

# Strategic Managerial Change and Organisational Innovation

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## *Abstract*

*Without any doubt, the number, amplitude and speed of changes are increasing rapidly in all fields in the last period. In this context it is essential to identify and to deal primordially with strategic changes. This paper deals with the concept of strategic change revealing the main success factors involved taking into consideration transition to the knowledge based economy. The connection between the strategic managerial change, stability and organisational equilibrium is the key for organisation performance. In the last part of the study we analyze the innovation as the specific form of change, focusing on the sources of change and innovation in organizations divided in two categories – internal and external.*

**Keywords:** *change, strategically change, organisational equilibrium, balanced dinamism, innovation, innovation principles, change sources, knowledge.*

**JEL classification:** M10

## 1. Strategic change

**Strategic changes** signify a change in the essence of the organization, on the level of its vision, mission and objectives, which greatly affects all or the most important activities and which generates substantial modifications in its performances. Strategic change creates modifications in the mechanism of production of the added value and determines another structure and manifestation of the value chain. Examples of strategic changes in the organization are the massive renewal of products and/or of technologies, the implementation of a new managerial system, the specialization of the firm on certain products or technologies, the diversification of the manufactured or marketed products and/or services, the computerization of the entire organization, the privatization of the firm, the restructuring of the organization, the creation of a joint society with a foreign partner etc.

Always, the strategic change is followed by numerous different other changes, which vary in intensity and which appear in the entire organization or just in a significant part of the organization. Because of these connections, the quality of the strategic change is a condition for all the other changes in the firm, which are generated directly or indirectly, on a short, medium or long term by the strategic change.

Regarding the great importance of the strategic change, we consider necessary to underline the main factors on which depends its success. In the opinion of the North-American specialists Samuel Certo, Carol Sales și Frances Owen<sup>3</sup>, authors of one of the most read textbooks in that part of the world, these **factors** are as follows:

- The agent of change, represented by a person inside or outside the organization, which tries to modify the present situation
- The changing elements of the organization
- The modality in which the change is made
- The persons affected by the change
- The evaluation of the change

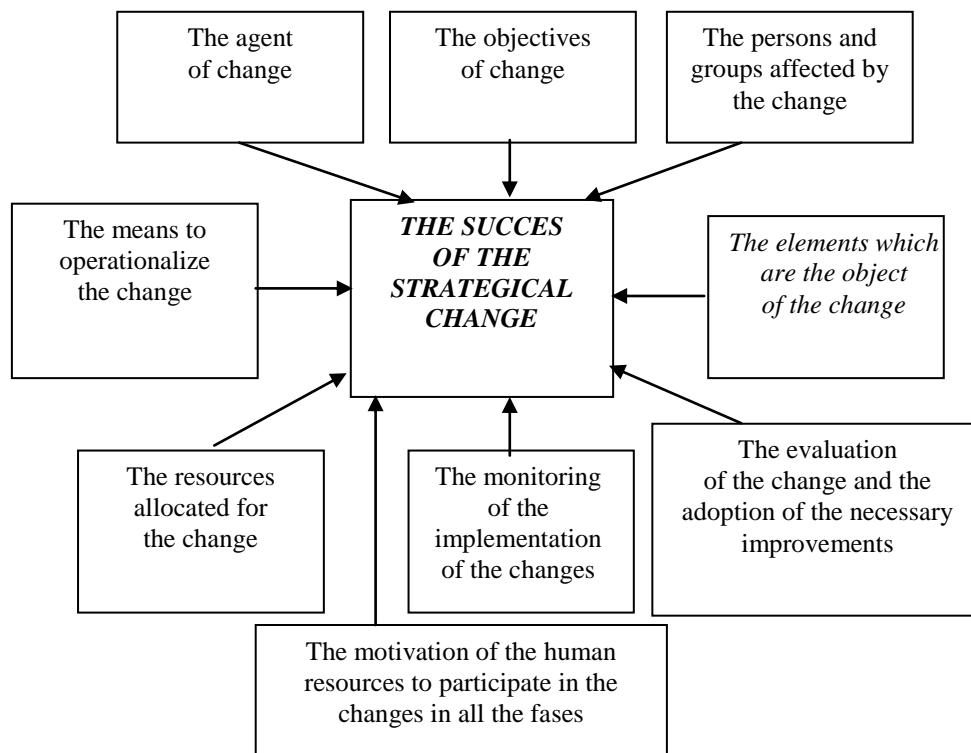
In our opinion, apart from these factors, it is necessary to consider at least the following ones:

