

SMEs surf in change flow



Change management has become a more important part of company 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, but nowadays, there is no time to finish a project because another one has started. The basic characteristic of change management has changed. The SMEs are faced with a so-called Change Flow, which requires different management technics and project management methods. This paper shows the new characteristics of the changes through the cases of three Hungarian SMEs.

THE NEW HISTORY OF CHANGES

The management of changing showed significant results in the 70's and 80's, out of which, the McGill University's nearly forty-year-long study stands out which examined the development of small businesses and tried to understand the background of their rise and success. The results were taken over by the strategy management that tried to find behavior patterns to help future businesses.^[2]

By the 90's, there were already some developed theoretical models, which, using the management of changing, provided tools for the managers to help them to solve the „unsolvable”. Regarding these models, through no fault of their own, there was a common assumption, namely, that the changes in the institution occur cyclically. In this way, the change compelling effects generated an emergency and a need, for which the concerned found a solution. With these options being pondered, they could choose the right method and steps to make. Afterward, the following step, the adaptation, that is a change in the inner function of the organization, could come, which showed a tight sequel with the culture change of the organization, as well. Through this process, organizations can learn how to change in the most effective way and the change can be made by a sustained phenomenon. The new situation, in turn, will be affected by a new force

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[2] Mintzberg, H. et al. (2005): *Stratégiai szafari*. Hvg. Kiadói Rt., Budapest.

that leads to a new turn, and then the new situation will wait for its new change. However, we can easily find change management projects that were unsuccessful, which, after presenting a superficial activity, are aligned back and remain in the previous behavior pattern.

The change demanding „voices” do not vanish in this case either and new projects follow each other without major changes in the point.

On the other hand, not long, only 1-2 months, after the more or less successful changing management projects, the companies do not feel comfortable with the worked-up situation and start making new changes, then wait for its long-term results, but it does not happen because by the time it has revealed itself, they have to face another challenge.

These situations point out that we have to reassess the current standardization of the change (so-called typologies) and the presence of the changes in the organizations. Of course, there is a need for further changes, but we cannot „conserve” their results in the organizations for long. There are more obstacles to face when trying to maintain the new achievements in the organization, but two of them definitely have to be highlighted:

- The changes, even in some part-sectors, can take apart a complicated configuration, which will affect the whole organization immediately, via modern IT.
- On the other hand, changes follow each other so fast that they actually correlate in time and we have to deal with several changes at the same time. We cannot split them up and handle them separately.

The methodology of change management has to adapt to the today ever-changing hyper reality. Maybe it is even more important to open our minds to new dimensions. A new way of thinking can help us to handle the changes appropriately. Sometimes, we may feel that only the planning phase can have some flaws, but in my consulting practice, I have seen many cases at small and medium-sized companies, in which I could see on the CEO's face that there are situations that could not be planned ahead. How should we prepare for such changing times? Is consciousness an opportunity, or a bad thing that has to be handled?

In this study, this question still remains open. However, in fact, it points out that the turbulence of the changes is increasing has a faster effect, and new changes are constantly being caused. In these situations, we cannot talk about open innovative elements, however, we can realize, that a contiguous conflict generates starts, where power, structural, and self-interested fights rearrange the structure. Putting it another way, changes start in more fronts and we cannot tell their roots, namely, their effect is a combined result, because by the time we see the result, another effect will have evaded it.

We can tell that when we are talking about changes, it gets less and less meaningful to talk about revolutionary, non-revolutionary, radical, or incremental

changes. It does not make any sense to separate the smaller changes from the major ones, which affect the organization, especially if we are talking about small and medium-sized enterprises. SMEs have lots of idiosyncrasies that provide forever changing signs in themselves. The changes affect the whole company very fast, the business administration (leadership, strategic parts) process and the operative function as well. In the next part, some peculiarities of the SME sector will be looked over in order to describe the new dimensions of changes.

