

Managing Change

Lesson 1



Study Information and Tips



This Study Text replicates the video content for the lesson



Supplementary knowledge can also be found in the information sheets and text boxes that accompany the videos, as well as in the resources in the Insights section



Activities to help you consolidate your knowledge are deliberately delivered through practice questions and exercises found in the Test and Apply sections on the VLE. These help you to further build on your knowledge and apply the learning in a way that supports your assessment



You can use this Study Text to test your understanding of the learning content at the end of each lesson. It may also be helpful to refer to it when preparing for your assessments



We recommend that you also produce your own notes in addition to the Study Text. Research has shown that handwritten notes can be very effective for learning retention



If you decide to print this Study Text, set the layout to print 4 or 6 slides per page to save on paper and ink



The Driving Factors of Change

**External factors that
can influence change**

**Internal factors that
can influence change**

**Impacts that change
can have on an
organisation**



Constant Change in Business

In business, nothing stays the same for long. Objectives are always changing, new rules and regulations are always being introduced and new competitors are always emerging.

The most successful businesses are flexible and innovative enough to adapt, through new strategies and new ways of working.

Identifying External Factors

We're now going to look at how organisations can identify some of the external factors that can affect the way they work – and how they might anticipate any threats or opportunities these factors might bring.

All kinds of outside factors can impact on organisations, from the cost of real estate, to the availability of raw materials, to the rate of corporation tax – even the weather.

With such a wide range of variables, it can be difficult to know where to start when trying to identify and manage the issues that matter most to a business.





PESTLE Analysis

To help manage this process, many organisations use a PESTLE analysis to guide their research.

This is a mapping tool that provides a framework for exploring macro-economic factors that might impact your organisation. The term 'macro-economic' means these are factors that are far-reaching and affect society as a whole – and, as such, they are generally beyond the control or influence of individual organisations.



PESTLE Analysis (cont.)

A PESTLE analysis breaks these factors down into six categories. These are:

- Political
- Economic
- Social
- Technological
- Legal
- Environmental

During the analysis, you take each of these categories in turn and work to identify the most important factors within them, and how they might affect your organisation.



Political Factors

Political analysis is concerned with the effects of government policies and actions.

A key issue to consider here is the level of political stability – for example, when is the next election due? How likely is a change of government? And will a new government take a different approach towards business, tax and legislation?



Economic Factors

Economic analysis involves looking at key metrics on the health of the economy, such as inflation, interest rates and unemployment rates – all of which can greatly affect organisations and their strategies.

Questions to ask here include: is the economy in a period of growth, stagnation or recession? How stable is the nation's currency? Are trade agreements for imports and exports likely to change?



Social Factors

Social factors can be the most difficult to identify and measure, as they involve personal attitudes, values and beliefs. They also take into account demographic factors, such as birth rates and life expectancy.

Questions to ask here include: how is the workforce changing, in terms of age or educational attainment? How are attitudes changing among employees and customers?



Technological Factors

Technological factors have had a huge impact on the way organisations operate in recent decades – particularly with the rapid growth of the Internet and related technologies.

Analysis here needs to look at whether your current business model is going to be affected by technological developments – and it is important to anticipate these well ahead of time.



Legal Factors

Legal analysis considers how the law affects the way organisations operate and how their customers behave. This includes employment law, trade regulations and restrictions, and consumer protection.

Questions to ask here include: how does current legislation impact our business – and how might it change in the future?



Environmental Factors

Finally, employers are becoming ever more conscious of how **environmental** factors can impact their businesses. Issues such as carbon emission targets and sustainability have become key in recent years and can have a big impact on the way organisations operate.

Environmental analysis needs to consider stakeholder and investor values, and what impact these might have on how an organisation operates. It might also need to look at the availability of raw materials and whether they may become scarce in the future.



Multi-category Issues

As you'll have noticed, some issues cross two or more of the PESTLE categories – for example, carbon emission targets set by the Government could be classified as either an environmental issue or a political issue. And, if these targets are embedded in the law, they could be seen as a legal factor too.

