Edexcel

A Level

Business studies

(Code: WEC13 01)

Unit 03-Section 06

Managing change

20 Key factors in change

THE POSSIBLE CAUSES OF CHANGE IN BUSINESS

Businesses must adapt to rapidly changing markets and conditions, relying on SWOT or PESTLE analysis to assess future changes and respond to them, as they cannot rely on steady customer numbers or consistent production processes.

Business size: Businesses can vary in size, from sole traders to multinational corporations. Growth is a key corporate objective, and as a business grows, it naturally changes its size. Restructuring is a significant driver of change, as businesses need to adopt new policies and processes.

Poor business performance: The poor performance of an organisation will result in a period of change as the company tries to regain customers, sales, profit or reputation. Often the change after a period of poor performance will happen quickly. This is because the business leaders try to improve the company before failure and possibly closure.

Market changes and other external factors (PESTLE): Chapter 4 delves into the various external influences on businesses, including political, economic, social, technological, legal, and environmental factors, and highlights the challenges businesses face in adapting to these changes, particularly in the UK and EU post-Brexit.

Changes in ownership: The Change in business ownership can occur due to internal growth, such as transitioning from private to public limited companies or stock market flotation, or sudden changes during mergers or acquisitions, which can raise capital for further expansion.

MANAGING CHANGE

Change management involves introducing new business methods, driven by internal or external factors. It's becoming increasingly important, with international firms developing change programs due to competition, higher costs, and economic conditions. However, change pace is increasing rapidly.

ORGANISATIONAL CULTURE

Organisational culture is a crucial aspect of a business's success, often reflecting its norms, values, and beliefs. It can be inflexible and resistant to change, making it difficult for a business to adapt. Corporate culture can be influenced by factors like strong leadership or operational principles. External growth, such as mergers or acquisitions, can drive organisational change. To avoid a culture clash, businesses should consider implementing measures to ensure compatibility between different cultures.

1 Identify and analyse cultural differences before a merger goes ahead. This might be done by analysing process flow charts to see how work is done; interview customers to see how they view the two businesses; interview managers to find out about their styles; and get feedback from the workforce to identify norms and beliefs.

2 Communicate with employees to explain the purpose of the merger and its possible effects, but also gather feedback from the workforce to identify their concerns and feelings.

3 Define and implement a new culture by clarifying behavioural norms, the structure of the organisation and the organisation's strategy. Ideally, the new culture should make employees feel that they are starting a new and better job.

4 Celebrate and accept change by emphasizing the benefits and the opportunities that staff might enjoy. For example, if workers can learn new skills they will be happier and more employable in the future.

SIZE OF THE ORGANISATION

The size of an organization significantly impacts its ability to manage successful change. Larger organizations are less flexible due to more change to manage and longer decision-making processes. Smaller businesses are more flexible, as they can make quick decisions without involving many stakeholders. As companies expand, they may need to adapt their approach to suit local contexts, making it essential for them to adapt their decision-making processes.

TIME/SPEED OF CHANGE

Business size can impact the pace of change, with some businesses taking time and organically developing new products, technology, and processes. Apple has been at the forefront of innovation in the personal computing market for 10 years, while the fashion industry undergoes rapid change.

MANAGING RESISTANCE TO CHANGE

Businesses are likely to face a certain amount of resistance to change from parts of the workforce for a number of reasons.

• Fear of the unknown. People often feel safe with familiar work practices, conditions and relationships. Employees and managers may fear that they will be unable to carry out new tasks, may be made redundant or may face a fall in earnings.

• Individual workers might be worried that they will no longer work with their preferred colleagues or may be moved to a job that they dislike.

Owners: Owners of businesses may also be resistant to change for similar reasons. They might fear operating in unknown markets and conditions. They might not want the cost of any changes. They may also fear that they might not be able to adjust to new situations and be forced out of business.

Customers and suppliers: These too may resist change. They may be unwilling to change their own practices when the business they are dealing with changes.

Generally, stakeholders in a business may resist change for any of the following reasons:

- disagreement with the reasons for or the necessity to change
- fear of the impact
- lack of understanding
- disagreement with the process involved in delivering the change
- lack of involvement
- general inertia - satisfaction with the current situation/way of working.

TRANSFORMATIVE LEADERSHIP

Transformative leadership is often a result of a change in management or leadership, often due to the resignation, departure, or poor performance of the previous CEO. This new leader may bring new ideas and changes, potentially leading to a new vision or strategic direction. New leaders can have a positive impact on a company, inspiring the workforce and making significant changes.

SUBJECT VOCABULARY

Brexit the informal term relating to the UK leaving the EU ('British exit')
insolvency the state of being unable to pay the money owed, by a person or company, on time
management consulting the practice of helping organisations to improve their performance
management of change the process of organising and introducing new methods of working within a business
organisational change a process in which a large company or organisation changes its working methods or aims, for example in order to develop and deal with new situations or markets
transformative leadership where new leadership, such as a new CEO, brings about change with the purpose of improving business performance

21 Contingency planning

WHAT IS CONTINGENCY PLANNING?

