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Organizational Change as a Determinant of European Competitiveness

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Introduction

The Subject, the Research Question and the Structure of the Paper

It is often attributed to Charles Darwin that he once had said: "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." As Darwin noted, change has been an impelling force of the society since the beginning of the history of mankind. Thus the same should apply for the institutions and organizations created by the man. Only the companies who are flexible enough to respond to the shifts in the market environment will carry on their existence. The ones who stagnate will slowly dry up and vanish as the history has so expressively shown us.

Although the speed with what organizations have been transforming and evolving has increased rapidly during the last decades, then the phenomenon itself as already said is not new. The change in the way work is done has led the economy through its rises and falls already since centuries. First it was the organization of work into a community of manufacturers, then the invention of the steam engine, then the conveyer method developed by Ford for mass production and there were many others. In most of the cases it has been a relevant development in the technology that has allowed those radical changes to occur but smaller adjustments in the organizations have always followed till the opportunities of the technology have been used up to its full extent. Now, in the 21st century, it is the increasing sophistication of the information and communication technologies and the rising trend of a shift towards a knowledge-based economy that mostly direct the organizations towards new ways of doing things in order to be more efficient and competitive.

The importance of change is even more of an actual nature due to the financial crises, which faces the companies with a greater need for flexibility and adaptability to new market conditions. Even more, as the competition on the market for the scarce resources and decreasing demand is stronger than ever then only the fastest will survive unless the government will intervene. Thus the capability to change can be seen as an important tool for raising the competitiveness of the businesses.

In order to see in which ways the transformation of the organization can influence the competitiveness of the European Economic Area and help to raise the potential of the region in the global level, the following paper will make its contribution to investigating the nature of organizational change and its triggers and implement the gained knowledge on a European level analysis of the trends of change in the companies. This will be done by answering to the following research question:

What is the nature of organizational change in the European companies and what are the triggers that could be used in order to direct the European economy towards greater competitiveness through organizational change?

Subsequently the structure of this paper will be as follows:

To start with, the first chapter will concentrate on the theoretical grounds of organizational change. To build up a good framework initially the organizations themselves will be defined as forms of work organization that have a structure of actors with specific functions who are communicating with each other to achieve a common goal. Based on this definition the change in the organizations will be looked at from various different theories that should give an overview of the various sides of the phenomenon. Following, the paper will look at the connections between organizational innovation and organizational change as from one hand they can be seen as overlapping terms but from the other hand one has been said to catalyse the other.

To go even deeper into the theory of organizational change, the paper will try to contradict the various types of organizational change: continuous versus episodic

change, radical versus incremental change, revolutionary versus evolutionary change. Further on, two most often occurring forms of change, structural and technological change and their influence on a company's competitiveness will be discussed in more detail. The first chapter of this paper will end with an overview of the events that could influence organizational change and how they could be used to direct the companies to transform in the desired direction. Special attention will be put on the environmental triggers and on the effects that organizational learning might have on the success of the process.

The second chapter of this paper will look at the more practical side of organizational change and that from three sides. First, it will describe the attitude the European companies have towards organizational change and how well they have acknowledged it as a tool for achieving greater competitiveness. Thereafter the most common ways of and reasons for transforming the organization will be brought out. Even more, the paper will give an overview of the factors that have been ranked to be the most important in influencing the managers' choice to take up a transformation project. To end with, the paragraph will also investigate which efforts the companies are putting into upgrading the skills of their human resources and whether they have been able to identify the link it might have on the effect a successful change of the organization would have on their competitiveness.

The second part of the chapter will look at the institutional level of organizational change in Europe by distinguishing the policy areas and framework programmes which could be seen to address the topic of transforming an organization. After having identified the main areas, the potential influence they could have on the business environment will be discussed. Thereafter, in the third part of the chapter, the author will analyze the match of the point of view of the two levels of analysis – whether the EU programmes are targeted at the same areas where the companies seem to lack support.

Methodology

To understand how this project is build up, how the analysis has been conducted and the conclusions at the end of the study arrived at, this chapter introduces the reader to the methodological approaches, materials and data sources used within the paper to answer the formulated research question:

What is the nature of organizational change in the European companies and what are the triggers that could be used in order to direct the European economy towards greater competitiveness through organizational change?

To begin with, the main overall methodological approach used in the study is the Systems Approach. As can be derived from the name, the main element of this approach is the "system" concept with its components and the relations between them. Analysis in the Systems Approach is a study of relationships of components to each other and to the totality in the real system, as well as the study of the totality as such, including its relationship to the environment of the real system (the system synthesis). (Arbnor, Bjerke, 1997:146) The analysis mostly covers the first three levels of ambition that are also interconnected: to determine the type (of a system), to describe and to determine a relation. Likewise, the general interest for the researchers in this project was to conduct an analysis by defining a system and describing, explaining and understanding the relationships within the system.

Within the current study the main system of analysis is the organization which is trying to survive on the market by staying competitive through change. Hence, to start with the ideal model of the organization is described in a closed system in order to build up a framework that could be put in the real surroundings. Later, to understand and explain the relations within the real system, the behaviour of the organizations will be observed in an open system and its reaction towards the other elements of the environment will be described. In the current paper, this will be done by placing the organizations which are prone to change in the economic environment of the European Union. Within this chosen environment the transformation choices of the organizations and the elements

of the environment which influenced those choices will be observed. To continue, after the analysis, a greater level of ambition of guiding will be entered to some extent as the discussion part of the paper will not only compare the suitability of the institutional measures to triggering organizations to change but it will also try to point out some areas of improvement.

Looking at other methodological choices of this paper, it can be noted that the theoretical part is comprised of various investigated field literature reviews. Those mainly include overviews of definitions on organizations, the nature of organizational change, its various types and the external or internal institutions that might have an influence on the pace of the transformation. Still, some problems were encountered while building up the theoretical framework of this paper, one of the most influential of them being the broad understanding of the term organizational change and the lack common approaches to defining it. Moreover, as every field of business is looking at the process from its own angle, it is difficult to create a common understanding of what could be the effect of a certain type of change on the whole system, the entire organization.