- ✓ The purposes or objectives of the change, in accordance with which the strategic change is directed and shaped
- ✓ The resources allocated for the change, which influence the intensity, the rhythm and the results of the change
- ✓ The motivation of the human resources to participate in the changes, fact reflected in the intensity and quality of the employees' participation in the creation and development of the change and implicitly in the performances

Also, two of the factors mentioned by the American specialists need to be developed and completed. We suggest:

- Apart from the persons affected by the changes, we should consider the groups involved, because these are not just several individuals. Frequently, groups of people, especially those with a strong formal and informal coherence, have a greater influence on the development of change and of the performances obtained than the individual employees
- The evaluation of change should be completed by corrections and improvements, in accordance with the result of the evaluation. In fact, the evaluation itself is nothing but a finding which does not directly influence the success of the change; it influences the success of the change only if it is followed by corrective measures (if it is the case) and efficient improvements.

Considering these facts, the **table of the success factors** of the change is presented in figure 1.



**Figure 1 The main factors which condition the success of the strategic change**

Knowing these factors is essential for the generation of performance through strategic changes in the organization. When the success factors are not sufficiently known and taken into consideration, the changes do not generate the expected and necessary results. A survey carried out by the international consultancy firm KPMG on a sample of 250 general managers of companies located in Great Britain showed the fact that only 31% of them designed and implemented efficient changes, because of the fact that they neglected some of the above mentioned success factors. We will consider the concrete ways these factors are taken into consideration and used within the organization from multiple points of view in the next paragraphs.

## **2. The connections between the strategic managerial change, stability and organizational equilibrium**

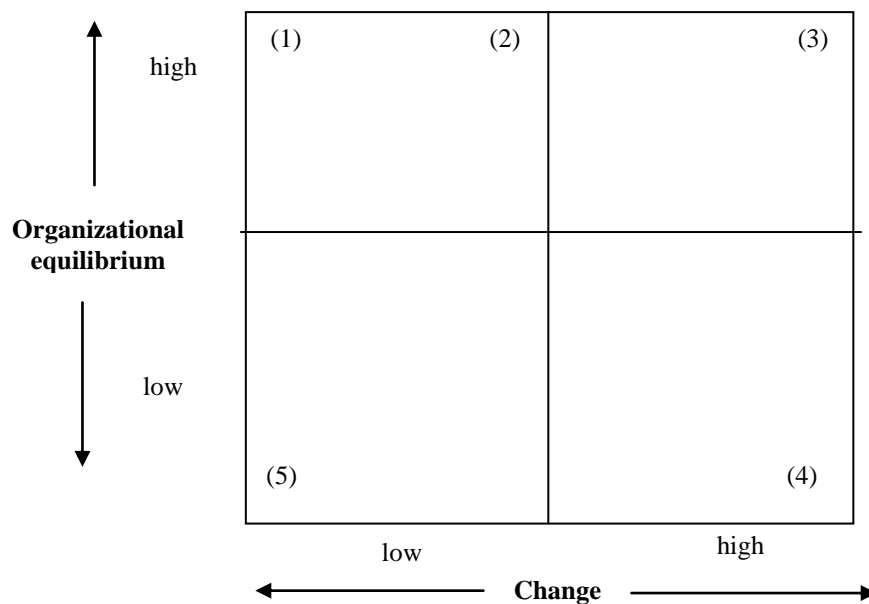
From the facts presented in the above paragraphs results the exceptional role and the semi-permanence of organizational changes. In this context, we consider to be necessary to underline the fact that the functionality and performances of the organization depend, at the same time, on changes and on the organizational equilibrium. The latter ensures the consolidation and capitalization of strategic changes.

Traditionally, in the largest part of the last century, the organizations and especially the industrial firms, were concentrated on gaining and maintaining an organizational stability, which is considered to be a premise of the normal functioning of the organization. In that period strategic changes happened at longer intervals and the rhythm of all the organizational changes was much slower. As a consequence, the evolution of a firm appeared as a chain of long periods of stability and short intervals of strategic changes.

In the last decades, because of the acceleration, amplification and intensification of changes, the organizations insist on change and, at the same time, on a balanced dynamism. In other words, the firms replace the traditional stability, which can be maintained today only on short periods of time and with the major risk of bankruptcy or lower performances, with an organizational equilibrium, which characterizes the successful firms in all the developed countries.

In real terms, this **balanced dynamism** signifies the alternation of intense strategic changes with periods in which fewer changes happen, during which the precedent strategic changes are consolidated and capitalized through actions, performances, human resources, technical, informational and financial resources allocated to strategic change. More and more rarely, these periods of dynamic equilibrium take the classical form of organizational stability. This kind of situation manifests itself relatively frequent within the firms from traditional economic branches.

