

INTERDISCIPLINARY FIELD OF STRATEGIC AND CHANGE MANAGEMENT IN THE GROWING HUNGARIAN SMES SECTOR

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Abstract. *The change management has become a more important part of the companies' management. It is not only a slogan. The SMEs have more change projects at the same time. The classic change management models always contain some cyclical processes, as Want's model does as well. The basic characteristic of change management has shifted. The SMEs face the so-called Change Flow that requires different management technics and project management methods. The model also helps to find out which elements of the developing process are left out. This paper presents an interesting phenomenon through two case studies of Hungarian SMEs. The leading idea of the research has come from the observation and cooperation with two Hungarian SMEs. The intensive growth of the machinery company observed in 2012-2013 and the analysis of the management's daily challenges stressed out the need of change management on a daily basis. A number of lessons are emerging through an IT company we have been observing since January 2014 about the development of strategic thinking and the behavior of an SME in change (perhaps crisis) situation. SMEs change management concept is examined by Want's change model show that companies predominantly face changes in operations and in several cases, they decide about basic changes. The well-structured process of changes can be ensured by a complex model that is close to the practice. Therefore, Want's change model has been selected for the research. Overall, SMEs – usually in an unconscious way - support their long-term business operations by managing changes, however, the management of changes influencing strategy remain out of consideration. In other words, in SMEs' lives strategic management and change management do not consciously co-relate. According to our assumption about the new characteristics of changes, the SMEs need to find out new methods, and behavioral patterns. The strategy is not enough itself.*

Keywords: *SME; change management; strategic management; leadership; change flow.*

Introduction

Small and medium-sized enterprises (SMEs) form an important sector of the Hungarian economy from numerous aspects. Especially remarkable is the performance of SME leaders having managed enterprises for decades. Business context has changed significantly since the change of regime. Today's small enterprises play key roles in supply chains and they have international experience both through their procurement and sales processes (Chikán & Demeter, 2002).

Economic policy has not always been supportive towards SMEs. In some cases improvement measures were taken after recrudescence, however, since 2012 a massive load of administration has been laid on the sector. Furthermore, SMEs struggle with high taxes and contributions. Despite all those difficulties, there are

successful SMEs able to grow. They have found efficient ways to handle changes and their strategies are based on followable and realistic concepts.

In practice, small enterprises are often blamed for having no strategy. In lack of strategy, they can hardly cope with changes. There is no real flexibility, instead, they try operative, less efficient and less complex solutions.

The formal strategy is almost never used, even planning process or methodology is hard to find. Therefore, it is interesting to examine how SMEs can succeed with a future in the twilight zone. As business environment is volatile, change management has become a daily routine for every business entity. Also for SMEs, there are cases when change is vital. Not all measures are conscious; there are giant steps, sudden major changes. Those moments are interesting from management science aspect, as rapid behavior alterations bring significant changes in SMEs' lives; however, they survive during fighting with those elements. In this study, such situations are analyzed involving two companies. This research test is meant to prove a concept, it should be considered as a pilot of a later, broader-scale research.

Change models – methodology basics

In management literature, business changes can be classified by change models. Each change model reflects the observation, analysis, and interpretation of changes. There are many types of models and none of them provides a general routine to handle changes, they rather work as compasses. Not any of the models beats the other, they just suit different situations. The change processes of SMEs are now viewed using one specific model structure so that we can make a comparison and conclude.

Strategic and change management theory

For small and medium-sized enterprises the terms strategy-change-performance have the same interpretation as for big companies. A future status should be visualized and then it should be achieved. If it is achieved, we may say that we have performed well. If this concept is understood by an SME leader, he may already hear the internal voice: „Have a strategy!”. That is the way it should be – a strategy is required. However, it is not that simple for SMEs. There are few owners – entrepreneurs who could afford to attend management seminars, learn techniques and methods how to create strategies and manage their own businesses at the same time (Chikán, 2010).