THE PARTICULARITIES OF SMES FROM THE VIEWPOINT OF CHANGE MANAGEMENT

SMEs react differently to the changes of the market according to their size, culture, and organization model. That's why, we need to describe competitiveness in a different way, from their point of view.

The SMEs motivation for a change does not differ necessarily from the motivation of bigger companies, so we can accept the results of a German study carried out in 2000.^[3]

According to the study, 98% of the interviewed CEOs made minor changes in their company.

- These can lead back to four root causes:
- The development of technology
- The changing of markets
- The globalization of market competition
- The demographic changes on the labor market

Small companies also have to face these factors and try to use the most up-to-date technology, find their own market (under global conditions as well), just as well as find skilled labor speaking foreign languages and locally available.

Nevertheless, in the competition, one of the most important factors of the SMEs is their enlargement; only a few companies can survive without growing - these are some localized SMEs that produce for the local market.

In case of small and medium-sized companies, we do not literally mean enlargement by the size of their fortune. We have to add, that the entrepreneur, who does not wish to adapt to the changing environment, does not take the permanent renewal criteria into consideration, and does not recycle some of the gained profit devitalizes the company after a while. This reveals that for further subsistence some business growth has to be reached through investments.

Small and medium-sized corporations start in minimal sizes because of equity risk, thus they can estimate their opportunities and capabilities or rather prevent a bigger loss due to a failure. In the life of a small company a certain level of growth

[3] Farkas Ferenc (2013): *A változásmenedzsment elmélete és gyakorlata*. Akadémia Kiadó, Budapest.

can be reached anyhow, however the determination of the ideal size is the CEO's responsibility, who allows the company to grow until he or she can still handle it. Then he will be the obstacle of the further growing. Chikán, Attila's opinion about small business strategies: One of the main characteristics of the competing companies is that they do not have those competitiveness ensuring strategies which can facilitate their survival in a strong price competition.: Neither by reaching thrift with the increase of the production, nor by settling down on cheap material resources. Neither of these is a real option for them.^[4]

According to J. Wright, there are two routes left for them to follow in order to gain advantage in the competition: specialization and special treatment. The author says: „Companies can focus on a specific group of consumers, provide the right products for special needs, build their own relationships network, or they can compensate the high level of price with extra good quality.”^[5] Furthermore, the author considers the personal attention paid to the customers important, together with the long-term loyalty to the activity. Moreover, this is to be manifested through the everyday operational functions.

The most successful small businesses can identify with the strategy as a vision, just like entrepreneurs can. However, if these entities grow too fast, piling their success, they can easily get off the marked route.

„Competitiveness is an often used economic concept but it does not have a conventional definition. Its variousness should definitely be found in the wide range of factors of competitiveness, from which different analysts consider different ones important and outstanding. In fact, there is a wide palette to the meaning of the definition, because competitiveness can be interpreted in many levels of the business environment. We can talk about the competitiveness of different groups of countries, for example the European Union, countries, regions, smaller geographical areas, sectors, business groups, and a company.

We can distinguish between macro and micro level competitiveness.”^[6]

When looking for some help in working out a magnificent strategy and looking around in the literature studies, the leader may face a huge abundance in the topic. For companies, it is an exciting challenge to draw up answers, increase their outcomes, keep the success, or renew initially. They can get similarly much support from the change management writings where specific models can help them out.

The previous studies on the SMEs' strategy described that they cannot provide appropriate grouping of strategic tools according to the different schools and various directions. However, they pointed out that beside the

[4] Chikán A. (2010): *Vállalatgazdaságtan*. Akadémia Kiadó, Budapest.

[5] Chikán A. et al. (2002): *Az értékteremtő folyamatok menedzsmentje*. Aula Kiadó Kft. Budapest.

[6] Némethné G. A. (2007): *Statistikai módszerek alkalmazásának lehetőségei a kis- és középvállalkozások versenyképességének elemzésében*. 4. p. downloaded from: http://www.sze.hu/etk/_konferencia/publikacio/Net/eloadas_nemethne_gal_andrea.doc;[03.06.2008.]