The relations between change and dynamic equilibrium are presented in the matrix below, which is based on the classical matrix of relations between adaptation and organizational stability created by Hellrigel and Slocum.



**Figure 2 The relation between change, organizational equilibrium and organizational perspectives**

The meaning of the figures in the matrix is as follows:

- (1) High probability of death (bankruptcy) of the organization because of the absence of change, of progress. This situation indicates a firm which is stuck, which does not adapt to the changes requested by the external and internal evolutions.
- (2) Medium probability of survival if some changes are made in the organization, without amplitude and much efficiency, but which ensures the follow-up of the activities; usually, in that case, the economic performance is modest.
- (3) High probability of survival and economic development. This situation expresses a relatively optimum state for the organization because within it develop great strategic managerial changes and other types of changes, provided the fact that the firm maintains its balance, capitalizes the allocated resources and improves its performance.
- (4) Bankruptcy or very probable death, because of great strategic managerial changes and other types of changes, without succeeding to maintain the managerial, economic, technologic, human balance within the organization, which leads to major difficulties or the impossibility to efficiently use the allocated resources. Only a rapid reestablishment of balance, through the energetic and competent intervention of the management can rescue the firm from bankruptcy.
- (5) The bankruptcy or the certain death of the firm, because of low managerial changes in the organization, insufficient to keep up with the contextual changes and because of strong disequilibrium in the organization, which do not allow the rational and efficient use of available resources.

The matrix presented helps the managers understand the necessity to follow **two coordinates**:

- Rapid changes in the organization, based on the exogenous and endogenous evolutions, this ensuring the implementation of innovation elements, of progress
- Maintaining the managerial, economic, technologic, human balances within the organization, to ensure the necessary conditions to capitalize the changes implemented, to produce supplementary added value, the basis of every economic performance

Acting on these two coordinates is very difficult because of the partially contradictory character of the relation between change and equilibrium, which can be solved only if it is maintained a dynamic equilibrium. Analysis demonstrated that the dynamic equilibrium can be obtained only through the promotion of a special type of management, called the management of change.

### **3. Innovation, the specific form of change**

From the beginning, it is necessary to make the following statement: the innovation is a change that has a distinctive essential feature – the incorporation of one or many elements of novelty. So, any innovation is a change, but not every

change is innovation. In the context of the organization, innovation incorporates elements of novelty and this is why it is considered a change of superior level. Consequently, innovation represents the type of change on which the management of an organization is concentrated with priority. A high level capacity to generate and successfully implement innovation in all the main domains of activity of the organization confers to the management of the organization an innovative character and content.

Among the great variety of innovation measures the most important is, naturally, **the strategic innovation. Its main characteristics are:**

- It is manifested in an essential sector of activity, which represents a component of the chain of value in the organization or a component of a chain of value in which the respective organization is part
- It conditions directly and substantially the obtaining and maintaining of the competitive advantage in the firm
- It is difficult to be copied, because of the volume and/or structure of the resources involved, because of the constructive and functional parameters, the complexity and the system of business in which it is integrated etc.

The strategic innovation deserves a special attention from the part of the management. It is recommended that this type of innovation to be the object of intellectual property every time it is possible.

In order to generate as many creative innovations as necessary, the experts recommend that the managers and specialists in the organization follow certain operational **principles** (Table 1).

### The innovation principles

**Table 1**

No.	Principles
1	The analysis of the innovation sources and the synchronization with the new opportunities
2	The scrutiny, questioning, listening – intuition and sense of essence in approaching the activities in the organization
3	The approach based on simplicity and focusing of efforts in the firm
4	Small steps lead slowly to a great progress, to significant innovation
5	Innovation is 10% inspiration, 90% perspiration
6	Connecting the innovation to the essential competence of the organization
7	Creation of the competitive advantage through innovation
8	Directing the innovation towards creating value for the customers
9	The final result of innovation is the direct or indirect generation of higher profits for the firm

In order to evaluate the innovative potential of the organization, its degree of capitalization through innovation and the innovative perspectives of the

organization, it is recommended a **periodical audit of the innovation**, which has to answer to the following main questions:

- Which are the significant innovations accomplished and fructified in the organization in the last two years?
- Which strengths manifest in the processes of innovation in our organization?
- Which are the weaknesses present in the innovative processes in our firm?
- How much do we invest?
- In what areas do we invest?
- How could we invest more in innovation?
- Who is the leader of the innovative efforts?
- Do we have vision and financial support for the strategic innovation?
- Do we generate and evaluate enough good ideas?
- Which are the active participants in the field of innovation?
- Do we identify the main opportunities and threats for innovation?
- Do we value the external innovative potential in the interest of our organization?

