is not always a rational process.*

Key words: *change management, small firm growth, leadership*

Sažetak: *Kako se organizacije mijenjaju i razvijaju ima goleme posljedice, ne samo za njihove zaposlene i vlasnika, već i za društvo u cjelini. S obzirom na važnost koja se pridaje ulozi menadžera u razvoju strategije i upravljanja promjenama, ovaj rad analizira kroz studiju slučaja kako menadžeri upravljaju i nose se s promjenama. Konkretno, uloga vođenja i upravljanja razvojem je pobliže ispitana i dovedena u vezu s pristupima upravljanja promjenama. U radu je zaključeno da, ako menadžeri imaju širok izbor nad onome što treba mijenjati kao i načine na koje je to moguće postići, tada velika odgovornost leži na njihovim ramenima. Većina organizacijskih teorija tvrde kako organizacije same mogu prepoznati gdje su i gdje bi trebali biti. One također, bilo eksplicitno ili implicitno sve promjene dovode u vezu s menadžmentom promjena. Ali, kao što ovaj rad pokazuje, organizacije su društveni sustavi u kojima vodstvo igra ključnu ulogu u organizacijskim promjenama koje često puta nisu racionalni procesi.*

Ključne riječi: *menadžment promjena, rast malih poduzeća, vodstvo*



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1. Introduction

The subject of research within this study was to determine the impact of change management on the success of small businesses. The focus on small enterprise is a result of their expected role in the economic development of the Croatian Republic. The main goal of this study is to determine the key steps of successful change management in an entrepreneurial company and to show the results of primary empirical research on the company that manages changes and relating these processes to its success. The paper is divided into four parts. After the introduction follows the theoretical introduction and a concise overview of the strategic guidelines of change management in small enterprises as well as the motives for access to the same. The third part of the article deals with a company which we discussed the case study. The fourth section summarizes the conclusions of theoretical and empirical research and guidelines are given suggestions for further research.

2. Theory

2.1. Change management definition

Change management 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’.[1] According to Burnes [2] change is an ever-present feature of organisational life, both at an operational and strategic level. Change can be needs or opportunity driven. Change Management refers to the process of continuous improvement, where Organizational Development is totally based on Individual development. Being aware of the present situations and continuously reviewing them for the betterment of people (which includes employees, employers, clients, customer and also their families).

2.2 Change management model

There are several change management models that the enterprises follow while undertaking the Change Management process depending upon the ground realities and the organizational culture of the enterprise seeking the change process. One of such models popularly known as ADKAR Model describes five factors for the change to be realized successfully on an individual level that are as follows:

1. Creating **Awareness** why the change is needed
2. Inculcating **Desire** to co-operate and participate in the change process
3. Providing and collating **Knowledge** to guide the change process
4. Developing **Ability** and appropriate skills to drive the change process
5. Formulating **Reinforcement** strategy and plans to sustain the change process

Picture 1. The ADKAR model for the Individual Change management developed by ProSci.



ADKAR is a goal-oriented change management model that allows change management teams to focus their activities on specific business results. The model was initially used as a tool for determining if change management activities like communications and training were having the desired results during organizational change.

3. Methodology

The Case Study method has been an essential form of research in the social sciences and management[3]. It has been used in research involving business and organisational issues, education, child development and youth policy, family studies, international affairs, evaluation, technology development and research on social problems[4]. Traditionally, case studies were considered appropriate for exploratory research only. Yin (1989), however, points out that some of the best and famous case studies have been both descriptive. The company participating in this study Bio-Bio is a leading seller in the healthy food market in Croatia.