The analytical part of the paper, meanwhile, is built up on secondary sources of data obtained from the statistics site of the European Union, the Eurostat, and the surveys conducted by acknowledged consultancy agencies like Capgemini and Price Waterhouse Coopers. The data on the policy overviews of the European Union mainly descends from the official internet page of the European Union and its database of the legislative documents, the EUR-Lex. Still, here as well the author faced the problem of obtaining and accessing relevant information as organizational change on its own does not belong under the intensified surveillance of the European Union nor does it have any policies directly addressed towards organizational change. Thus a large extent of the policy review is based on the professional opinion of the author.

To conclude, it could be said that having overviewed the methodological approaches, data and data sources used for conducting this paper, as well as looking at some

relevant open ends in the literature of organizational change and taking into account the lack of common understandings, it can be seen that some effort could be devoted for the development of a more profound theoretical framework, which, the author believes, would allows new and deeper opportunities for further research.

1. The Theoretical Foundations of Organizational Change

1.1. What Are Organizations And Do They Change?

While talking about organizational change one should first start with defining what is meant under an organization as the main subject of modification. In our everyday life we mainly use the word organization in the meaning of an organized business activity of a group. As defined in the Thesarus Online Dictionary, an organization is "a structure through which individuals cooperate systematically to conduct business". In the academic world various theoretical approaches set different priorities while defining the essence of organizations. The transaction cost theorists explain organizations through reasoning by agreeing with Coase, who proposed that individuals organize their work in groups in order to achieve cost efficiency. Van de Ven and Pool (2005: 1380) have defined organizations as "a reification of a set of processes that maintain the organization by continuously structuring it and maintaining its boundaries in a field of other processes that are continuously breaking down the organization and its boundaries."

According to institutionalists on the other hand, it is the common goal that binds individuals in a group (North1990: 5). As suggested by Edquist and Johnson (1997: 43), then organizations are the concretizations of formal and informal institutions that have been consciously created to ease the transition of information. Generally it can be said that in order for an organization to exist, there has to be: 1) some form of work organization; 2) a structure and it has to be administrated in some way; 3) a number of actors with varied functions; 3) some form of collaboration and communication between the actors; 4) a common goal or purpose towards which the whole collective is moving.

As the definition of Van de Ven and Pool already suggested, organizations can only survive by incorporating change. This learning has raised organizational change to the interest of many researchers during the past decades. Then again, just like for organizations, the representatives of various theoretical approaches have different ideas about the entity, the characteristics, the triggers or the results of organizational change. This could mainly be due to the complex and immaterial nature of change by itself which makes it difficult to grasp the whole framework of the term at once.

According to the institutionalists, change is one of the dynamics of organizations as they struggle with differences of values and interests (Greenwood, Hinings 1996:1031). Burnes noted that organizational change refers to understanding alterations within organizations at the broadest level among individuals, groups, and at the collective level across the entire organization (1996). In the eyes of Barley and Tolbert (1997), it is the different degrees of institutionalization as well as incomplete processes that leave room for organizational change by following interactions between structure (institutional realm) and agency (realm of action). In general, the institutional theory explains well how the institutions help the organizations to exist, but it lacks somewhat of the capacity to explain further changes in the evolution.

Therefore, we shall continue with examining other angles from which to look at the process of change in the organizational theory. A big contribution in the field of literature has been made by Van de Ven and Pool, who have suggested four typologies of organizational change (1995):

1. Life–cycle theory, where change is imminent. That is, the "developing entity has within it an underlying form, logic, program, or code that regulates the process of change and moves the entity from a given point of departure toward a subsequent end that is prefigured in the present state." (1995: 515) Although the change of the organization can be influenced by some external factors, the real promoter always lies within the entity. As the end state is already

predefined, then it is required that the organization undergoes certain historical events which will mark the end of one and the beginning of the next stage.

2. Teleological theory states that purpose or goal is the final cause for guiding movement of an entity. The organization itself is seen as an entity which is able to analyze and learn and therefore the process of change is a repetitive sequence of goal formulation, implementation, evaluation, and modification of goals based on conductive judgment. Although teleology stresses the purpose of the actor or unit as the motor for change, it also recognizes limits on its actions which are embodied in prerequisites defined by institutions and other actors in the entity's environment. (1995: 516).

3. Dialectical theory lies on the assumption that there exist several competing actors (values, goals, interests etc.) which confront and engage one another in conflict. This conflict is seen as the generating force of organizational change. Thus change occurs when one of the conflicting actors has achieved control over the other and has replaced it. Though it should be mentioned that the replacement might not always lead in a positive direction.

4. Evolutionary theory "explains change as a recurrent, cumulative, and probabilistic progression of variation, selection, and retention of organizational entities." (1995: 518) The key word here is the competition between organizations (or organizational entities) for the scarce resources, as the environment selects the entities to survive that best fit the resource base of an environmental niche.

All of the four theories are described on two dimensions. First the unit of change, where the life cycle and teleological theories look at single organizational entities while the two others look at the interactions between organizations. As could be seen above, the life cycle theory describes the development of a single unity without considering the developments in the industry. The whole basis of the teleological theory is the existence

of an entity which has its individual goals and the analytical ability to learn and change those goals if needed. Evolutionary and dialectical theories on the other hand define change through competition and conflicts which by itself already assumes the presence of several interacting organizations. The second dimension used in the theory is the mode of change, where the sequence of change events is prescribed by deterministic laws and where it produces first order change in life cycle and evolutionary theories, and by a preliminarily constructed second-order mode otherwise. (Weick, Quinn, 1999: 364-365) This means that in life cycle as well as evolutionary theory organizations follow a previously established route of changes during which the next step can be predicted by the characteristics of the previous one. In the two remaining theories the organizations can constantly change their direction of change as it depends on the surrounding environment and thus the next step can rarely be predicted by the previous one.