‘concentrated leadership’ and the ‘manual control’ the more intuitive methods are more popular.^[7]

As a support of the growth strategy, a new goal has showed up: the development of a cost-effective organization. One way for this is outplacement, when some property is sold to a legally independent company. Further solution can be the application of a decentralized leading mechanism, that will allow the company to receive some foreign capital and knowledge; moreover, the owner’s and the entrepreneur’s interests are not harmed.

The extreme and dynamic growth can cause further problems, which can crack the advancement of the small and medium enterprises’.

They are listed below:^[8]

- Overgrow their current markets;
- Overgrow their present product structure;
- Their knowledge is not enough for the daily business administration;
- Lack of management abilities;
- The middle-sized company lost its strategic direction;
- The profit decreases;
- The need of external capital injection appears;
- A decision is necessary to be made whether to continue to grow or not;
- Focusing on the mergers and acquisitions of the company;
- Overgrowing the small size;
- Out-of-date functioning system;
- Losing the personal contact with the employees;
- The inner communication of the organization is formalized;
- The conversion of the tacit knowledge to explicit knowledge.

The main reason for the previous factors is the degradation of the business performance of smaller companies (e.g. reducing profit, or even losses are made, or having operational deficiencies) and the consequence of this is the cracking of capital strength or market position. Furthermore, it can cause an economic disadvantage for the business or even worse, bankruptcy.

The right solution cannot be clearly seen; the possible alternatives are not trivial, if we think about a small organization with a maximum of two-level hierarchy and only a few people working in different positions and roles. In this situation, there is no administration capacity available and these people want to be the change manager with a massive operational approach.

[7] Papp, I. (2006): *Tanulás és stratégiaalkotás a kis- és középvállalatoknál*. PhD dissertation, SZE, Győr.

[8] Snaithe, B. - Walker, J. (2002): *The Definition of a Medium Enterprise. A Management Accounting and Control Systems Approach. International Conference on Medium Enterprise Development*. Collingwood College, University of Durham. 14-16 July.

The SMEs, due to their behavior and organizational system, react differently to the changes of the market and their environment. In essence, they have to resolve difficult changes in the short term.

The current study wants to focus on the new characteristics of the change management through the following 3 cases of Hungarian SMEs.

THREE HUNGARIAN CASES - CHANGE OF SMALL BUSINESSES

In the study, there will be enterprises I personally worked with as a management or process consultant in the past three years. That is the reason why, according to the privacy statement, I cannot mention their specific names and cannot disclose actual inner information either.

This fact does not distort the conclusion of this paper, and does not obstacles its understanding either.

COMPANY "A"

This SME works in the electronics industry with a HUF 700 million (approx. € 2,26 M) annual turnover and with 100-110 employees. The enterprise is owned by a German parent company with an expatriate Hungarian owner. The owner of the company is the CEO of the German parent company itself, and regularly takes part in the management of the Hungarian company, too. The company has an excessively human resource demanding business profile.

In the end of 2012, the enterprise started to work out a new strategy, which required a new top management decision-making mechanism to be introduced. Besides, the company started a reorganization project, and also created four new manager positions (supply chain, quality control, production, and controlling) as well as functional fields. The company accomplished a half-year-long lean project in order to improve the efficiency in the production.

The efficiency change was forced by the Western-European customers' quality requirements and the low-priced Chinese import substitutes.

There were one to three key customers who always came up with newer demands to keep on the strategical partnership. For example: packaging, labeling, and delivery time shortening.

These internal projects always demanded the mutation or the regulation of some processes.

All of the projects affected the following departments: management, supply chain management (SCM), R+D, production, quality management, and the financial management.

COMPANY “B”

This is a Hungarian-owned machinery company.