Of course, such training is not essential to build a successful business. There are hundreds of strategies from 100-page formal ones made up systematically to those visions existing in SME managers' heads and referred to on a daily basis. One feature is common, though – they all formulate the future portrait of a company. For that reason, it is important from performance aspect how we see the future, the company's future. In a small business, the leader has a vital role, he is often the owner and manager simultaneously. The key person is the entrepreneur.

There is one trend of strategic concepts that gives a key role to the entrepreneur, the organizing force that integrates, controls and helps as an active player the enterprise.

The company's operations, culture and future depend on him. This is the entrepreneurial strategic school (Mintzberg, Ahlstrand & Lampel, 1998).

That strategic approach is excellent for SMEs – the entrepreneur manages the company on his own towards success using his own future vision. The emphasis is on vision, the way the leader visualizes the company. In some cases, it sounds too obvious, but thousands of businesses and case studies prove that simplest ideas bring superb results, as soon as an entrepreneur makes his vision real.

The vision is thus the mental form of strategy that is born in the leader's mind, or at least it is created there. The vision does not appear in figures or precise goals, it is rather an image that can be easily linked to the entrepreneur and the everyday life of the one-person management.

Small, often disadvantageous organizations obviously need strategies too. Nevertheless, due to their size and the more difficult financial position they can hardly find resources for the services of consulting and market research companies. The entrepreneurial school relies on the experience and knowledge of the entrepreneur and it is trusted that the leader is able to create a future vision.

In studies about small and medium-sized enterprises, we may find the following common characteristics: a) flexibility, b) quick adaption to changes, and c) leaps and sudden changes are supported by relatively simple processes, finally d) simpler change management. The majority of the small and medium-sized enterprises is growth-oriented. It is required so by the business context and economic – technological development, but the growth may also be generated by the entrepreneur's hunger for success that drives the organization lead by him towards continuous growth (Snaith & Walker, 2002).

The entrepreneurial strategic school says that the possible escape route is the right vision. However, what is a right vision like? Harvard professors Bennis and Namus (1996, p.90) put an emphasis on the role of vision in their book *The Strategies for Taking Charge*: „A vision is a target that beckons... Note also that a vision always refers to a future state, a condition that does not presently exist and never existed before. With a vision, the leader provides the all-important bridge from the present to the future of the organization”.

It is often said that a leader is obsessed by this or that, but is it really the case? Let us think about that again! It may be the vision that brings success and growth.

Many believe that a vision compensates for the uncertainties of planning. They say a goal is required, one that we can achieve and by that, a company can survive or can be saved. In the 80's in the United States, each large company suddenly started to create a future vision that is good enough to be considered as strategy or vision. Today a good slogan is no longer sufficient.

That approach originates performance goals from the vision of the entrepreneur, so the creation of strategy will only be a semi-conscious process. As a result, the strategic vision remains flexible, easy to shape and it becomes conscious during the process.

Likewise, the organization remains flexible and easy to shape, it reacts to the leader's instructions with ease (Papp, 2006).

If there is a vision, the enterprise can step on the designated route and it can create the processes (the change can happen) that serve their interests. By that, it will be able to set up measurable performance goals that, by formulating a system of goals ensure successfully, viable business in the long run.

How can we define the vision? In the strategic concepts of small and medium-sized enterprises, goals and tasks are often mixed up. For example, let us put the following questions:

- Is there any defined goal that I can only achieve in the long term?
- Have I planned the tasks that make me achieve those goals?
- Do I observe and control if those tasks are completed?
- Can the defined goals still be reached after completing those tasks?

The questions attempt to handle the problems arising, they separate goals from changes needed to achieve goals and they refer to their measurability. SME leaders usually give the following answers:

- "Yes, next year we will install a new machine, by which we can increase production ..."
- "We want a new webshop, we will see how it works, we trust it will!"