It doesn't really matter where relevant factors fall within your own analysis, as long as they are covered.



PESTLE Analysis – Example

Now, let's take the model and see how it could be applied in practice.

For our example, let's consider the case of a cheese manufacturer – more specifically, a company that produces Blue Stilton cheese in the UK.

What do you think are the most important political, economic, social, technological, legal and environmental issues that might impact on this particular business?

Let's take a look at each category in turn.





PESTLE Analysis – Example (cont.)

You may think there aren't many political issues that could affect the manufacturing of cheese.

However, there is actually a key political factor to consider for this organisation, and that's the 'protected status' of its product. Since 1996, Blue Stilton cheese has enjoyed 'protected status' under EU law. This means that only cheese produced in certain parts of the UK, using traditional methods, can be called 'Blue Stilton'.

If this protection were rescinded for any reason, it would open the way for any manufacturer in the world to brand their cheese 'Blue Stilton', which could greatly increase competition. It may also damage the brand if these new cheeses were inferior in quality.

PESTLE Analysis – Example (cont.)

An economic factor for this organisation to consider is V.A.T. Currently, cheese has a zero rate of V.A.T. in the UK, so no tax is chargeable.

However, if this was to change at any point, it would greatly increase the cost to consumers and would no doubt lead to a fall in sales.

A major social factor that could impact on the organisation is the growth in recent years of veganism in the UK.

The number of vegans in Great Britain quadrupled between 2014 and 2019, and if that rate continues the market for Stilton cheese could be significantly impacted.





PESTLE Analysis – Example (cont.)

On the technology side, the methods the organisation uses to produce its cheese need to be considered. For example, are there any new developments in machinery that could increase production capacity?

But technology could also have an impact on the marketing side of the product. The rise of social media in recent years has had a big impact on advertising strategies, for example, which could mean the company needs to change the way it markets its product to consumers.

A major legal factor to consider here is food standards. In the UK, these are governed by the Food Safety Act 1990. If, say, the Government decided to carry out additional safety checks on the company's products, this could slow down the production and distribution process.

PESTLE Analysis – Example (cont.)

Finally, on the environmental side, there are two issues to be aware of. First, the company needs to be conscious of its impact on the environment.

Producing cheese requires a lot of milk, for example, which means the company encourages dairy farming – an industry that is coming under increased scrutiny for its high level of carbon emissions. If the Government were to introduce some form of carbon tax, the company would likely be impacted financially and have to plan around this.





PESTLE Analysis – Example (cont.)

Second, the company needs to consider the impact of its geographical location.

As mentioned earlier, the company can only label their product Blue Stilton if it is produced in three counties of the UK. Because they are strictly limited to producing cheese in this location, any skills shortages in these areas could adversely affect production.





Exploring External Factors

As you can see, using a PESTLE analysis in this way provides an excellent framework for considering a wide range of external factors that could affect an organisation, and gives you a great way of organising your thoughts.

We'll now move on to look at some of the factors inside a business that can lead to major organisational change.



Force Field Analysis

Unlike external factors, an organisation has the ability to control and manage any internal factors that might lead to change – but only if they can be correctly identified, analysed and understood.