Therefore none of the theories is all-encompassing as they describe different aspects of organizational change. For example the evolutionary change could describe changes that are executed in order to raise the organization's competitiveness and make it stronger in comparison to other organizations, an aspect that is seen as vital by the European organizations as will be shown in the second part of the study. Thus, the four theories fill the gap left by the institutional theory which is weak in analyzing the internal dynamics of an organization as well as looking at the process from a long-term perspective.

1.1.1. From Organizational Change to Organizational Innovation
The line which should separate organizational change from organizational innovation is not one easy to draw. From one side, it has been argued that organizational change and organizational innovation are overlapping terms, from the other side it has been said that organizational change eases the creation and adoption of innovations.

To start with, the rational for the first argument lies mainly in the definition of innovation itself. As put by Edquist (2001:7), then "innovations are new creations of

some economic significance normally carried out by firms (or sometimes individuals). They may be brand new, but are more often new combinations of existing elements. It is a matter of what is produced by firms and how." Moreover, although sometimes divided simply into technological and organizational innovations, then according to the most well known categorization four types of innovations exist: product, process, organizational and marketing innovation (Kalvet *et al* 2005:14). Thus, as organizational change just alike incorporates either the adoption of new technologies, structures, work organizations etc. which might be new to the market but could also be combinations of existing processes, then the two terms seem rather similar. Even more, as defined by Damanpour (1991:56 through Budros 1999:73), then "organizational innovation is the adoption of an internally generated or purchased device, system, policy, process, programme, product or service that is new to the adopting organization." This refers that organizational innovations stem from within organizations and could also consist of the imitation of a form, structure or process that has been known in the market for centuries. The array of organizational forms (the array of organizational change) existing at any point in time is a product of innovative organizational responses to environmental conditions earlier in history – it is the product of an organization's capacity to change. (Romanelli 1991:80) Hence, it could be argued that episodic organizational change is equivalent to organizational innovation.

The second connection is a more popular topic of research and it assumes that organizational change influences the innovativeness of an enterprise. One of the approaches supporting this assumption relates the two through slack resources. Namely, they argue that larger firms should be more innovative due to the greater amount of resources – possibility to cut costs on employees as well as materials and production through economies of scale, which will leave more resources for conducting research and development. Then again it has also been noted that large firms often downsize to gain more efficiency. (Budros 1999:74-75) They have too many slack resources and thus have to use too much of their finances for constantly keeping every level of the process busy. There exists a proficient level of slack resources. On the other hand, this also

shows that slack resources are a necessary but not sufficient condition for allocating resources to innovation. In addition to slack, innovation requires the strategic intent, as well as other enabling organizational conditions, to invest slack resources in R&D. (Lewin, Long, Carroll 1999:544) Thus, besides changing in size or hierarchical level, innovation is also supported by adaptation of new organizational structures.

The second approach relating success of innovation to change addresses more the functional shift within an organization. Namely, it is said that work organization could influence innovation performance through two main mechanisms. First, the forms of work organization that stimulate interaction among agents with a diverse set of experiences and competences generally tend to be more creative and lead to the development of original ideas for new products and processes. Second, work organizational forms that delegate responsibility for problem solving to a wide range of employees could be more successful both in upgrading the competences of workers and in transforming ideas into new products and processes. (Arundel et al 2007:1177) Hence, change in the functional organization of a company could lead to better communication and skill enhancement which could increase the innovation capacity which again should improve firm performance. The link between an organization's functional form and its learning capacity will be discussed in more detail later on.

However, organizational change or innovation will also always be triggered by technological change or innovation. This is mainly due to the companies' logic of production which pushes firms to try to optimize and standardize first the nature of a successful product and once the product is set, the procedures for producing it. (Van de Ven, Pool 1995:529) Hence, the rise and fall of product innovation is succeeded by the rise and fall of process innovation. Then again the change in the organizational structure and functions will allow the company to create more slack resources which can be used for the exploitation of new technologies. As suggested by Montalvo (2006:313) an organization must be willing to change in order to innovate. Therefore, no matter whether there was first the chicken or the egg, the innovation or the change, one will

always lead to the other. Hence the empirical part of the paper will not restrict itself to only one of the approaches but will rather try to look at organizational change from both points of view.

1.1.2. The Characteristics of Organizational Change

Due to the complexity of organizational change, it is not only difficult to define it but also to describe its characteristics. Thus it has been questioned which features of the process should be more stressed and which ones of them play a bigger role in it. One of them has asked whether change should be seen as a continuous process or can it be better described by episodic changes that follow one another after small breaks of adoption? Van de Ven and Pool (2005: 1380-1381) have suggested one of the most basic dissimilarities between the two. That is to say, they argue that in case of the episodic change one observes a difference over time in an organizational entity on a selected dimension while continuous change describes a sequence of events on how development and change unfold. A similar distinction has been made by Hall (1997: 11) who brings out two approaches of organizational change: in one he sees it as a move from chaos to a stable state and in the second he explains it as a stage every organization has to undergo when they move from one steady state to another.

A somewhat different approach has been taken by Weick and Quinn who characterize continuous and episodic change in two levels of analysis – macro and micro level. They say: "From a distance, when observers examine the flow of events that constitute organizing, they see what looks like repetitive action, routine, and inertia dotted with occasional episodes of revolutionary change. But a view from closer in suggests ongoing adaptation and adjustment. Although these adjustments may be small, they also tend to be frequent and continuous across a unit which means they are capable of altering structure and strategy (1999: 362)." Hence, episodic change is something infrequent, discontinuous and intentional, one might even say radical. It mainly occurs in distinct periods during which shifts are brought on by relevant external events (e.g. technological change) or rarely occurring internal change (e.g. change in key personnel).

Continuous change on the other hand is illustrated by ongoing, evolving and cumulative events where small perpetual adjustments can pile up and lead to substantial changes. Although the current study tries to have a closer look at the organizational change in Europe from the firm perspective, it does not go into a lot of detail and the analysis will rather stay at a macro level.

