Chapter 1
Change

Causes of change

Change is an ongoing process and businesses cannot avoid having to deal with its consequences. The pace of change has undoubtedly accelerated in the last decade, and the dynamic environment that faces businesses today means that those that fail to adapt will be left behind. Change in some businesses can be gradual, with small, **incremental** changes made to the way they operate year after year – an evolution rather than a revolution. This sort of change, if managed effectively, should result in all stakeholders participating in a relatively painless process. However, increasingly there are factors that cause **rapid** change, totally altering the way a business operates in a relatively short period of time. This creates a far more challenging environment and, under these circumstances, businesses must adapt or die.

Major causes of rapid change include:

- Introduction of new technology
- Changes in competition
- Changing consumer tastes
- New legislation
- Labour market changes
- Changes in economic conditions
- Change in business ownership

Internal causes of change

Changes in management style

Leadership is a key element in the process of change and the introduction of new key decision makers can bring about significant changes to an organisation. New leaders may wish to implement new strategies which lead to a change in the **culture** of a business. A movement away from an authoritarian management style to a more laissez-faire approach will have a significant impact on all stakeholders and will undoubtedly require a new way of working. Staff may be encouraged to take on greater responsibility and offer new ideas which will benefit the organisation. A decision to make a business more ‘customer orientated’, for example, will require a whole new approach from all involved. Internal changes in style and culture are difficult to implement as workers naturally resist change. However the benefits can be significant in the long run.

Change in business ownership

This type of change can cause major upheaval for a range of stakeholders. New owners often look for efficiencies and cost-cutting, to improve profitability. New management may wish to introduce a new ethos within the business, a new way of working. When two businesses merge, the dominant organisation may impose its culture upon the other and this is often met with resistance from those being required to adapt their way of working.

Change in business size

Businesses can grow organically, carefully building on product ranges, investing in new technologies, developing distribution channels. Carefully managed organic growth prevents cash flow problems and limits risk. Rapid organic growth can also happen. This can put pressure on liquidity, debtor management, and staff. Staff will need to develop new skills and adapt to new roles. Often there is the need to bring in external investors to fund growth. This in itself changes management structure and responsibilities and likely business objectives.

Introduction of new technology

New technology can affect both the pattern of consumer demand and methods of production. For example, the growth of web-based applications puts pressure on Microsoft, forcing development of mobile and Internet-based software; online shopping has caused the failure of some large and established high-street retailers and the music industry is finding it difficult to adapt to the consumer practice of accessing music through mobile technology.

External causes of change

Introduction of new technology

Developments in new technology will force businesses to change. For example, the ability to shop online has caused all the major supermarkets in the UK to change their operations to meet customer demand. Those who were slow to change saw a reduction in market share and were forced to change in order to compete. Methods of production are constantly changing and the introduction of robotic technology in the car industry is deemed to be essential if quality and output are to be improved.

Labour market

The minimum wage, the living wage, greater employment protection, increased maternity pay, etc. have all pushed up costs. A recession, on the other hand, will increase supply of labour so pushing down costs. Immigration policy and the expansion of EU membership has increased supply of migrant workers, keeping wages of unskilled workers lower than they would have been without the high levels of labour mobility. The decision to leave the EU may well impact on the nature of the UK labour market and this change will impact on different business in a variety of ways.

Changes in economic conditions

The cyclical nature of the UK economy naturally causes business to react to economic circumstances. For example, the low rates of inflation experienced in the UK economy in recent years have put pressure on businesses to cut costs and improve productivity if they are to remain competitive. Exchange rate fluctuations cause businesses to seek new markets or change to new suppliers as their profit margins become squeezed. This has been clearly illustrated by the weakening of the pound against the US dollar in the wake of the referendum to leave the EU which has impacted significantly on many UK businesses.

C**ompetition**

Existing competitors can change their strategy, or new competitors can enter the market place. BT used to have the home phone market to itself – this virtual monopoly has changed out of all recognition. Hoover was the market leader in vacuum cleaners for decades until Dyson came along. Amazon, within a few years of launch, totally changed the way books are sold. The growth of supermarket chains Aldi and Lidl has caused the major players in the market to change their pricing policies significantly in the light of the gains in market share that these competitors have achieved. The global marketplace has increasingly forced change upon UK businesses and will continue to do so at an ever increasing pace.