It makes a nearly HUF 1 billion (approx. € 3,3 M turnover a year with only 50 employees. The majority owner of the company is the CEO itself. The activity of the company is planning and assembling special machines, therefore, it has a huge competence and capacity in engineering. As the consequence of this technological intensive profile, technology development plays an important role in the life of the company.

In 2010, the enterprise implemented an integrated enterprise resources planning (ERP) software which was created to help the actual 25 employees in the business data processing with a strong emphasis on project management. The substantive changes even affected the order management processing and the invoicing as well. The implementation of the new ERP system entailed the overthought and audit of the ISO system of the company. After that the company started to grow intensively because this way it was able to win some significant customers and within one and a half years they managed to double the number of workers.

Bigger measures require more serious coordination in the sales activity and in the engineering works, too. Thus, they builed up a new marketing and project department; even a new marketing manager got hired by the company. The next step of the technology development was to establish a new plant where preconditioning, preparation and blasting operations could be done. The most important new technology was the pneumatic paint spray technology, which definitely required new engineer capabilities, skills and worker competences to use the new machines.

Finally, as a result of the sudden growth, the company was able to win larger projects and accumulated inventories. However, the manufacturing of special custom machines typically requires less inventory and suppliance, because many of the parts are used only once. But the management realized that the actual level of stock had become higher. Thus, the bookkeeping department suggested a more serious stock management system to be implemented. According to this, we could handle the problem as a matter of financing.

The changing projects affected the following functional departments of the company: the project management, production, financial management, sales, administration management, stock management and bookkeeping.

COMPANY “C”

The third presented enterprise is a traditional Hungarian family business under the management of the father and his son. It generates a revenue of 200-300 million a year in the footwear industry.

The major part of the activity is wage work in a 60-people plant. The manpower of the whole company means around 70 people. The production process of the company is strongly human resource demanding. Although, it is partly automated, due to the development of the company, custom products showed up which are to be hand-made and of excellent quality. In the life of Company „C” the change is not caused by the growth, but the economic crisis of 2008. The volume of the production had shrunk and the number of employees had decreased by approximately 30% which got stabilized by the year of 2013. During this period, divisions of labours were developed and workplaces were formed. Meanwhile, the two leaders of the company were looking for other possible ways of development.

One of the pillars of the change was to remove the weight from the leaders' shoulders because in the ongoing „slim” structure they exhausted themselves. They needed an organization to support the new product development along with the more efficient usage of the current production capacity. We have to underline that the structural forming of the organization was due to the founder's retirement and to the fact that he handed over the steering wheel to his son.

Such a succession process can make an important change by itself. The action plan of this change has to be worked out when the organization is born.

Otherwise, the company starts a process optimizing project as well from which we can highlight the logistical process optimizations and the improvement of productivity as important projects. In the life of the company, beside the optimization of the processes, the question of responsibility and authority was very remarkable, had to be synchronized with the structure of the organization, of course.

The enterprise invested into a new technology in order to produce special tailor-made goods in to which it successfully involved tender resources. This technology is based on IT tools: a scanner can take a picture of one's feet somewhere abroad, and send the data to the Hungarian local host set up at the headquarters'. According to the drafts, the chief engineer plans the shoes and prepares the documents for the production. The R+D processes and the unique engineering process also have to be modified and reorganized. This progression still continues.

CHANGING PROJECTS AND THEIR INFLUENCE THROUGH THE ORGANIZATIONS

According to the cases we can sum up some interesting findings:

- Each project was optimally designed for a 2-8 months' time horizon.
- The realization of the joint projects took about 1,5 years, i.e., it was completed in 18 to 20 months
- The projects were running simultaneously: there were 2-3 projects at the same time at the companies.
- One project manager was responsible for more projects and the changes as well.
- The CEO was responsible for 80% of the cases.

The temporal congestion of change management generates very difficult decision-making situations; they had to make decisions regarding the rules and the efficiency of the processes, either way, which we thought had already been finalized.