As shown, terms are mixed up, it is not clear what a goal or a task is. Behind the above sentences, leaders tend to see tasks: a license is needed; a machine has to be installed; users need to be trained; the web developer has to be called; the wording of the webshop needs to be created. Those are all tasks and goals, along which a company can become successful. If analyzed from another perspective: we have purchased an expensive machine that will stand still in the workshop or we have paid for a web shop that will bring us no new orders.

The problem is, therefore, complex: there is no vision or strategy, but long-term business decisions are made. It is not the machine that should be looked at, but a workshop performing well. It is not the webshop that is important, but the system that generates new orders and customers.

Want's change model

The well-structured process of changes can be ensured by a complex model that is close to the practice. Therefore Want's change model has been selected for the research, as the author himself acted as a management consultant and such experiences can be found in the structure of the model too (Farkas, 2013).

Jerome Want's (1995) change cycle model (Figure 1) shows, when certain types of changes are necessary to an organization, what areas the changes affect, and what strategies are available for change makers. The two major life cycle phases of the organizations are the development phase (rising phase). It consists of two parts: determination of self-image and standardization. At the end of the first part, the business concept is organized into a unit (synthesis), so there is an easily identifiable organization that develops in an integral way and steps into the second phase, the

development phase, the standardization. In that phase the characteristics created become general or, we may say conscious, a human resource system is set up, as well as work atmosphere and the organizational culture develops continuously. The author identifies two separate parts in the change phase of the organization (declining phase): disagreement and alienation. The various factors including the need for change move the organization over the peak of the curve with ease. There is almost no moment when the organization is ideal, but it is strengthened by the law of the early schools of organizational theories: the organization will maintain its least probable status (von Bertalaffy, 1979). As we move down along the curve, problems become more and more complex and they bring bigger and bigger changes into the organization's life. It is worthwhile to take a closer look at the two phases of the change.

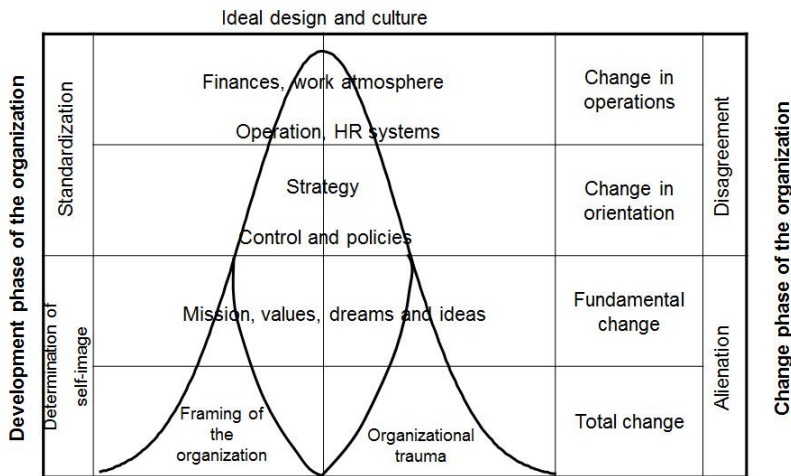


Figure 1. Want's change model (Want, 1995, p.73)

In the disagreement phase, the change of certain processes or the creation of new visions is possible without jeopardizing the existence of the organization. In SMEs flexibility, dynamic changes and sudden leaps (to be considered as the ability to innovate) can significantly affect companies' lives. A small enterprise can easily reach the bottom of the declining phase, even through one or two decisions. At that point, the alienation together with complete disharmony of goals and consequences of decisions threaten the mere existence of SMEs. Obviously, the organizational culture may simply vary, or, given the relations of the model, even the joint change of the operational strategy and the organizational culture may occur.

The model synthesizes the potential versions of organizational changes well and it provides guidelines in the preposition phase what change indicators or changes consequences we should examine.

It is important to emphasize that we do not wish to criticize the model, we only use it as a framework for the analysis part of the research.