Many businesses use **contingency planning** in an effort to deal with these crises. Contingency planning is not about trying to predict future events. It is a strategic planning method designed to identify potential crises that a business might experience. It is a disciplined approach to dealing with uncertainty in the future. Contingency planning helps to:

- make clear some of the future uncertainties in business, identify risks and opportunities, and prepare for their eventuality (i.e. something that may happen)
- teach managers how crises may occur, develop and affect the business
- understand the causes and effects of change in business and how to manage it.

There may be different approaches to contingency planning, but there are a number of important steps in the process.

1. Identify trends and issues. This involves checking the internal and external environment in an effort to identify any emerging (i.e. starting to happen) threats that might impact on the business. PESTLE analysis might be used to help this process (see Chapter 4).

2. Identify possible crises. Businesses need to imagine a range of crises that might affect their operations. The background for these crises will be provided by the information gathered in the previous stage.

3. Plan a response. This involves identifying the exact impact crises will have on the business and developing plans to deal with them. This is a lengthy process because such impacts might be numerous and complex.

4. Identify the most likely crises. A business may identify a wide range of crises that could affect it. However, there are different probabilities for how likely something is to happen. A business is not likely to have enough resources to plan responses to every single crisis.

5. Capitalise on crises. This involves applying the planned responses if crises happen. Not all crises have negative outcomes, however.

RISK ASSESSMENT

A business might use risk assessment to attempt to identify the possible crises it might face in the future. This involves examining what might cause harm to people. Businesses need to identify a plan to protect workers from harm. One of the main purposes of risk assessment is to help comply with health and safety laws. Workers have a legal right to protection in the workplace.

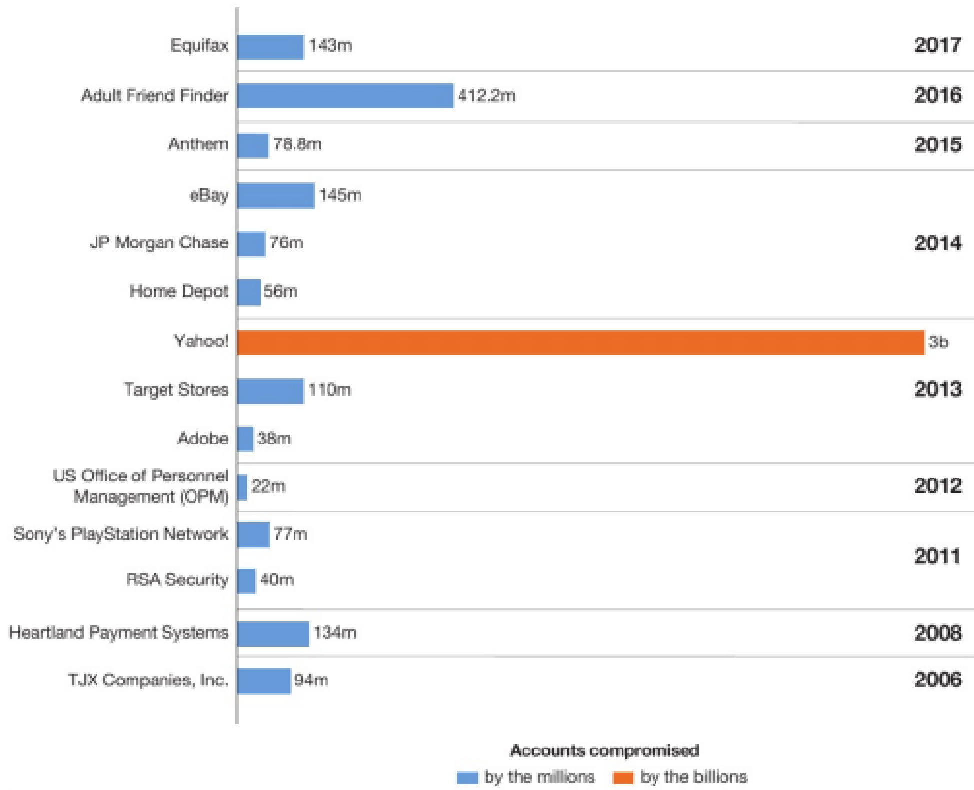
POSSIBLE CRISES

The range of possible crises facing a business is huge. However, some are more likely than others. Three of the most likely scenarios are discussed below.

Natural disasters: Natural disasters are extremely bad events that usually happen suddenly. They are caused by factors beyond our control.

IT systems failure: Most businesses employ IT systems in their organisation. The extent to which businesses depend on such systems will vary. Generally, the larger the business, the more investment it will have in IT. This means that an IT systems failure or a cyberattack could be a serious disaster. Many small businesses may have only modest investments in IT systems.