Change in consumer tastes

Tastes can change abruptly, completely altering demand patterns. We see this with toys coming into fashion and going out of fashion within months. A few years ago, wallpaper manufacturers were blaming home makeover programmes for the fact that consumers were switching to painting walls instead of wallpapering them. Carpet manufacturers have been hit by the fashion for laminate flooring. It is worth remembering that changing consumer tastes can create opportunities for businesses as well as presenting challenges.

New legislation

Governments can change legislation both to limit business activity and alternatively to free up activity. UK businesses constantly have to comply with new legislation and adapt their products and services accordingly. For example, the legislation introduced in relation to the sale of Personal Pension Plans (PPPs) has forced the UK banks to radically change their approach to the sale of financial 'products' to their customers. Food labelling has changed out of all recognition as governments put pressure on food manufacturers to clearly state exactly what is contained in their products – this has caused a radical change in the industries' approach to the way in which they place a greater emphasis on consumer health. Many UK businesses have complained about EU legislation that has caused their costs to rise significantly and it will be interesting to see if leaving the EU will have any impact in this sphere in the coming years.

Planned and unplanned change

Planned change is created internally and is structured and timetabled. Clear objectives for the change are established, timelines created and resources applied to creating the change. For example, a cycle manufacturer may decide to offer a new range of electric bikes to launch in the next twelve months and will gear up its manufacturing and marketing campaigns accordingly.

Unplanned change occurs in response to a shock to the business and is often unstructured and under-resourced. A shock could be external (exogenous), such as introduction of new technology by competitors, or internal, such as a key worker suddenly leaving.

Effects of change

- **Shorter product life cycles.** One major impact is that product life cycles have become shorter. This applies right across the range of consumer goods, from electronics to cars, from holidays to clothes. This trend brings both threats and opportunities to retailers and manufacturers. With a shorter life cycle, products must pay a return immediately, there is little incentive for long term investment. Returns can be improved by seeking new markets for products.
- **Diminished brand loyalty.** New entrants into the market find it easier to grab market share, existing businesses have to fight harder to maintain sales. Marketing costs are increased, to maintain brands and to introduce new products.
- **New products need to be developed** because goods are seen as more disposable and consumers are constantly looking for better quality products. A business needs to be aware of possible future consumer tastes and make sure they are prepared to respond to market changes.

- **Production methods will need to be changed** to match changing customer demands. This will require spending on research and development and production technology. With new products needed continually, spending on new ideas, improving existing products and investing in improved productivity and quality must be funded. As a consequence capital goods are likely to become out of date much faster. This pressure on returns from large-scale capital investment encourages some businesses to contract out manufacturing.

- **Retraining the workforce.** The skills mismatch problem is one for both businesses and for governments. For businesses, existing employees may not be able to adapt to new ways of working or new technologies, so training and recruitment costs increase. For the government, major problems occur when a particular industry declines, and the skills of the labour force are no longer needed. Large-scale regional/structural unemployment can occur.

- **Flexible workforce.** In order to respond quickly and effectively to change, many businesses today have a much more flexible workforce to allow them remain competitive.

- **The need to comply with constantly changing legislation** has the effect of raising costs for businesses. For example, products need to be adapted to comply with stricter Health and Safety legislation. In the service sector, the effect upon nurseries of legislation relating to child safety has significantly raised costs.

Effective change management

One of the most difficult tasks of leadership is encouraging and managing organisational change. To prepare for change and to be in a position to react effectively to change, managers need to put in place a number of key strategies. These are:

- **Employee preparation**
  The first stage in effective change management is preparing employees for change. This may involve reskilling to enable employees to carry out new tasks effectively. Such training will make a workforce more flexible and adaptable, enabling them to meet the demands of change. There may be need for recruitment so that the business has workers with new skills or managers who can force the pace of change.

- **Increased research and development expenditure**
  Increased expenditure on R & D is used both in preparation for change, and as a reaction to change. This type of spending develops new products, new methods of production and new technologies.

- **Additional capital investment**
  Change can create the need for investment in new technology and new equipment. Change is often an expensive undertaking. For example, relocation can be very costly. If a business does not have access to sufficient finance, it is very unlikely that it will be able to implement effective change.

Implementing change

Preparing for change is not the same as implementing the required changes. To help solve the problem of implementation, management theorists have presented a range of approaches for implementing change. John Storey offered four optional methods of implementing change.