Table 1: The changing project at each company within a 1,5-years-long period

Companies	A (Electric Industry)	B (Machinery Industry)	C (Shoe manufacturing)
Change management projects	New strategy creation	ERP Implementation	Reorganization
	Reorganization	Capacity expansion (number of employees)	Succession of the founder-CEO
	Implementation of Lean production system	Reorganization of project and sales management	Optimization of the purchasing process
	Process optimization (standardization)	New plant (paint technology)	R+D (new scan technology)
		Reengineering the field of business administration and finance	

Source: own research.

In many cases, the business leaders remain in these decision-making situations. And it is not necessarily got into the trouble because of the not so clear and confused vision; the modification of their previous conceptions is much more difficult. You may ask why. The reason is quite simple: once a decision is made to fit they have to question themselves.

In case of such decisions the managerial intervention process may occur in several different aspects, and they do not have enough skills, knowledge or experience to evaluate the possible outcomes, that means uncertainty and frustration.

This very fast dynamics of these changes questions the theoretical separation of the radical or incremental changes as the former change management books contains.

The changes definitely influence a large part of the organization; such a project affects at least two to three functions and departments. In the case of SMEs, where we cannot find any top management, the CEO himself has to create and recreate his/her visions, and in this way she/he will act differently in all areas.

Table 2: The extent of organizational change projects

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A (Electric Industry)		B (Machinery Industry)		C (Shoes manufacturing)	
Change project	Impacted functions	Change project	Impacted functions	Change project	Impacted functions
New strategy creation	Management	ERP Implementation	Project management	Reorganization	Management
	SCM		Production		Production
	R+D		Finance		Purchasing
Reorganization	Production	Capacity expansion (number of employees)	Production	Succession of the founder-CEO	Production
	SCM		Project management		Management
	Quality management		Sales & Marketing		R+D, planning
	Finance		Management		Sales & Marketing
Implementation of Lean production system	Production	Reorganization of project and sales management	Sales & Marketing	Optimization of the purchasing process	Purchasing
	Quality management		Project management		Production
	SCM				
	R+D				
Process optimization (standardization)	SCM	New plant (paint technology)	Production	R+D (new scan technology)	Production
	R+D		Sales & Marketing		R+D, Planning
	Production		Project management		Production planning
		Reengineering the field of business administration and finance	Inventory		
			ERP		
			Purchasing		

Source: own research.

Thus, changes in the functional areas of the company are interwoven and affect the same process, and so they do it to each other.

CHANGE FLOW, NEW CHANGE APPROACH

In the study, the presented companies and their change management projects towards us the thought that small businesses and the managers of SMEs should consider the occurrence of changes, and the related new projects in their companies. We have to take note of the fact that the changes are always present in the organizations and thus the change management becomes a daily work leader activity.

This has two consequences: a) the leaders must endeavor to become change managers, who know the relevant methodology as well as b) in their attitudes; they are to accept the changes and are not to believe strongly in the status quo and not to support it. The changes “run at each other” and will cause more and more serious situations requiring decisions. In this case, they have to leave their previous decisions they trust behind, because it should not have an inhibitory effect on the current new decisions they have to make. Although, there is no chance to plan the effectiveness of the changes, in this way it is also practically impossible because of the absence of the needed information and data. On the other hand, it shows that changes will have a major impact on the organization. The leaders in their efforts have to keep in mind a specific configuration and to define its elements.

As the manager implements a decision, it is important that the created process is planned to be a „self-propelled” process. These processes should be worked out without further managerial intervention and they should produce the expected results, in which the tasks and activities of the participants are well-known and they are able to do their job in a continuous manner.

From this point, the process does not need any manual control from the leaders, only if some new aspects come into the picture, and the existing mechanisms do not satisfy that. In this case the management makes a new decision in order to adjust them.

Nowadays, the SMEs (but we can say that the larger entities as well) are facing continuous changes, the so-called “change flow”. The changes do not occur at a steady pace, but are constantly present in the life of the company, which ties up resources and has a significant impact on the profitability, and the achievement of the strategic goals.