4. The case of „Bio Bio“

4.1. Background

Jadranka Boban Pejic' s occupation is special educator. She graduated at the Faculty of Arts in 1986. She remained at the same work as a research fellow until 1989. Zlatko is a musician by profession. They live in Zagreb with their two children. He has always been interested in eastern philosophy, healthy eating and macrobiotics. He studied the Kushi's as a Scholarship at the Michio Kushi Institute. He gained a significant business experience and became macrobiotic counselor for the entire former Yugoslavia. Jadranka and Zlatko noticed that there were no any health food stores in Zagreb. They wanted to transfer their love for a healthy lifestyle and healthy diet to the other, and started to educate and teach people healthy eating. In 1985. Jadranka and Zlatko decided to start their own business. They were born the idea of opening their own business in which the organization is engaged in culinary courses in which one would learn how to cook food according to the macrobiotic way of life. Makronovä was formed in 1989. They formed an another company "Biovegä in 1989. because it was impossible to get that kind of food in Croatia. They had to go for it in Dutch or Austria. No one has seen in this business opportunity but them. The market of healthy food from organic farming was not there then in Croatia. Imports

are set out in 1994. Today, they are representatives of 25 foreign companies (some of them for former Yugoslavia market).

4.2. Motivations for small business ownership

They have become major importers for the whole territory of the former Yugoslavia. They have supplied all the health food stores in Croatia. However, they realized that their partners did not develop the pace at which they wanted. At that time Zlatko visited their foreign partners in Dutch and became interested in a franchise concept of business expansion. One couple came to Jadranka and Zlatko asking for opening their own healthy food store, same as they had. They had their own space for the store. Jadranka decided to develop a franchise concept. "Bio-Biö is wife and husband co-team product. Developing the "Bio-Biö franchise was a project that allowed Jadranka and Zlatko to learn together. One of the first steps they took was to register and protect the name and logo of "Bio-Biö. They wanted to build a concept which would be not only attractive to the investors, but which would also ensure them a reasonable return on their investments. The Bio-Bio franchise offering was the result of several months of work and research. It was intended for towns with more than 50,000 inhabitants. Franchisees in towns with fewer than 50,000 inhabitants would have territorial exclusivity; in larger towns this could be negotiated. The location of the store had to be in a town center, near commercial walking zones, shopping centers or similar high-traffic pedestrian areas. The level of initial investment is about 150,000 euros. Most of the investments are related to interior decoration and the first food supply. Overall investment returns in about three years. Monthly royalties paid to the franchisor are 3% of turnover. Franchisees were required to use Makrovega and Biovega as designated suppliers so that the franchisor could control the quality of the product, though not the operations of the independent franchisee. In order to have good franchise-relationship functionality, the franchisor had to have an interest in the franchisee business so the franchisor is the only supplier to the franchisees. The franchise package includes education and employees training. In addition, the franchisor provides initial marketing support to the franchisee by establishing contacts with local and national media and helping franchisees with opening their stores. The initial franchise contract for Bio-Biö is for 5 years with the possibility of prolonging the contract after that period.

4.3. The effect of regulations on the operation of the firm.

Since the concept of franchising is relatively new to Croatia and its inhabitants, it is necessary to stimulate and incentives franchising relationships. Presently (2010), there are two Centers for Franchising in Osijek and Zagreb. Jadranka and Zlatko collaborate with the one in Osijek. During the last few years, The Republic of Croatia has approved a number of laws which resulted in Croatia's acceptance into the World Trade Organization, CEFTA (Central European Free Trade Agreement); these legal changes have also allowed Croatia to begin negotiations for acceptance into the EU. Nevertheless, there is no specific legal basis for franchising in Croatia. Franchising is mentioned in Croatian trade law (Narodne Novine, 2003), where the generalities of potential franchising agreements are stated, but mention is made in only one article

and that mention is very condensed. Therefore, there is no legal standard for the development of franchising and no legal parameters (yet) for franchising agreements: at the present time, business practices on the ground determine the appropriateness of such agreements.

4.4 Attitudes to growth and change

In mainstream economic literature the supremacy of the economic motive is taken for granted--people act in ways to maximize their profits. In the small business context, a more diverse view may be relevant. We know that people start and operate their own firms for a variety of reasons other than maximizing economic returns.[5] This does not mean that their motives are totally irrational. However, it is important to assess the relative importance of economic and noneconomic motives in order to understand why small business managers exhibit the growth-related attitudes and behaviors that they do. When Jadranka and Zlatko noticed that they do not develop at the rate that they wanted, they were ready for change. But they knew that superficial or cosmetic changes are of no use: the goal is a process of change that ultimately leaves the company completely transformed. That is the reason why they have opted for a completely new way of doing business. They were confident in their products as well as in the philosophy of healthy lifestyle.