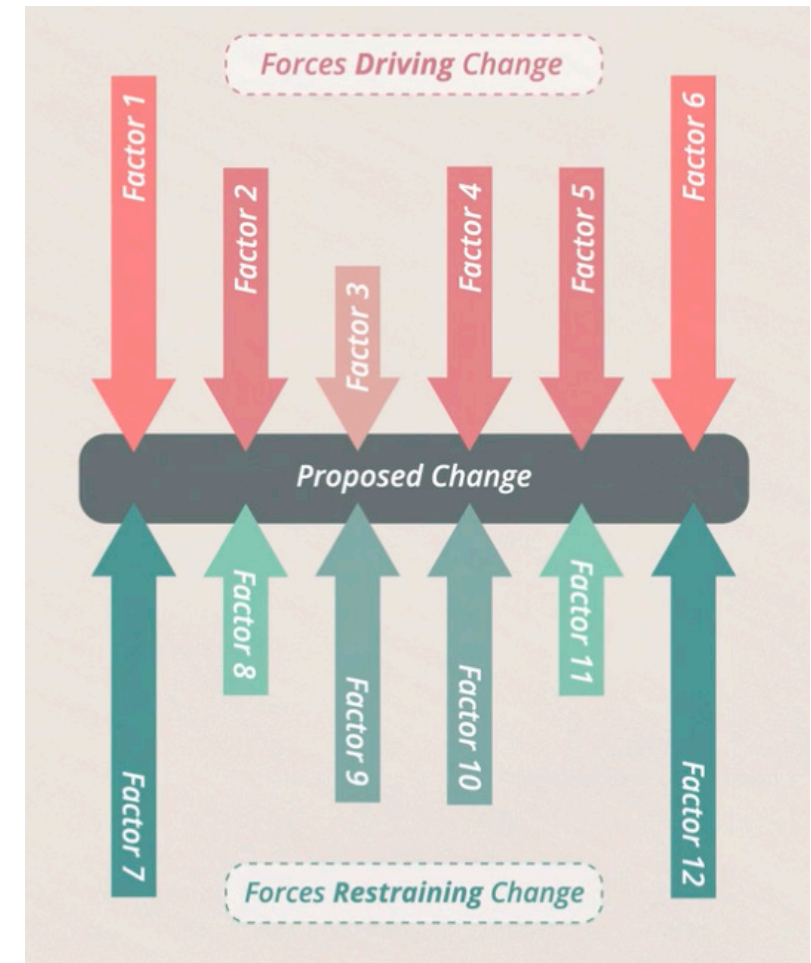
One of the most commonly used tools for identifying and managing these internal factors is Force Field Analysis.

First developed by the German psychologist Kurt Lewin shortly after World War Two, Force Field Analysis can help you visualise all of the internal forces that are either driving or impeding a proposed organisational change.

Force Field Analysis (cont.)

The model involves drawing a diagram to illustrate the change situation. In the centre is a block that represents the proposed change. A set of arrows on one side represents the forces driving the proposed change, and another set of arrows on the other side represents restraining forces or obstacles to the proposed change.

The relative length or thickness of each arrow should correspond to the size of the force it represents – the bigger the arrow, the more significant the factor.





Rebalancing the Equilibrium

According to Lewin, in day-to-day situations, these driving and restraining forces balance each other out, so no change takes place. To achieve change, you need to alter the forces maintaining this equilibrium.

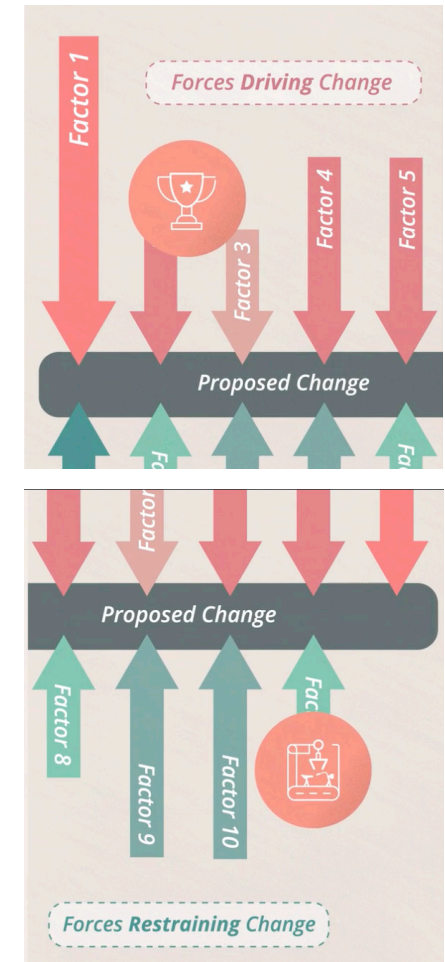
Say, for example, that your director of operations has asked you to increase the number of bicycles your production line turns out each day. To do this, you need to change some of the forces that are keeping production at its current level.