The research followed up the operations of Hungarian small and medium-sized enterprises for 1-2-3 years. We conducted analysis on the basis of related business cases searching for the Want characteristics of change management.

Some result of the business cases

The objective of the research is to paraphrase a change management model that understands and synthesizes the successful change management practice of SMEs. The basic proposition of the research concept is the detailed elaboration of the dilemmas described in the Introduction, the description of the behavior and tools of flourishing small businesses and especially their leaders. It is intended to explain the methods and characteristics of the daily routine of the flexibility often referred to, the ability to adapt and the uniqueness.

Lots of SMEs including numerous family businesses show unsatisfactory operational patterns if we wish to prove their success via management models, but they have survived the crisis and they still manufacture and sell. The research aims to reveal the features that enable those companies to remain going concerns in the long run.

In the first step of the research, we compare the findings of consulting projects concerning two local small businesses with the Want model just presented. On that basis, we evaluate their behavior. The concept will then be refined and it may be decided whether other models should be involved. Afterward, the sampling will be extended (Farkas, 2013).

Change management practices of small and medium-sized enterprises

Change is a natural part of SMEs' lives, the corollary of growth, on the other hand, the desire to meet market demands is also inspiring. In one of my previous studies (Kurucz, 2014) the characteristics of the change flow were presented, the main points are listed below:

- The permanent (continuous) presence of changes in the organization – the company lives in a change flow.
- The overlap between change projects – several change projects need to be managed at the same time.
- The effect mechanisms of changes co-relate – the result is impossible to plan.
- The changes affect a significant part of the organization's operations – they are by no means incremental.
- During changes, the principle of flexibility and "there is always a better way" should be followed.
- Changes mean sudden leaps in terms of growth and development – few gradual improvements.
- Due to sudden leaps, sudden behavior changes are required, it is a unique phenomenon that is difficult to manage.

The sudden occurrence of changes and their congestion challenge a small organization theoretically too, as administrative and management capacities are limited. Still, there are companies coping with changes, we may assume they have a strong survival instinct and their own "secret" tools.

There is one research topic we may highlight and that is the ability to decrypt plans quickly (Kollár & Kollárné, 2014). Decryption is a technical term often used in information technology in relation to engineering, but the method of design approach

has already incorporated it into the vocabulary of successful business models. How can an SME rapidly and efficiently apply decryption? (Kollár, 2014).

We present two examples how companies can manage changes successfully.

Case studies (2 companies)

The leading idea of the research has come from the observation and cooperation with two Hungarian SMEs; due to contractual obligations, we are not allowed to name the subject companies. The intensive growth of the machinery company observed in 2012-2013 and the analysis of the management's daily challenges stressed out the need of change management on a daily basis. A number of lessons are emerging through an IT company we have been observing since January 2014 about the development of strategic thinking and the behavior of an SME in change (perhaps crisis) situation.

Change management of the machinery company

The first company employs about 50 people, it is managed by the Hungarian owner, who is the CEO itself. Their annual sales now reach HUF 1 billion. The enterprise produces custom-made machines in the Balaton region.

The company has a large capacity of design engineering and their manufacturing process is technology-intensive. Custom-made machine manufacturers produce spare parts, assemble finished products and commission machinery like the subject company. They also have a cutting workshop. They have several subcontractors to extend their capacity. For some metalworking processes, they rely on outside technological support (e.g. heat treatment).

In 2012, the enterprise had only 25 employees working in a workshop half the size of the current plant. To describe the change management we highlight 3 major changes in the company's life and we draw the conclusions.

The most important change was the introduction of the corporate governance (ERP – Enterprise Resource Planning) software. The project was started using tender funds. They had no IT specialist, so they involved an IT company. They faced numerous problems, as the company was quite unprepared (if preparing for such is possible at all). During the introduction phase, they started to use software modules step by step, the change of corporate processes was carried out in parallel. First invoicing, then inventory, later the whole finances were handled by the software.