Storey's Four Methods of Implementing Change	
1. **Negotiated Total Package** Management and workers negotiate on how a major change in the way a business functions will be implemented. Therefore the change implemented will be based on agreement between management and workers in all locations from which the business operates. Trade unions will be very much involved and increased rewards and improved conditions are likely to be offered to the workforce. This is more likely to result in a coordinated process of change which is understood, and accepted, by all stakeholders. This is likely to be the most effective method of undertaking a process of change but requires a good deal of preparation and expenditure. In reality, this may not always be possible in a highly competitive and difficult business environment.	2. **Negotiated Piecemeal Initiatives** Management and workers will consult and agree on various changes as they become necessary; for example, new shift patterns or productivity agreements. There is no overall agreement or coordinated process that is in place for the negotiated total package. This method may be easier to implement than a total package of change, but can result in difficulties because of a lack of a complete system change. For example, a productivity agreement negotiated in one location but not in others could cause resentment and conflict.
3. **Imposed Piecemeal Initiatives** Managers plan and implement changes such as a move to flexitime or the development of quality circles in order to solve particular problems. This saves time and the structure of change is in the hands of management who understand the overall objectives of the business. However, the imposition of change can be met with resistance from workers who may resent the lack of consultation. Each piecemeal change may also be aimed at a different objective, whereas a total package is more likely to be working towards one overall objective.	**4. Imposed Total Package** Senior management plan and introduce a major change all at once without consultation with workers. This sort of change might occur when negotiated change has failed or because of rapidly changing external factors that need responding to quickly. Of course, this sort of change is likely to be resisted by middle managers and workers and its success depends on the skills of the senior managers in being able to establish new systems whilst minimising disruption.

Resistance to change in business

The work of theorists such as Lewin (see below) and Storey demonstrate that **change is not easy**; it has to be planned and reinforced. Often the structure of planning for change is an attempt to overcome such resistance to change. Resistance can take a number of forms:

Worker resistance

There are many documented cases where businesses have tried to install new technologies or systems of working without considering how the people who actually do the work feel about the changes.

Failure to address the above questions can result in an expensive failure, with employee reactions ranging from simple misunderstandings (resulting in lost productivity or damage) to outright sabotage and organised industrial action. The best ways to avoid resistance to change are also the best ways to assure that employees are motivated to support the change effort. So managers should:

- whenever possible involve workers from the beginning
- clearly explain the reasons for the change
- have a clear strategy, direction and vision

Supplier resistance

Suppliers may be reluctant to adapt to changes made by their customers. For example, manufacturers who change to a Just in Time (JIT) system may find that some of their suppliers resist having to supply components 'as and when' the manufacturer requires. This may well result in an increase in costs as deliveries need to increase in frequency. Unfortunately smaller suppliers may have no choice but to accept the situation or lose a valuable customer. Manufacturers should involve their suppliers from the outset, to explain that such change could result in increased orders and that all parties will benefit in the long run.

Owner resistance

Owners may fear that change will increase risk. Shareholders may need convincing that operating in new markets will not damage their dividends, especially as implementing change may be costly and may involve investment. Management will need to explain their plans to the shareholders carefully to convince them that sacrifice now will lead to better profit in the future.

Lewin's three step process of change

'A change towards a higher level of group performance is frequently short-lived, after a "shot in the arm", group life soon returns to the previous level. This indicates that it does not suffice to define the objective of planned change in group performance as the reaching of a different level. Permanency of the new level, or permanency for a desired period, should be included in the objective.'

Kurt Lewin, 'Frontiers of Group Dynamics', *Human Relations, Volume 1.*

Lewin recognised that it was not the difficulty of creating change, but of re-enforcing the change that really mattered. He was concerned with ensuring that the change continued into the future and that workers did not slip back into old methods of working.

Lewin saw three stages of creating and maintaining change:

1. Unfreezing
2. Change or Transition
3. Refreezing

Stage 1
Unfreezing

This involves creating a motivation for change. Creating a realisation amongst employees that change is necessary. They therefore have to 'unfreeze' from current approaches to work and be prepared to adapt to a new method of working. Employees have to be shown that change is necessary and then managers need to create a situation in which employees desire the change.

Stage 2
Change or Transition

Lewin described the period of transition as a potentially difficult time as workers are now moving toward a new way of doing things. They are learning about the changes and need to be given time to understand and adapt to these changes. Support from management and supervisors is important in making the transition period work. Support can come in the form of training, education, and learning from, and not being criticised for mistakes. Allowing workers to develop their own solutions and maintaining clear communication of the objectives and benefits of the change are also important in maintaining the transition.

Stage 3
Refreezing

This final stage in the change process is about establishing stability once the changes have been made. Workers have now accepted the change, and the new methods of working have become the new norm. Workers are settled in new structures, methods of communication and are comfortable with their routines. This refreezing clearly implies workers must not be forced into continual change, but allowed time to adapt. New methods need to become completely ingrained before further change occurs, otherwise any gains may be lost.