The results of the innovation audit are useful for the development of the managers and specialists knowledge on the innovative processes in their organization and for stimulating the innovation inside it. Obviously, the approach of innovation is made in the context of an ensemble of changes in the organization.

#### **4. The sources of change and innovation**

Considering the great importance of change and innovation, logic forces us to reveal their sources. Once these are known, changes and innovations can be generated faster and more efficiently by using the sources.

The famous specialist in management **Peter Drucker**<sup>5</sup> considers that there are **seven sources of innovation**:

- ✓ Unexpected happenings
- ✓ Disparities between the expectations and results of the processes initiated by the specialists and managers
- ✓ The necessities of certain processes or activities within the organization
- ✓ Changes within the organisation industry and market
- ✓ Demographical changes
- ✓ Changes of perception in the society
- ✓ New knowledge, generated by scientists or practitioners

First four sources are considered principal because they generate most frequently the greatest part of the innovation. The last three sources are considered complementary because they manifest not inside the organization but in its context, in the society, in the economic environment and influence directly and indirectly the creation, operationalisation and finalization of changes.

Other specialists, like **G. Dessler, F. Starke and D. Cyr**<sup>6</sup>, in a work which was published in Canada, identify and analyse **five main sources of change** in the firms (Figure 3).

In our opinion, the sources of change and innovation are divided according to their source, in two categories – **internal or endogenous to the organization and external or exogenous to the organization** – which include a few other elements. So, inside the organization there are **six main categories of sources of change**, according to the nature and area of display:

- Informational and knowledge – incorporates the ensemble of information and knowledge, implicit or explicit, at the level of employees and organization, generated, acquired and/or developed by the organization.
- Technical, generated by the technical system inside the organization, represented by the new products, technologies etc.
- Economical, generated by the economic system inside the organization, represented by the new financial approaches, by the changes in the methods of economic analysis, accounting, statistics etc.
- Human, generated by the human system inside the organization and represented by the mutations in the values, competencies, know-how, behavior of the employees and groups of employees in the organization
- Managerial, produced by the management system, through new strategies and decisions, methods, managerial techniques, organizational systems, informational procedures etc.
- Cultural, generated by the culture of the organization, through new symbols, rituals, ceremonies, stories, myths, statutes and organizational roles.

These categories of internal sources of change are essential because they generate direct and immediate effects on the functionality and performances of the organization.

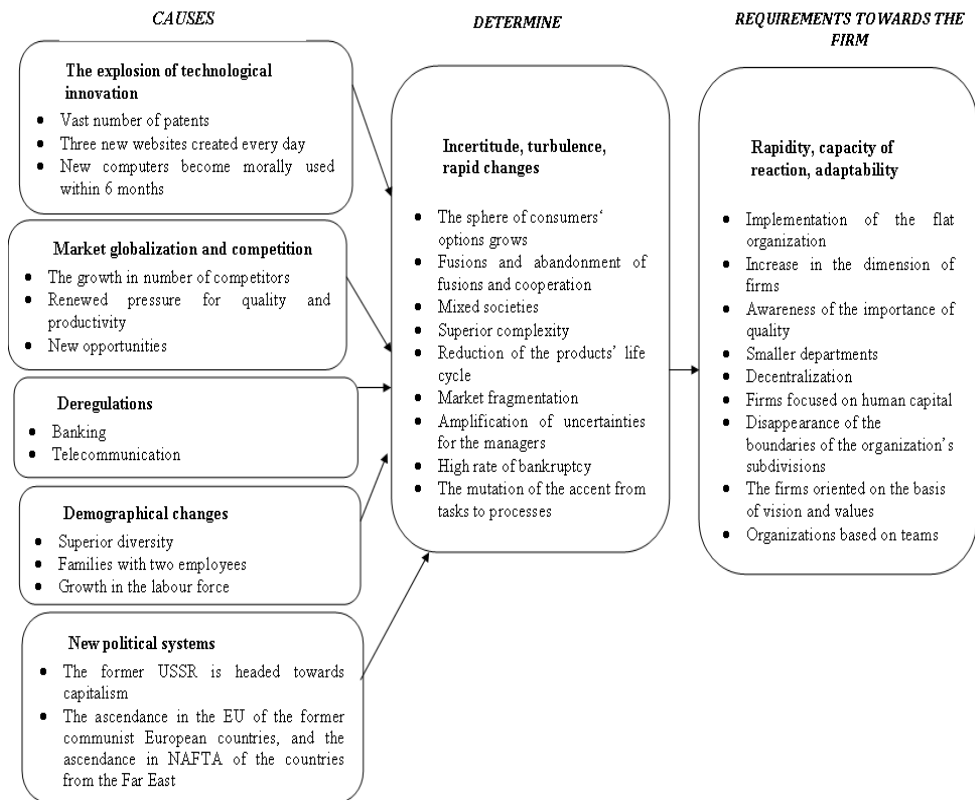
Usually, the internal sources of change are intensely influenced by the **external sources of change**. These are divided into eight categories, according to their nature:

- Technical sources, represented by the licenses for new products, technologies, software etc., which have an extremely important role in innovation.
- Economical sources, which include changes on the markets of products and services, in the exchange rate, interests, assurance systems, credits etc.
- Managerial sources, represented by the economic strategies of the country where the firm is located and of the international organizations, by the organizational system of the economy, by economic control systems etc.
- Social sources, which include evolutions in the systems of education, health, culture etc., which have a direct and indirect impact on firms.

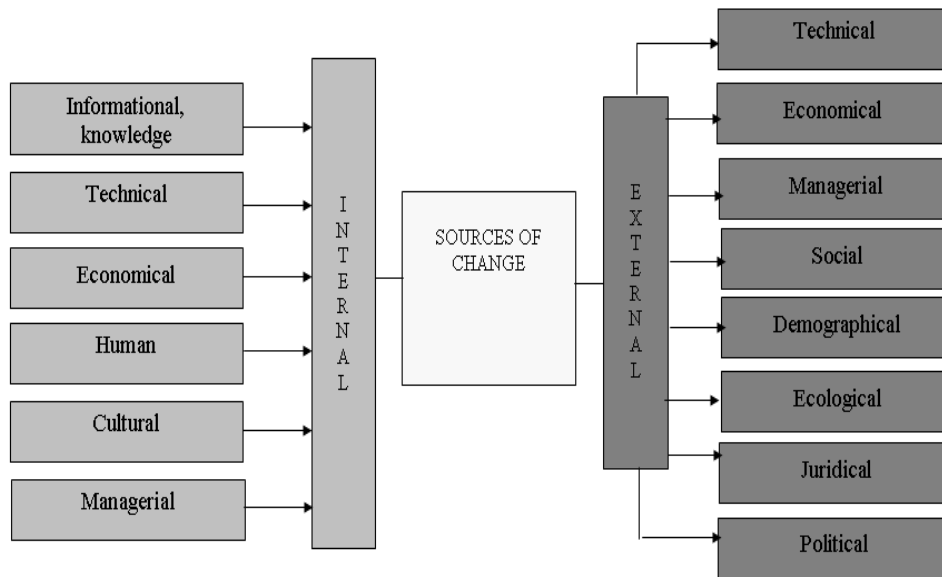


- Demographical sources, represented by the evolution in number, life expectancy, birth rate, mortality of the population, which have a direct impact on the human resources and management of the firms.
- Ecological sources, which stem from the changes in the natural environment (soil, subsoil, water, vegetation, climate etc.), which have an influence on the firm on multiple levels (supply, production etc.).
- Juridical sources, which consist in the new laws, decrees, decisions of parliament, government, central and local administration etc., of economic and social nature, whose implementation imposes changes in certain components of the firm.
- Political sources, represented by the general policies, industrial, commercial, agricultural etc., promoted by the governmental parties in each country and by the policies of other countries or international organisms, which have a certain impact on a few or all the firms in a country.

As it emerges from the presentation of the external factors, these are either national or international. In the context of the present globalization, the external international factors become more and more frequently sources of change in firms from various countries. Figure 4 synthesizes the above mentioned elements.



**Figure 3 Generation of changes in the firm**



**Figure 4 The main categories of sources of change**

The variety and complexity of the sources of change in organizations is obvious. Every source or category of sources has its own role which cannot be replaced totally by any other source. We can conclude that every source of change, through its specific nature and implications, is very important.

In this context, deriving from the realities within the organizations, the main source of change is represented by the management. The arguments which sustain this statement are as follows:

- a) No matter who makes them possible and offers the options for change, the final decision, which triggers the change, belongs to the management. In its absence, most changes and the most important ones do not happen
- b) The fulfillment of the process of change happens only if the managers agree with it, assist, allocate resources, organize, supervise and implement

Without this quasipermanent and intense involvement of the managers, changes do not happen, no matter if they are strategic or any other kind of substantial changes. Highlighting the important role of management in the process of change does not imply that the other sources of change are underestimated or neglected, but the fact that the mechanisms of change should be approached realistically.

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