In addition, a wide range of literature defines organizational change to be either radical or incremental (also convergent). Although using other terms, the latter are in many points overlapping with the nature of episodic and continuous change. Namely, as defined by Greenwood and Hinings (1996:1025), radical organizational change can be seen as "the busting loos from an existing "orientation" and the transformation of an organization". Convergent change on the other hand is merely fine tuning the already existing orientation. Though they also add, that radical changes cannot occur without previous "fine tuning" as organizations need to previously have sufficient understanding of the new conceptual destination, have the skills and competences required to function in that new destination, and have the ability to manage how to get to that destination (*ibid* 1040).

That leads us once more to another distinction, revolutionary versus evolutionary change, where again the first is rather episodic and radical whereas the second is continuous and incremental. According to Tushman and Romanelli (1994), revolutionary change happens swiftly and affects virtually all parts of the organization simultaneously. Evolutionary change, as put by Pettigrew (1987), occurs slowly and gradually, it is continuous.

Therefore the current study will look at both – the episodic as well as the continuous change within the organization. The organizational changes will be seen as episodic in the meaning that their occurrence will be observed on a determined period of time within which they will describe their attitude towards organizational change. Then again, as put by Pettigrew *et al* (2001: 697), context and change are inseparable and therefore it is important to include the measure of continuity if the overall processes

encompassing change are to be uncovered. This will mainly be done while trying to explain the results of the analysis as the detected episodic change might in reality be a part of a continuous process.

1.2. What Changes In The Organization?

Organizational change is a complex phenomenon. As it is difficult to grasp the whole essence of change at once, then most of the studies have chosen to concentrate on only one of the possible levels of analysis. A classical categorization of organizational change, used in the transaction cost theory, is to divide it in three layers: 1) the overall structure of the organization; 2) the operating parts or the "efficient boundaries" of the operating unit; 3) and the manner in which the human assets are organized in the operating unit. (Williamson 1981:549). Huber *et al* (1993: 216) have defined the components of organizational change by its functions, its leaders and members, its form, and its allocation of resources. According to Lam (2004) there exist three categories of organizational change: 1) change in organizational design, which looks at the change in structural characteristics and identifies its effects on other functions of the company; 2) the change in organizational cognition and learning, where the question how organizations develop new ideas for problem solving is asked; 3) and a change in the ability to adapt which looks at how organizations handle the increasing need to adjust to the ever faster evolving environment.

The above mentioned are just a few ways how to categorize organizational change as, simply based on its definition, change can have as many dimensions as there are functions or actors in the organization. The following review will follow the definition used by Lam (2004) and look at organizational change from the perspective of change in its design and structure and follow the shifts in the functional parts of the production process which occur due to the change in the organizational form. In addition, as nowadays a large scale of the organizational change is triggered and influenced by technological change, then the paper contributes a small paragraph on the characteristics of technological change and its effect on firm performance. The empirical

part illustrates this contribution by looking at the importance both the companies as well as the EU put on the development of ICT systems within their structure.

1.2.1. Structural Change

In order to understand the full potential affect organizational structure could have on firm performance, it could be useful to build up a comprehension of the meaning of the term organizational structure itself.

According to the online Business Dictionary organizational structure can be understood as "formal and informal frameworks of policies and rules, within which an organization arranges its lines of authority and communication, and allocates rights and duties. Organizational structure determines the manner and extent to which roles, power and responsibilities are delegated, controlled and coordinated, and how information flows between levels of management." (http://www.businessdictionary.com) In other words, organizational structure can be taken as the spine of the organization which determines the scope of possibilities for the organization's existence. Therefore the organizational change which relies on the morphing of the structure, also known as organizational restructuring can be defined as any major reconfiguration of internal administrative structure that is associated with an intentional management change programme. (McKinley and Scherer 2000:736)

In parallel with organizational structure there exist several additional terms which are used to describe the organization of work within a company. One of them is the organizational form which is mainly used to describe structural features or patterns of organisations, sometimes also in order to contrast two alternative coordinating mechanisms, markets and hierarchies (Rindova, Kotka 2001:1263). Romanelli's (1991) definition of organizational form sees it as characteristics of an organization that identify it as a distinct entity and at the same time, classify it as a member of a group of similar organizations. As can be seen, the terms structure and form are in many ways overlapping and therefore in the current paper they are used as synonyms rather than separate concepts. Moreover, the empirical part of the study will try to look at the

importance change in organizational structure has for the companies and how the EU institutions are trying to enhance it to raise the region's competitiveness.

In addition, a number of organizational theories are concerned with organizational design or also known as organizational architecture. Although originating from the same structural construction of an organization, the design stresses more on its functional form. As put by Weber (through Hannan *et al* 2003:465), organizational architecture refers to the formal specifications of an organization and its governance. Architectural choices are reflected in the formal structures for assigning work. Under that the construction of the units that undertake the subtractions, the means of coordinating members and units, monitoring them, allocating resources and rewards are usually described. Even more, the online Business Dictionary defines organizational design as "the manner in which a management achieves the right combination of differentiation and integration of the organization's operations, in response to the level of uncertainty in its external environment." (www.businessdictionary.com)

In their paper, Glick *et al* (1990:300) have brought out a list of examples of design changes: 1) changes in the responsibility or resources of top management team members; 2) changes in responsibility or resources at the other levels of the organization; 3) changes in the way that the organization interacts with its customers, clients or parent organization; 4) changes in the way a product or service is produced (e.g. change in equipment, techniques, sequencing of activities); 5) change in administrative procedures such as changing control or incentives systems; 6) changes in internal coordination or communication procedures (e.g. electronic mail or teleconferencing). In the empirical part of the paper we will see, what is the part change in organizational design plays in building up the company's competitiveness.