Altering the Forces

A Force Field Analysis presents two main routes to achieving this change.

Firstly, you could seek to strengthen some of the forces that might drive increased production: for example, by introducing a bonus scheme that rewards the best performers.

Or secondly, you could seek to remove some of the obstacles to higher levels of production: for example, by investing in new, more reliable machinery.

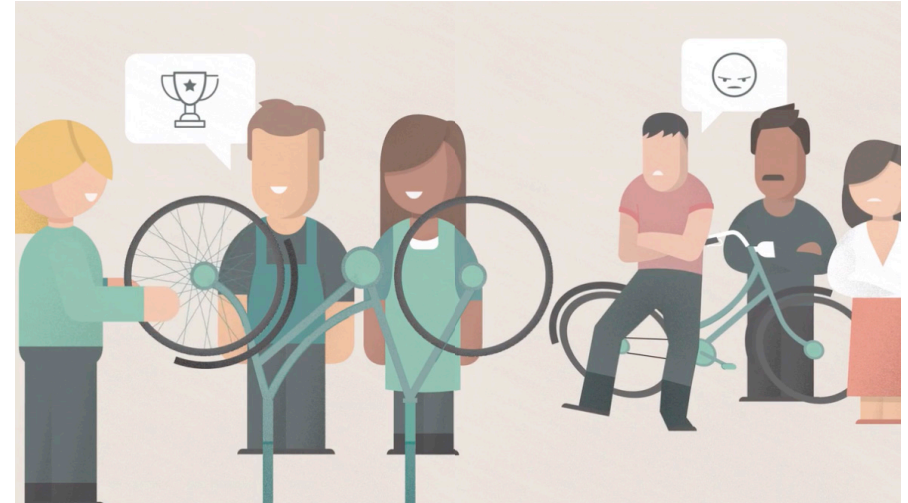


Unexpected Forces

Force Field Analysis, with its colourful diagrams and logical appeal, can make managing change appear disarmingly easy.

However, deciding which route to take is not always as straightforward as it looks, since some actions may unleash other, unexpected forces.

For example, introducing a bonus scheme may incentivise a handful of top performers to work harder. But unless it is introduced carefully, it could cause resentment among the rest of the workforce, causing them to put in less effort than before.





Unexpected Forces (cont.)

It is important to put time into analysing how strengthening or weakening each of the forces you have identified could lead to the development of other, countervailing forces.

Only then can you develop and implement an action plan to either build or reduce the influence of the forces.



Force Field Analysis – Example

Let's take a look at an example.

Imagine you were planning to introduce a new graduate recruitment programme at your organisation. What are the main factors that could drive or impede this change?





Force Field Analysis – Example (cont.)

Some driving forces might include:

- The board wants the company to increase its overall headcount
- The company has been receiving a high number of applications from graduates
- Starting salaries for graduates could be lower than for other roles, which would reduce costs