Employees had to learn the use of the software and they had to redistribute their tasks in view of software functions. In the next stage the company's main process, project handling was reviewed, and a tailor-made software module was ordered. The engineer's team struggled with testing and had major issues with administration and data recording. It was unsatisfactory in terms of software use, the support of processes and for the company's engineers too. It was nearly a crisis that needed a response when the processes were redefined with massive CEO support.

The next change was urged by the congestion of design engineers. Design engineering and project management could not be combined. There were employees who chose to

become project managers and left problematic professional tasks and there were some who remained engineers and specialists with no responsibilities to hold the project together. Both led to dramatic fall in customer satisfaction. The management decided: there will be individual sales and project manager positions and both will be separated from the engineers' tasks. A new sales specialist was hired. With him, the complete project management process needed to be configured.

The third significant change was brought by the radical increase of the organization's size. Due to the high-quality services of the company, sales and orders skyrocketed. To overcome capacity issues the enterprise hired an additional workforce. The number of staff increased from 25 to 48 within a year. Doubling the workforce resulted in management problems. The CEO could not find the right tools to maintain morale and good work atmosphere in a company with increased staff number. That caused a substantial change in the CEO's behavior, but also employees felt the difference in communication and their position within the company.

The next figure presents a summary of the changes, at the same time it classifies changes on the basis of the Want model.

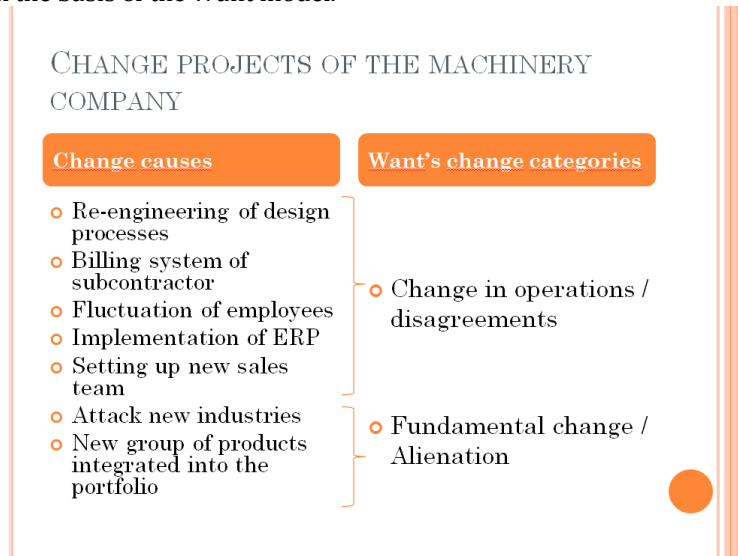


Figure 2. The change projects of the machinery company

Change management of the IT company

The IT company (Second company) has Hungarian shareholders, their annual sales amount to HUF 1,1 billion and the company's seat is located in Central Hungary. The company employs 60-70 full-time employees and further about 40 subcontractors work for the enterprise as consultants and software developers. In terms of operations, a company with 110 people is examined.

The company specializes in the development and introduction of IT systems, they rank as a medium-sized company in their sector. The company also implements major public procurement projects. When describing change management we will analyze changes in the management and organization of the company in the recent 3 years.

The company had been managed by an owner – CEO until 2011. It is not a rare phenomenon in the IT world that a company led by a charismatic manager grows and reaches a point, where the manager becomes an obstacle to all further development. There are not only causes related to his thinking and personality, but obviously, he also has limited capacities and may be unable to cope with all corporate issues. That is exactly what happened to the second company.

In the period of one-person management, the company manager decided on his own. For that, he required quick and comprehensive information. Financial and human resources management supported him, but information processes could not develop to a system. Every time tailor-made individual solutions were made. The lessons of such situations formulated the complex process characterizing the company.