Although the first attempts to organize work in a structure occurred already in the Middle Ages, the full importance of the form and design of the organization on the production process was revealed when Ford started its mass production. In order for the famous T-model to be produced in a conveyer method, the necessary work for

assembling the car had to be divided between the employees. This again created the need for hierarchy and a command line. A similar revelation was made by the Japanese companies during the 1980s who's change in organizational characteristics allowed them to produce faster and more cost effectively, leading them to higher profits and greater competitiveness.

There is no unique recipe that would ensure success for all organization in every situation. As said already by Max Weber in 1978 (Lewin *et al* 1999:544), particular forms and designs of organization arise at particular times in history, within particular sets of social and technological conditions. Still, as organizations have been the subject of analysis already for decades, then the researches have discovered that there are forms and designs of organizations that are more suitable for some sectors and environmental conditions than others.

Generally it has been said that organizations which are willing and able to change to an organizational form that is more effective in a given environment should be better off than those organizations that are unable or unwilling to respond in an environmentally appropriate way. (Forte *et al* 2000:756) Of course the question of how accurate is the organization's prediction of the most effective form for the current environment remains.   As a recent trend amongst companies seems to be a shift towards less hierarchy, more flexible forms, more employee responsibility and wider tasks then it could be presumed that organizations with decentralized decision making should perform better. (Caroli, VanReenen 2005:1449) Richardson *et al* (2002:220) have explained this through the properties of structural frameworks which have important consequences for the organization's effectiveness. Namely the extent of decentralization is said to influence the effectiveness of control, adaptability, and member motivation. Involving lower-level managers in strategic decision-making should increase their motivation and that could lead to better performance. In addition, the reductions of costs of information transfer and communication have also been brought out as benefits of decentralization (Giuri *et al* 2008:33). This, moreover, would lead to

supplementary savings in monitoring and faster change of information which would also help the organization to react to external changes.

On the other hand, Caroli and VanReenen (2005:1453) have also detected a number of costs that might be caused by greater levels of decentralization: higher risk of duplication of information, increased probability of mistakes due to lower levels of control, fewer opportunities to exploit increasing returns to scale as developing multitasking will lower returns to specialization and reduced worker efficiency due to greater stress which might also be caused by multitasking. The popularity of decentralization in the European enterprises will be investigated in the second part of the study.

Mostly, though, it has been said that organizations with access to greater resources can better withstand life-threatening environmental shocks. (Hannan *et al* 2003:468) A way of gaining greater resources could be the relocation of production to a foreign country which could provide access to more qualified human resources as well as could lower the costs of inputs. Supplementary financial resources could be acquired through reorganizing the company's financial structure. In general, the outcomes of organizational restructuring and thus also the motivation for organizations to restructure can be summed up as follows: productivity improvement, cost reduction, increased shareholder value, greater levels of innovation, a better alignment of the organization with a changing environment. (McKinley, Scherer 2000:737)

Although some success-stories have been noted, distinctive movement between organizational forms is generally considered rare due to the constraining focus of the environment and the structural inertia of the form itself. Every organizational form possesses distinct organizational competencies which limit the range of choices available to an organization when faced with environmental change. (Forte *et al* 2000:754) Just like the spine for humans, the existing structure does not allow the organization to bend too far from its original centre of balance. Even when movement

between forms occurs, most organizations operate in a strategic "comfort zone" in which they opt for strategies that are not radically different from their current strategy.

Even more, the success of change undertaken by an organization also depends on the current structure or design of the organization itself as it might affect the length of the time of implementing change. (Hannan *et al* 2003:468) Because change in any given unit is likely to affect other units and trigger them to change as well in order to match with the new structure of the organization, then in organizations with complicated patterns and high levels of interconnectedness change takes longer to take place. The smaller and less hierarchic the organization, the faster the results of the change should occur and the lower should be the possibility of failure. Then again the firms that have overcome the adjustment costs associated with adapting new forms of work organization have also reported higher measures of productivity (Bresnahan *et al* 2002:346).

As can be seen from above, change tends to move from one business unit to another and hence it is important for the organization to develop an architecture that would support strong lines of communication between its parts. To be effective, change leaders need to develop strong linkages on three levels: within a leadership team, between the leadership team and organizational members, and between the leadership team and key members of the environment. (Amis, Hinings 2004:18-19) The so called coupling is vital for large-scale change but hard to achieve at all three levels simultaneously. The current study will try to look at the influence internal communication of the objectives of change might have on the success of the transformation projects.

There might be many reasons for the above described tendencies not to appear in the empirical results. Most of them lie in the fact that changes in any layer or form are tightly interconnected with every other unit and resource in the organization. One of the most important factors that influence the success of change is the factor of human resources and skills that those resources possess. Namely, it has also been said that skill-

intensive firms that introduce organizational change will have greater productivity gains than non-skill-intensive firms. (Black, Lynch 1997) Skills raise the organization's ability to handle information, they lower the costs for training for multitasking, and the greater skills people possess also make them more autonomous and they make fewer mistakes (Caroli, VanReenen 2005:1454). The adoption of new organizational forms itself requires greater levels of cognitive skills, flexibility and autonomy than in traditional employee roles where the production process is fixed and includes limited discretion (Bresnahan *et al* 2002:346). Moreover, users and producers always need time to experiment with new technologies and to adapt their organizations to new systems of production. (Giuri *et al* 2008: 33). The higher the level of competency amongst an organization's labour force, the faster will be the procedure of learning and adapting to the new forms of work. Therefore, the non-occurrence of a significant effect of any of the determinants of organizational change on the production function in the analysis does not have to refer to the absence of relevance but might just be caused by a too short timeline as the organizations need time to adapt their resources to the new conditions.

1.2.2. Technological Change

Technological change in an organization can be defined simply by a shift in the technology used in any process or level of the company. Although technology has shaped the ways of organizing our everyday work already for centuries, its influence started to increase rapidly during the era of industrialization. The exchange of skilled human labour with machinery introduced the need to completely restructure the whole production line (Bresnahan *et al* 2002: 340). Similar events have been taking place in the manufacturing ever since but it wasn't before the 20th century, when the level of technological advancement used in the companies became complex enough for the demand of labour to turn to white collar workers. This again added an additional link to the complexity of adapting organizational change as in order to gain full profit from the new technologies, a company had to hire personnel skilled enough to use its full potential.