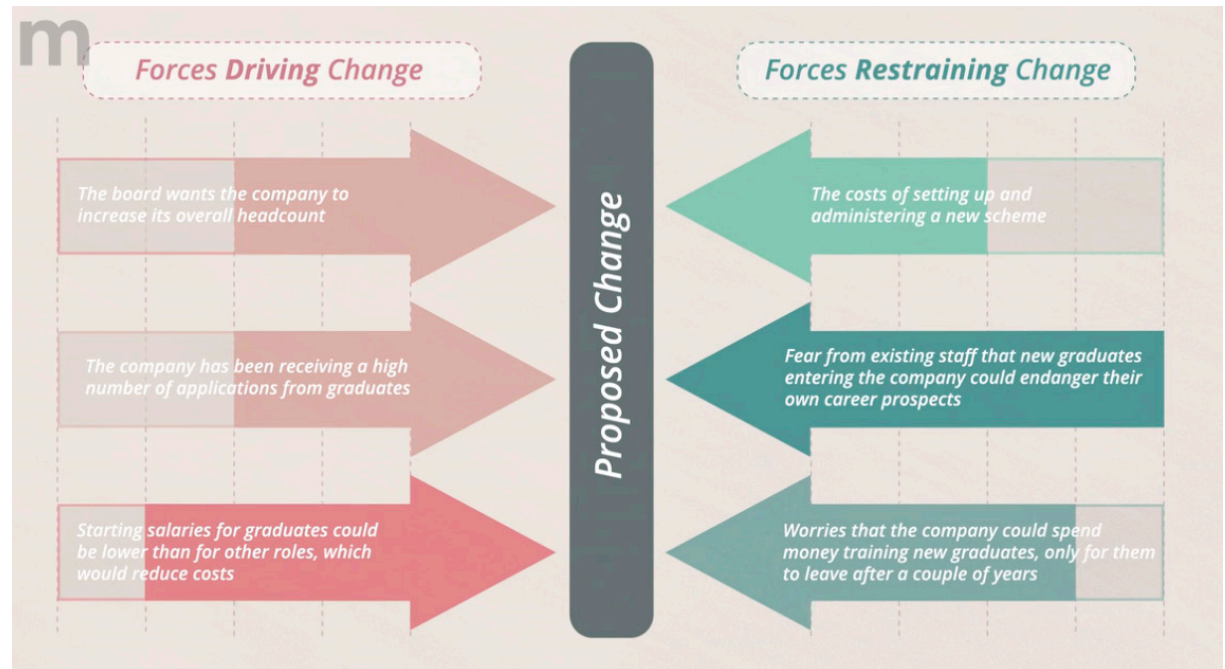
Restraining forces might include:

- The costs of setting up and administering a new scheme
- Fear from existing staff that new graduates entering the company could endanger their own career prospects
- Worries that the company could spend money training new graduates, only for them to leave after a couple of years

Force Field Analysis – Example (cont.)

Of these factors, you might decide that the idea of lower starting salaries for graduates is the best way to strengthen the case for change. So you commission a team to benchmark graduate starting salaries in your sector, to present to the finance director.

You may also decide that you need to alleviate the concerns of existing employees by investing in training for this group and establishing clear, transparent career paths for them.





Force Field Analysis – Example (cont.)

Taken together, these two actions – strengthening one driving force for change and reducing one obstacle to change – should hopefully be enough to tip the balance in favour of the change, and the project should gather enough support from across the organisation to be able to proceed as planned.

Now we've explored some of the driving factors behind change, we'll look at the potential impact that change can have on an organisation.



Clarifying the End Goal

As we have already seen, a need for organisational change may be triggered by a wide range of internal or external factors.

But it is not enough to know that change needs to happen to maintain or improve an organisation's performance. To be effective, any organisational change must be carefully planned and managed. This starts with the organisation understanding what it wants to achieve through change. The organisation's first step must be to clarify where it wants to be at the end of the change process.