Organisational culture and change

The culture of an organisation is sometimes described as 'the way we do things around here'. It reflects the beliefs, norms and values of a business and often proves to be a very difficult thing to change. When introducing a programme of change, there will inevitably be some degree of resistance – how great the resistance is will depend upon how entrenched the attitudes of the employees are, and how willing they are to adapt their working practices to meet the new organisational objectives.

Culture change must begin at the top of an organisation. For example, the senior management of a business wishing to change its culture from being product-oriented to *market-oriented*, must have a very clear idea of how they expect the business to change. Leaders must put in place new methods of working which are backed up by training. They must effectively communicate to all staff the reasons for such a change in approach in order that everyone understands why the change is necessary. Those who are particularly resistant to the proposed changes will need to be identified and encouraged to work towards the new objectives. This may be achieved in a variety of ways such as team working, better communication and a system of rewards. If all else fails, some employees may be required to leave the organisation if a **change culture** is to be established. If leaders can convince employees that the survival of the business is dependent upon any proposed changes, then the process is likely to have greater momentum.

Evaluating change

If the leaders of an organisation have planned the process of change effectively, then a clear set of objectives would have been identified from the outset. In the example used above, a business wishing to put its customers at the heart of its business (i.e. becoming customer-oriented), would need to examine a number of **performance indicators** in order to establish if its objectives have been achieved. This could take the form of examining the number of customer complaints received before, and after, the implementation of the changes to the organisation's approach. There are a whole range of both quantitative and qualitative indicators that can be examined and these will obviously be related to the objectives initially set prior to the changes that have occurred. Possible indicators may include:

- Delivery times
- Production defects
- Customer satisfaction surveys
- Market share
- Sales turnover
- Profit – 'the bottom line'

There is no doubt that managing change can be extremely challenging, but there are very few businesses that can avoid adopting some degree of change. Markets are increasingly dynamic and those businesses that do not establish a culture of change are less likely to be able to respond to external forces. Those organisations that are flexible and able to cope with change are those that are likely to survive in today's global marketplace.

Discussion themes
Identify 4 internal factors that cause change in a business.
What is meant by incremental and rapid change?
What is the difference between planned and unplanned change?
Why do businesses often face resistance to change? Explain how Lewin's three step process may overcome this.
How could a manufacturer of double glazed windows and doors use performance indicators in order to evaluate a change in production methods?
Carry out some research to find a recent example of an external cause of change. How it will impact businesses?

Chapter 2
Risk management

What is risk?

Business risk is a circumstance or factor that may have a significant negative impact on the operations or profitability of a given business.

Business risk can result from internal conditions or external factors that may be present in the wider business world. Risk can also be expressed as "uncertainty". It means the possibility of incurring losses due to problems and circumstances, expected or unexpected.

Risk is inevitable. Nothing is entirely predictable in business and there will always be a level of probability that things will not work out as expected. Some of the risks facing businesses are reasonably predictable and the likelihood of these risks occurring, along with the impact of these risks on the business, can be measured. This type of risk is known as a **quantifiable risk** and can take a number of forms:

Financial Risk	For example – The probability that a major customer becomes bankrupt and does not pay money owed to a supplier.
Operational Risk	For example – The breakdown of key equipment or machinery.
Strategic Risk	For example – A new competitor coming on to the market.
Compliance Risk	For example – Responding to the introduction of new health and safety legislation.

The types of risk shown above can be planned for, and measures can be taken to minimise the effects of such risks on the business. Many quantifiable risks are also **Insurable Risks**. For example, insurance can be taken out against the failure of a major customer and a service contract can be arranged to cover the breakdown of equipment and machinery.

A more complex type of insurance is *Business Interruption Insurance*. This is used to cover the risk of an incident that prevents a business operating. Therefore, in the case of a large fire, Business Interruption Insurance will pay for new stock, premises, vehicles, etc. in order to get the business operating again as soon as possible. It is also possible to take out Key Employee Insurance; this can cover sickness or even the death of the most important of employees through paying for a suitably skilled and qualified replacement.

More difficult types of risk to manage are uninsurable risks. These arise when the probability of the risk occurring is impossible to quantify – so insurance companies are unable to price the risk. Some occurrences, such as those which take place during civil unrest, or even war, are simply too widespread to even consider insuring. Irresponsible managers, who are willing to undertake extreme risks that lead to a business failure, also fall into this category.