The above mention can especially be applied to the ever increasing use of information and communication technologies (ICT), one of the latest technological changes applied in organizing work within the companies. As the scope of companies trying to incorporate ICT in their production is highest compared to any other modern technology, then the following discussion will mainly look at the part it plays in an organization's performance.

The measurability of the effect of ICT on productivity has been somewhat disputed in the 1980s. As noted by Solow in 1987 then "we see computers everywhere but productivity statistics." This might mainly be due to the long delay that is known to exist between the time of applying the technology and the time of the company being able to fully exploit its potential. Now, decades later when ICT has come to wide use by organizations all over the World and the market has had time to adapt to the demand for new skills, numerous positive effects of the information technologies have been identified. (Brynjolfsson, Hitt 2000: 31-32)

The effect of ICT can be observed in three levels based on their use in the organization (Giuri *et al* 2008: 34):

1. Organizational computing, which is closely related to the structural changes in a company and affects the outcome on a broader scales. Examples of such ICT use are for example the computer-based corporate accounting systems.

2. Scientific – technical computing, which creates more functional change and affects specific departments of an organization.

3. Individual productivity computing, which should increase the productivity of an individual employee through e.g. simple word-processing programmes.

The noted changes are mostly indirectly related to a firm's production and therefore the effects of ICT can often be seen through the improvement of other processes or work practices rather than be measured in a quantitative way. As put by Huber (1990), IT is a

variable that can be used to enhance the quality and timeliness of organizational intelligence and decision making, thus promoting organizational performance. In addition, Bresnahan *et al* (2002:342) have argued that IT will change the optimal structure of the organization, change the authority relationships, shift the task content of all levels of employees and change the reward schemes.

Other improvements in a company's performance that have been mentioned in various studies include: lower prices; more frequent product and process improvements; quicker order processing and delivery; more frequent set-ups; lower chance of stock-outs; a lessened probability of defects; an increase in output; higher levels of training; investments in more efficient product design procedures; investment in more flexible manufacturing equipment; greater autonomy for workers and better use of local information; more cross-training, use of teams and pay-for-skills; increased screening to identify more able prospective employees; and increased horizontal communication. (Bresnahan *et al* 2002:342-343; Brynjolfsson, Hitt 2000:26-29; Milgrom, Roberts 1995:196,199)

Broadly speaking, IT moderates the effects of organizational characteristics on outcome through its ability to generate information efficiencies and synergies. The ways ICT changes firm performance can be divided into five categories (Dewett, Jones 2001: 316-327): 1) it links and enables employees; 2) it codifies the knowledge base; 3) it increases boundary spanning by making it possible to create access to and share information; 4) it promotes efficiency; 5) and it promotes innovation. True, not all of those changes have to be positive. For example, greater linkages between employees will not only enable the faster distribution of relevant information, but also bad advice will move more easily amongst the members of an organization.

On the other hand, some studies have not witnessed a strong effect of ICT investments on firm performance. It has been argued that this could mainly be due to the so called "productivity paradox". Caroli and van Reenen (2005: 1450) have claimed that the failure of huge IT investments to increase productivity can be explained by the lack of

necessary organizational structures that facilitate the introduction of new technologies. In other words, in order for the effect of ICT to appear one also has to build up an essential base of skills, a suitable work organisation and a good infrastructure as in the end changing the technology alone is not enough. Furthermore, Giuri *et al* (2008:52,57) have even witnessed negative effects of ICT related organizational change on firm performance in short-time. They see the cause of it to lay in the costs that are associated with adapting the novelties to the existing organizational structure. After the ICT has become a part of the work routines inside the organization, it will start producing value and the negative effect will disappear. Still, for small sized enterprises even a short time effect is important and therefore the effectiveness of the IT could be increased by the EU by trying to diminish the negative externalities.

Then again, studies have shown that the scale of the effect of ICT on output will depend on the firm-specific characteristics. For example, Garicano and Rossi-Hansberg (2009:7) have found a technology to be used more intensely and thus having greater impact if there are more layers in the organization. Additionally, Brynjolfsson and Hitt (2000:35) have found that not only are the IT investments greater in companies that are decentralized and have higher investments in human capital, but as put by Bresnahan *et al* (2000), incorporating IT in the work practices of such companies will also have more influence on their performance.

To sum up, a study conducted by Black and Lynch in 1997 has predicted that the cumulative effect of introducing a set of changes including computerization, workplace meetings, self-management systems, and profit-sharing incentives would lead to up to an 11% points increase in labour productivity. What has been evaluated to be the effect of ICT on European economy will be looked at in the second part of the paper. But, as seen from the listing and already mentioned earlier, it is not ICT alone that can produce such a radical raise in a company's outcome.

1.3. What Determines The Way Organizations Change?

While looking back at the theories of organizational change, one can see that in all of the definitions, change is somewhat dependent on institutions. Regularized organizational behaviors, which we call organizations, are the product of ideas, values and beliefs that originate in the institutional context (Greenwood, Hinings 1996:1025). To survive, organizations must accommodate their institutional expectations thus generating change. Therefore it can be said that organizational change is framed by external as well as internal institutions. According to Wolfe (2002:2-6), this dependence on institutions can be described from two perspectives:

1. The institutional environment, within which organizational change occurs, affects its pace and direction.

2. The institutions influence the organization's ability to acquire, absorb, and diffuse relevant knowledge and information.

The first point relates to one of the many impacts environment has on change. The second, on the other hand, is an introduction to a new determinant of change – organizational learning. Therefore the two following sections will look a little deeper into both of their influence on the successful adoption of organizational change.