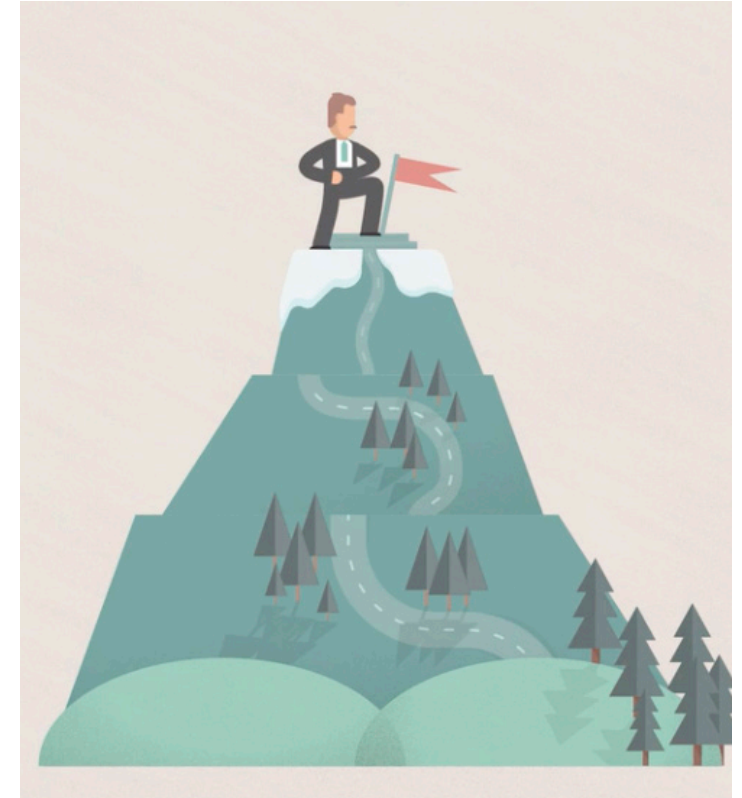
Common Goals

So, what can organisations achieve with change?

Common goals include:

- Increasing efficiency
- Improving quality
- Changing market positioning
- Shifting the culture of the organisation
- Developing innovation and creativity

Once the goal has been defined, the organisation should have a much better idea of what type of change it needs to implement.





Incremental Change

Some goals, such as improving efficiency or performance, may be achieved through small, incremental change.

For example, an organisation that is looking to increase its profit margins by just 1 or 2% may only need to make subtle changes to its existing processes.

This might involve changing suppliers in order to make small cost savings, for example. Or shaving time off the production process by installing more reliable machinery.

Such changes are unlikely to disturb the workforce too much, and so they should be relatively easy to implement.



Transformative Change

Other goals, such as changing an organisation's market position or shifting its culture, may require more of a radical or transformative change.

A company that wants to achieve 20 or 30% market growth, for example, or to change its entire company culture, may need to completely overhaul its current business strategy.



Transformative Change – Example

For an example of this kind of large-scale change, we can look to Germany and the health insurer Barmer GEK.

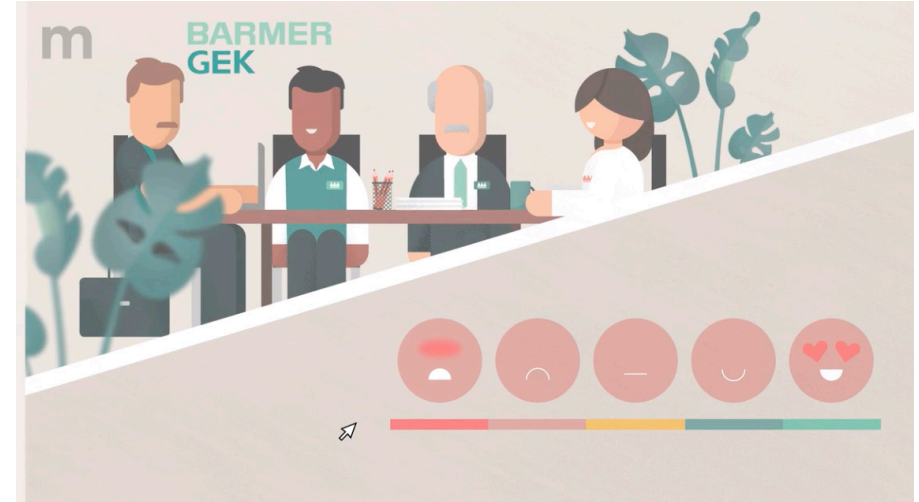
Back in 2011, the company – one of the largest in Germany's health sector – found itself being squeezed by a number of new competitors and losing market share and revenue. German insurance prices are fixed, so to maintain its profits the company could not just make a small change such as increasing its insurance premiums.