4.5 Problems currently impacting the business

Development of their own franchise was not cheap for Jadranka and Zlatko. It cost them both money and time. Besides the obvious costs, such as getting the expert advice of lawyers, accountants, and franchise consultants to help them put their franchise package together, they also faced, and are still facing, some other difficulties, such as:

- Laws – there is no legal regulation of franchising in Croatia. The word —franchising‖ is only mentioned in Trade Law. But, Croatia is not unusual in this respect: only 52 countries in the world mention franchising in any significant way in their legal systems [6] Common or no, however, the absence of clear legal precedent makes it difficult for Croatian lawyers to help their clients, especially during the contracting phase—whether franchisor or franchisee, whether foreign or domestic investor.
- Infrastructure – there is a dearth of infrastructure related to franchising: no banks that will assist franchisors or franchisees, too few educational centers, no franchise consultants who could help potential franchisors in developing their own networks. Banks seem unable to distinguish between start-up entrepreneurs creating footholds in new franchise sectors and franchisees who are entering preexisting, proven franchise systems. There is not enough education about franchising, so even potential franchisors and franchisees do not know where to go to and who to contact if they would like to find more about franchising and how it can work.
- Problems with banks (not familiar with franchising) – banks do not recognize franchising as a relatively safe way of entering into a new business and do not have any specialized loans for the franchising industry.

- Small market – because there are only 4.5 million inhabitants in Croatia, examinees are pessimistic that the largest franchisors will come to Croatia due to logistical problems. Large and famous franchisors are looking on bigger area in sense of population number developing new franchises, and they often resist adapting to local standards and prices. Smaller franchisors that would like enter to Croatia are not as well known to Croatian entrepreneurs and are therefore seldom franchisors of choice.
- Franchising is not a well-known way of doing business – people seldom recognize what franchising is;

4. Findings

Today's dynamic work environment is causing organizations to reframe the traditional view of what "normal" is. Building the organizational competency to effectively implement and manage change is one of the key ways you can set yourself apart from your competitors. In today's marketplace, many organizations have seen the sources of their historic competitive advantage erode. Rapid access to information, common technologies, best practices, suppliers and markets has resulted in parity for many organizations. The new, global economy is forcing organizations to change the way they do work locally and abroad. The coming years promise to have both a larger quantity of changes and more critical changes than any time before. Organizations are constantly working to implement new technologies, upgrade systems, improve productivity, cut cost and manage the human capital in the organization. Improving how your organization manages change will directly impact the success of each of the initiatives underway and those planned for the future. Additionally, the higher priority and more strategic initiatives have a direct impact on how employees do their jobs - meaning there is a greater need for change management. Aside from the 'organizational' reasons given above, managing change is an emerging and important individual skill set that leaders, managers and supervisors throughout the organization need to add to their portfolio.

5. Discussion

Increasing the dynamic changes in the environment of increased interest for the study of change management in companies. In recent years, the small firm has enjoyed much public prominence; it has been seen as a hope for the future, the source of new jobs, new wealth, new products and services. Indeed, a healthy small firm sector is seen by many as a prerequisite for economic growth. Especially interesting are becoming small and medium size companies with flexible and customizable competitive potential afforded by achievements of modern information and communication technology and globalization processes. Perspectives for future research is extending the study to the larger sample of Croatian companies and even to some neighboring countries, which are members of the European Union, and to obtain a statistically representative sample that would enable a comprehensive and a precise comparison of the results.

6. Conclusion

Change management competencies will be a key source of competitive advantage in upcoming years. The new, global economy is forcing organizations to change the way they do work locally and abroad. How well you manage change in the coming years - and how effectively you build internal change management competencies - will be a key source of competitive advantage and will differentiate you from others in the future. Effective change management will be critical to project outcomes and the organization's ability to meet its objectives. Building the competency to change is not easy - it requires design, project management, change management and commitment from the organization - but it will be critical for success in coming years.

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