1.3.1. Environment as a Trigger of Change

We have been talking about the essence of change and about the various types in which it occurs without questioning what could be the trigger that ignites the process. According to Weick and Quinn (1999), change is driven by organizational instability and fast reactions to daily contingencies. The key concepts for this type of development are improvisation, translation, learning and adoption, all of which are combined in three stages of change: freeze, rebalance and unfreeze. Improvisation characterizes all of the three stages but learning is an activity more common to freezing and translation to rebalancing. The stage of unfreezing opens the organization again to new competencies making it more adaptable to daily occurrences. In such a way the organization is always

open to environmental forces and is alert to change if necessary. Thus, although the process of change itself often stems from the individual's ability to modify the behaviour of others, the essential promoter of change is the external as well as the internal environment surrounding the individual (Hall 1997: 13).

There are various opinions on the link between organizational change and its environment. Robert and Greenwood (1997: 358) for example see the institutional environment as a promoter for the organization to evaluate its efficiency and consequently change its design for a more productive one. From the perspective of environmental constraints Pfeffer and Salancik (2003) on the contrary have pointed out resources as the main reasons for the organization to change. On one hand they argue that it is the scarcity of the resources available on the market, on the other hand it is the competition between companies for those scarce resources that forces the organization to constantly look for more efficient forms of managing production. In addition Morris (2007: 120) mentions that it might also be the organizational characteristics of how to manage those scarce resources that might lead to a need to change. As an example he brings financial instability and small size as characteristics which may threaten the survival of an organization. Foray (1991: 395) sees the integration of a new resource as a rigger for broader change. He says that in time the resource becomes more and more specific and will be more associated with other internal resources. This slowly makes it irreplaceable and the organization will have to acquire new qualities and change its nature in order to be able to exploit its full potential. In other words it qualitatively changes the organization, especially by improving its learning capacity.

In their book "Organizational Change and Redesign" Huber *et al* (1993) came up with five sources of triggers for organizational change from external as well as from internal origin: the environment, performance, characteristics of top managers, structure and strategy. They especially stress the ever increasing speed of environmental change due to the rapid development of information and communication technologies as well as transportation technologies. As the speed of creating and distributing knowledge has

increased in times, it has also become more important for the organization to quicker adapt to the new conditions set by the environment. When the organization has reached a point where it is not compatible anymore with its surrounding environment then it basically has four choices: it can adapt, move to a different environment, manage the environment to a more compatible state or rely temporarily on some sort of buffers. The latter of them is obviously not a situation a company could hold on in a long-term perspective and in case the environmental change is something permanent, the organization would fail and become extinct.

Although the rest on the triggers are all in some measure related to the environmental changes, they have also proven to have an individual affect on organizational change. For example the performance of an organization is influenced by the changes in the market environment. As the decrease in (e.g.) the number of sales is easier for the managers to observe than the environment itself then the performance indicators often tend to be a source of a decision to change. On the other hand the strategy a company has chosen to follow might call for the need for more frequent change. For instance a strategy to constantly introduce new products to the market requires faster and more frequent change in the entities of an organization than one that aims to achieve a cost advantage. In the case of organizational structure, the centralization of decision making can affect change in several ways – from one side it makes it easier to introduce administrative changes but on the other hand in such an organization it is said to be more difficult to adopt technological changes. Top managers as well influence change on multiple dimensions: 1) through their belief system (values, ideologies and mental models of cause-effect relationships); 2) they might serve as inhibitors of change/ constraining agents; 3) they are the interpreters of the organization's environment; 4) and sometimes (e.g. while taking the decision to introduce new products that might lead to the birth of a new segment) they may even be the manipulators of the organization's environment.

In addition, Barry and Leana have come up with somewhat similar reasoning for continuous organizational change (2000:754-755). They explain organizational change with the five following rationales:

1. Adaptability – engaging itself in continuous change an organization also becomes more receptive towards the changes executed by its customers or its competitors and as a result is able to react faster to the conditions on the ever-changing markets.

2. Cost containment – particularly in employment, as changing the organization in a way that the nonessential production processes could be outsourced, the personnel could be downsized and the number of core employees could be minimized might lead to noticeable cost savings.

3. Impatient capital markets – the investors' demand for immediate returns could change the organization's financial structure in a way that the resources would be concentrated in earning short-term profits rather that investing in long-term projects.

4. Control – limiting the hierarchy in an organization and making it less centralized lowers the strength of control and eases the management of change.

5. Competitive advantage – the ability to engage in continuous change itself might turn out to be an advantage compared to the competitors as it makes it easier for the organization to adapt to changing market conditions. Thus the incentive of success through a competitive advantage might motivate an organization to execute change by itself.

Moreover, Langlois (2004: 7) has brought out the costs that a company faces while acquiring economic capabilities suitable for realizing profit opportunities as relevant determinants for adapting change. Above all, he approaches the same problem from a

different angle and disassembles the prerequisite process of change into three factors that might influence the costs of adapting organizational change:

1. The pattern of existing capabilities in the firm and market – are the capabilities specific to the firm or are they distributed through the market?

2. The nature of the economic change called for – does the change require a systematic reorganization of the capabilities or is the adoption possible with the existing work routine?

3. The extent of the market and the level of development of market supporting institutions: is there some support available on the market or does the change require from the organization to start everything from scratch?

Under those conditions he argues that vertically integrated large companies are more flexible towards change. This is manly because control of the necessary capabilities in the firm would be relatively more concentrated which would make it easier to overcome the transaction costs of informing and persuading those who possess the necessary capabilities. Thus it provides the company an opportunity to quickly redistribute its production according to the change in the market environment.

What ever the reasoning may be, while facing the need to change it should be taken into consideration that changing only a few of the system elements at a time to their optimum may not be enough to achieve all the benefits that are available through a fully coordinated move, and it may even lead to negative payoffs (Milgrom, Roberts 1995: 191). Therefore the organization should thoroughly analyze the potential effect of all the above mentioned triggers to each of its entities and only after set a coordinated plan of action. As defined earlier, organizations exist to achieve efficiency by working in groups. Thus, while managing change one should also recall managing it as a process within a group of individuals.