The change flow is neither cyclic nor incremental. So we cannot find well-defined resting points that can be seen explicitly or may show persistent behavioral pattern. Rather, it provides an implicit experimental knowledge gathered through the change for the participants of the change management. This project experience is permanently changing their behavior in ways that they do not return to their previous behavior patterns, but the new ways of behavior are constantly revised and adjusted.

The main principle in the changing process is the “always could be better” principle, but as it has become implemented we have to confront the changes with it and asks again: Is it the best option, or could it be much better? This ques-

tion should be asked regarding the whole project we have made, or about a new process we have calibrated as the outcome of the change project.

CONCLUSION

After the previous change management typology criticism, we can formulate some proposals for the SMEs in relation to change management, which could be a starting point for future researches.

We deliberately did not put down in writing that it can be refuted, since the new trends of management concept are already on a world-conquering way, but rather we would like to draw attention to the managers and employees of the Hungarian SMEs that they need to be open-minded to accept the postmodern ideas of information economy.

Company managers are responsible for nurturing the successors who are „socialized in change flow”. In this way, these new leaders become trained and experienced enough to become good change managers. For the fast and successful change project it is necessary for the managers to detect and evaluate the actual configuration of the organization as soon as possible (internal and external business processes and their integration). It is indispensable to take the next steps in redesigning the company.

The design thinking as a management tool can ensure the inclusion and acceptance of successful behavior pattern changes for the organizations. The design approach includes the decryption techniques to decrypt the aforementioned design patterns, helping the new, people-oriented solutions (or their prototype) design and construct.

Finally, we emphasize how important it is for today’s SME to live their post-modernity.

On the one hand, in the market, as a seller, the company has to be cool, on the other hand, as an outstanding enterprise between the competitors has to be the „best choice for its employees”.

What does it mean to be cool? As the President of the Hungarian Design Association describes it: „The knowledge and information existing as the substance (as an essential aspect) of the goods and services affecting our five senses (sight, touch, hearing, smell, and taste) is cold and often secret, in other words: cool. This is not only true for goods and services, but also true concerning the attractive person of the Information Age. Behind their behavior we suspect a plan built on valuable knowledge, a secret knowledge which makes the owner attractive, exciting, erotic, such a person whom, in a given case, we would be happy to touch, employ, or work with”.^[9]

[9] Kollár József (2014): *A cselekvésre irányuló coaching végterméke: a cool*. <http://www.iloveschool.hu/component/content/article/38-dr-kollar-blogja/938-a-cselekvésre-iranyulo-coaching-vegtermeke-a-cool.html> [21.04.2014].

The coolness is not only the appearance of the existing knowledge and information, the game itself is based on such „hidden” information. The competing company communicating the product, the service this way, will make the image of the company appear as a presentation of a secret plan. The cool person and the cool product express their coolness in a cool way.

Strategic student books have already tried to point out, that we can take advantage of the fact that we do not do everything transparently for the market and for other external stakeholders.

This is true in this aspect, too, that changes, such as the secret recipe for a unique and valuable knowledge cannot be made clear, but is also restraint, and this mastery can possibly leak out. And who is a master in this, will be cool.

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HUNGARIAN SUMMARY

A változásmenedzsment egyre lényegesebb része lett a menedzserek hétköznapijainak, és ez nem csak aféle szlogen. Egy kis- és középvállalkozás (KKV) több változásprojektet menedzsel egyidőben, a változások egymásra csúsznak. A klaszikus változásmenedzsment modellekben mindig egyféle ciklikusságról beszélünk, de erre már nincs idő, azaz a ciklusok néhány eleme nem valósul meg. Ez azt jelenti, hogy a változásmenedzsment karakterisztikája megváltozott. A KKV-k egy változásfolyamban találják magukat, amely új menedzsment-eszközöket és projektmenedzsment módszereket kíván. Írásunkban ezt az új jelenséget írjuk le három magyar KKV esetét bemutatva.