Loss of key staff: Losing key staff can pose significant challenges to businesses, especially in small ones dominated by a single person. Around 55% of businesses would stop trading if they lose one or more key people. Unexpected losses, such as illness, long-term incapacity, or death, can lead to business closure. In 2017, Australian group Ardent Leisure lost CEO Simon Kelly, causing shares to fall by 2.2%. Finding an outsider to take over the business can be challenging.



▲ Figure 1 Largest data breaches in the 21st century

PLANNING FOR RISK MITIGATION

Risk mitigation plans identify, assess and prioritise risks. They also plan responses to deal with the impact of these risks to business operations. Generally, a business can use a number of mitigation (i.e. to reduce how bad something is) strategies to reduce the damage caused by serious disruptive events. For example, it can:

- set up in a location that is not likely to experience flooding, earthquakes, bush fires and other potential natural hazards

- ensure that premises are constructed according to building codes that are designed for safety and protection

- take out insurance policies that cover losses resulting from disasters - for example, it may be possible to take out business interruption cover

- ensure that data stored on computers is as secure as possible and that back-up systems are adequate

- organise back-up power, such as a generator, to ensure that important machinery and other equipment can still be used if the power is interrupted
- ensure that valuable assets, such as expensive machinery and tools, are protected as much as possible
- ensure that there is access to emergency funding
- ensure that adequate communication channels are set up to deal with crises
- produce a business continuity plan to deal with crises. This is discussed next.

Business continuity: A business will want to minimise disruption if an incident happens. After taking care of human life, one of the most important priorities is to get the business 'up and running' again. Some firms produce business continuity plans. These show how a business will operate after a serious incident and how it expects to return to normal in the quickest time possible. There may be four stages in such a plan.

1. Carry out a business impact analysis. This will identify those functions and processes that are essential to the running of the business. This involves gathering information so that appropriate recovery strategies can be designed. The process also involves identifying the financial consequences of such incidents, like loss of revenue, customer defection, increased costs, penalties and disruption to business plans.

2. Formulate recovery strategies. These are the actions taken to restore the business to a minimum acceptable level after an incident. This will involve identifying the resources needed, such as people, facilities, equipment, utilities, IT and materials to aid recovery. Examples of recovery strategies that might be used include:

- setting up agreements with another business to share resources and support each other should they face disruption
- planning to adapt resources for new usages – for example, a canteen might be used as office space
- contracting out work to third parties (a person or business besides the two primarily involved)
- prioritising production - perhaps according to customer value
- maintaining higher stock levels
- placing restrictions on orders
- shifting production from one plant to another.

3. Plan development. This involves developing a detailed plan to ensure that the recovery strategies are carried out in an organised way. A business is likely to set up recovery teams, develop plans to move to a different location, and document recovery strategies and procedures.

4. Testing and training. Once the recovery plan has gained approval, it is necessary to design testing exercises. Staff will have to be trained and the recovery teams will be the main focus of such training.

Succession planning: Part of risk mitigation involves identifying current employees who have the potential to play key roles in the future and helping them develop their skills. This is called succession planning. It is important because it will help a business deal with the problem of losing key staff.

Some key steps involved in a succession planning process are outlined below.

1. Identify the characteristics a successor should possess. This task can be done by looking at the job description and developing a person specification giving the characteristics of the person who currently occupies the key role and identifying any new skills and traits that may be required.

2. Decide how the successor will be found. This might involve examining the abilities of every potential internal candidate. Alternatively, a specialist agency might be employed to find possible candidates from outside the business.

3. Have a rigorous selection process. Examine the strengths and weaknesses of all the candidates. It is important to involve several key workers and other specialists to gain a broad view of the candidates.

4. Make the decision. The people with this duty must analyse and evaluate the performance of each candidate. It is important to reach a conclusion and make an appointment. Not doing this might demotivate (make somebody feel like it isn't worth making an effort) and undermine internal candidates - they may think that they are not valued by the business.

5. Communicate the decision. It is important for everyone affected by the decision to be informed about the appointment.

6. Implement a training and preparation plan. The person appointed will need to be trained and prepared for the final transition into the post when needed.

SUBJECT VOCABULARY

business continuity plan shows how a business will operate after a serious incident and how it expects to return to normal in the quickest time possible
business interruption cover a type of insurance that covers the loss of income that a business suffers after a disaster
contingency planning the creation of plans for how particular crises might affect a business in some way, such as a fire which destroys the premises or a cyberattack
risk assessment identifying and evaluating the potential risks that may be involved in an activity that a business proposes to do, and then ensuring compliance with health and safety laws
risk mitigation plans identify, assess and prioritise risks, and plan responses to deal with the impact of these risks on the operation of the business
succession planning identifying and developing people who have the potential to occupy key roles in a business in the future