Transformative Change – Example (cont.)

Instead, its senior leaders decided that the company needed to embark on a radical change process with the aim of completely transforming its customer service experience.

By providing a more compelling and responsive experience for customers, it hoped to win back the share of the market it was losing to its new competitors.

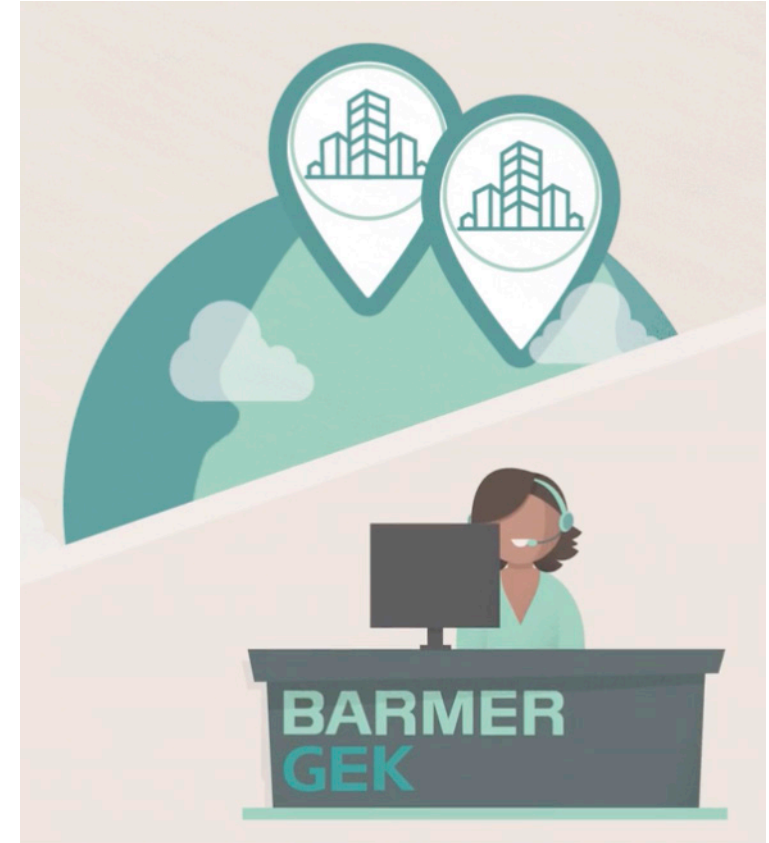


Transformative Change – Example (cont.)

The company adopted a multi-pronged approach:

- It closed half its branches, while making its remaining stores larger and more attractive
- It created 'mobile' branches to visit customers in rural areas
- It invested heavily in online services and call centres, so customers could place orders from home.

Through these changes, the company achieved its goal of giving customers a more flexible and responsive level of customer service.





Transformative Change – Example (cont.)

Knowing what you want to achieve through change is vital to understanding what approach you should take.

In this example, the external influence that was driving Barmer GEK to change was the emergence of new competitors. It could have responded to this issue in any number of ways – adopting a new advertising strategy, for example, or exploring the outsourcing of its production processes.

But its senior leaders opted to improve its customer service experience – and to use customer satisfaction to benchmark the success of the project.

The key takeaway here is that although a need for change can be driven by external and/or internal factors, how a company chooses to change is down to the company itself and it needs to have very clear goals if it is to manage that change successfully.



The Change Management Process

That brings us to the end of this lesson. We've looked at some of the factors that can lead to change, as well as some of the things that organisations can seek to achieve through implementing these changes.

In the next lesson, we'll explore the change management process in more detail, looking at some theoretical models of change and the role of leaders and other stakeholders in managing change.



Recap

In this lesson, you have learned about:

- External factors that can influence change
- Internal factors that can influence change
- Impacts that change can have on an organisation