Capacities are completely exploited that way, but there are lots of useless (non-value-producing) activities that lead to wasteful business operations and bad work atmosphere. Congestion and stress were parts of the employees' lives.

The manager was congested too, as he admitted, he wanted to escape from that situation. Long leaves and postponed decisions led to decreasing market performance. The company started to shrink. Several loss-making projects were undertaken. Recognizing such projects should have been essential, however, financial control was also lacking. Acting as a manager and supervising the daily operation of the company was already congesting when the company employed 60-70 people.

As the first major change, he promoted two of his colleagues and delegated development and consultancy managerial tasks. The company received a major order and a project manager was required. The new administration and resource planning managers were appointed. Yet, market rejuvenation was still not guaranteed for the company.

One fruitful project could not ensure long-term survival. The appointed managers had a hard time finding their positions in the organization. They were selected for those positions based on their professional competence and existing processes and tasks remained unchanged. Nevertheless, the repositioning of the new managers inside the organization did not occur.

The market needed innovation (product and market) and higher-quality delivery. To solve those problems – and bearing in mind his desire to escape - the owner / CEO decided to involve specialists from outside the company.

Two new managers arrived at the enterprise, both of them former executives at multinational companies. One of them was responsible for innovation and management, the other one for delivery. Within 3 months, a management team of 5 people was set up. Management and strategic concepts remained unclear for all including the owner.

Sector and professional competencies were known and functional areas also worked in the company. The forthcoming years (2012-2013) gave proof of that, as sales increased and new projects were introduced, but a common direction was missing.

As a next step, they intended to evolve a planning process, in order to create at least annual operative plans (sales, costs of operation, project management) that can comprise objectives. For that, they turned to an external consultant.

The construction got a new direction during the planning workshop, as the managers could not name integral objectives being in harmony with each other. Therefore, an operative plan with precise figures was impossible to set up. The first phase of the consultant's job was to define strategy.

Expectations and thoughts about the company's future vision and key areas needed to be formally described for managers. Consequently, stating the mission, identifying strategic directions, and formulating strategic objectives were necessary.

There was no performance control, so a KPI system needed to be developed. Changes required quick and expressed interventions. Upon the strategic consultancy project and as a result of a one-year cooperation the following changes occurred:

- Formulating integrated future vision and mission
- Preparing uniform wrote strategy
- Rethinking tasks of management (including the change of a manager)
- Preparing new organizational structure
- Setting up a management control system (KPI)
- Setting up processes for strategy making and control (strategic reviews)
- Setting up business processes matching the strategic goals.

During that period, the company started restructuring various areas, as they arrived at a milestone. The next figure presents a summary of those changes and it classifies them on the basis of the Want's model.

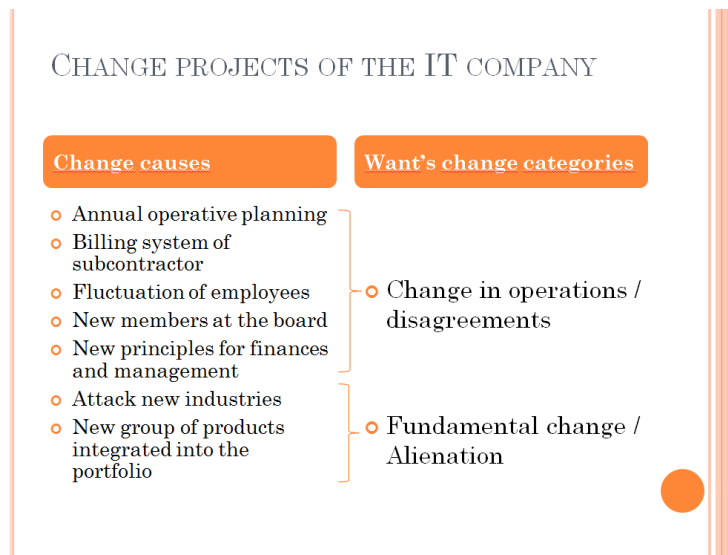


Figure 3. The change projects of the IT company

Conclusions

The review of the change project of two companies was illuminating in terms of identifying some elements of changes and it also provided results in comparison with Want’s change model.

Let us see first what conclusions we can draw on the basis of the chosen model. With regards to categories, we may say that changes were overwhelmingly changes in operations and basic changes. The conversion of some business processes became a daily routine in companies’ lives and, as a matter of course, it also affected other functions and processes.

The other main feature is the appearance of a line of basic changes that made companies deeply rethink their value systems, dreams, and missions. As a result, radically new behavior patterns and organizational structures arise within unusually short periods. Amongst changes disagreement and alienation categories occur.

The next figure (Figure 4) shows that also corporate construction and changes leave out changes related to strategic and control policies.

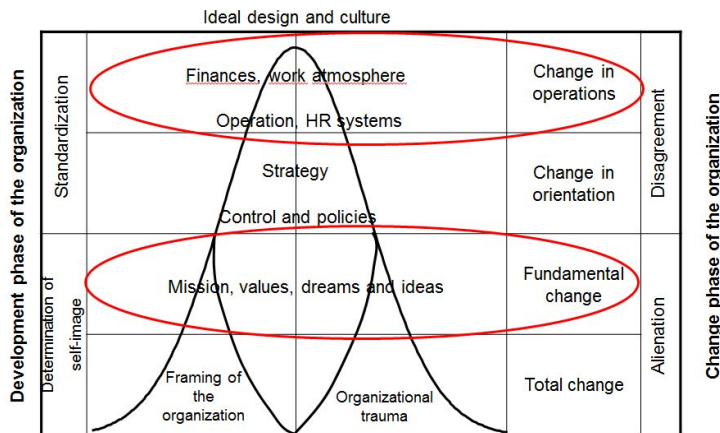


Figure 4. Classifying SME changes on the basis of Want’s model

Changes in orientation are not typical. They are left out from the cycle. At this stage, we are unable to define precisely the causes, but we may list some of them.

As strategic processes are “invisible” at SMEs, the change of strategy is not taken into account either. Without a formal strategy, the rethinking strategy does not seem like a task to be completed.

At companies of this size, there are no control mechanisms. The leader of the company (often an owner-CEO) centralizes decisions on his own. He does not ask for other opinions. Consequently, there are no formal processes for decision making. Decision preparation is impermanent and there are ad hoc solutions. The proportion of analyzing – planning methods is small, intuitive considerations are more common.

Even with the lack of systemized strategic thoughts, SMEs are viable and they employ substantial resources to successfully execute changes. We may think that the

permanent state and stability of control mechanisms are the foundation of a business facing the challenge of change flow (Kurucz, 2014). After analyzing enterprises, we have to admit that success probably comes from incoherency and imperfections of the system. Having a look at the conclusions, we may say that instead of strategic issues we have to concentrate on change management issues, through them we can guide back SMEs to proper strategic management.

To conclude, through the phenomenon of change flow (Kurucz, 2014) small and medium-sized enterprises spend their everyday lives amongst permanent changes. Disorganization and undercapitalization are major disadvantages when they have to maintain their competitiveness. Through changes, they always aim for higher quality and increased profits. A characteristic of small companies is the lack of strategic thinking, but they attempt to operate along strong visions. Identifying the right direction of changes is set further back by the inadequate definition of objectives, still, there is evidence for certain qualities that help those companies survive.

SMEs examined by Want's change model show that companies predominantly face changes in operations and in several cases, they decide about basic changes.

On the whole, SMEs – usually in an unconscious way - support their long-term business operations by managing changes, however, the management of changes influencing strategy remain out of consideration. In other words, in SMEs' lives strategic management and change management do not consciously co-relate.

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