Although taking into consideration all the types of triggers discussed above, the empirical part of the paper dedicates one of its chapters mostly to the effect of institutional measures and this rather from the external perspective. Namely, it will look at European Union policies and how they could affect the pace and direction of the organizational change in local enterprises.

1.3.2. Organizational Learning as a Key to Success

The rational for the influence internal institutions have on an organization's ability to acquire, absorb and diffuse knowledge and information is rather simple. Namely, as at their broadest level, institutions incorporate social roles based on established norms and expected patterns of behavior then they also create the necessity for individuals to relearn those social roles every day. (Wolfe, Gertler 2002: 5) Thus, organizational learning builds a basis for the organization to cope with the developments in the environment that generates the need for them to change. As noted by Teece *et al* (1997), producing new knowledge or learning is essential for an organizations ability to innovate or upgrade its production. Without effective learning, organizations are unable to improve their performance and retain their competitive position against organizations that do learn.

According to Holan and Phillips (2004:1665), organizational learning can be defined from two aspects:

1. From the behavioural, where learning is seen as a systematic change in assets, standard operating procedures, rules and routines.

2. From the cognitive, where learning is seen as a systematic change in the shared mental models and cognitions of organization members.

Crossan *et al* (1999:522) per contra describe organizational learning as a means of achieving the strategic renewal of an enterprise through learning and exploring new ways while currently exploiting the existing knowledge base. They also stress that it is important to encompass the entire enterprise and recognize that the organization

operates in an open system. While the individual actors of the organization steadily respond to the environmental fluctuation, they build a base for the ongoing learning of the entire enterprise that again leads to continuing changes in the whole organization.

Due to the need for an organization to adjust its institutional framework before it is able to use the full potential of new methods, procedures or technologies, change towards a more efficient organizational form does not happen rapidly (Lam 2004: 26). Within its development an organization goes through several processes of learning during which necessary know-how and tacit knowledge is accumulated. This knowledge is then processed and formed into the most efficient form of work, moving the organization to a new stage in its growth. This recognition has led the managers and researchers to the search for the most effective way of organizing work that would increase the speed of the learning process.

One of the topics of the debates has been whether it is more efficient to use the Science, Technology and Innovation mode of learning or does it give better results to use the Doing, Using and Interacting mode. The first one of them is based on the production and use of codified scientific and technical knowledge and the second is an experienced-based mode of learning based on, as the name already suggests, doing, using the knowledge and interacting with other members of the organization (Jensen *et al* 2007:1). In connection to the change theories mentioned earlier, based on the description of Hippel and Tyre (1995) the DUI learning would play a bigger difference in the process of continuous change. As they say, learning by doing is a form of adapting that uses the information already existing in the organization but which might be "lost" at the moment or information that has recently been introduced to the organization. This, in the context of organizational change, would mean re-learning the old or adapting to new institutions which consequently would construct the forms of work organization. The STI mode of learning is rather associated with radical or episodic change as it is more relevant for the creation of information or knowledge that is new to the entire

environment thus, triggering large-scale changes in all of the organizations in the environment.

According to the study of Jensen *et al* (2007), more than 50% of companies have recognized the importance of organizational learning with 10% of them even being engaged in both the STI as well as the DUI mode. The mode of learning used in the company depended on the environmental conditions, mainly on the sector specific characteristics. Namely, they indicate that quite a number of firms that operate in economic activities where scientific and codified knowledge are important have also adopted organizational practices designed to promote knowledge exchange, problem-solving and learning amongst their employees, meaning both the STI and DUI mode. One of the most important observations though for our study would be that depending on the knowledge need of the sector the organization is operating in, it tends to establish organizational elements that would propitiate the suitable form of learning. For example, if an organization will operate in sectors where there is supply-driven and sometimes radical change in products and processes, it will adapt to elements necessary to cope with these changes through learning by doing, using and interacting.

The most common change organizations undertake in their characters which influences the ease of learning is the change in their structure. As said by Germain (1996), organizational structure is the way responsibility and power are allocated, and work procedures are carried out among organizational members. Hence, as already seen above, organizational structure has multiple dimensions which can influence its learning ability. Damanpou (1991) for example has conducted a study based on what he suggests a rather thorough list: specialization, functional differentiation, professionalism, formalization, centralization, managerial attitude toward change, managerial tenure, technical knowledge resources, administrative intensity, slack resources, external communication, internal communication, and vertical differentiation. Most of the studies, though, use the three most influential dimensions of organizational structure: formalization, centralization and integration.

Under centralization the extent to which decision-making power is concentrated at the top levels of the organization is usually meant (Caruana *et al* 1998:18). It is mostly said, that organizational learning is more efficient in decentralized organizations with fewer layers. It is found that a decentralized structure encourages communication and increases employee satisfaction and motivation, because in less centralized environments, free flow of lateral and vertical communication is encouraged, experts on the subject had greater say in decision-making than the designated authority (Zhen *et al* 2010:765). Thus the primary effect of decentralization may also be rather attitudinal. Decentralization might primarily serve to make employees feel good about their job and organizations, but do little to enhance the financial position of the organization (Richardson *et al* 2002:218). Though according to Giuri *et al* (2008:33), the adoption of new organizational systems based on decentralized decision making and de-layering do not only enhance organizational learning but they also call for more skilled people in order to be effective.

The formalization of a structure is usually defined as the degree to which decisions and working relationships are governed by rigid rules and standard policies and procedures or as the degree to which workers are provided with rules and procedures that encourage creative, autonomous work and learning (Koufteros et al 2007: 475). In the case of less rules existing to govern the interaction of employees, the social interactions among organizational members are more frequent and intensive for implementing the required tasks (Chen, Huang 2007: 107). Therefore, the less formalized work process is likely to stimulate the social interactions among organizational members and thus also organizational learning.

The last dimension is the integration. In accordance with the spirit of division of labor, industrial firms usually separate functional departments so work may be carried out in a sequential manner. In order to respond to the changing environment and to provide value to customers, workers in post-industrial firms are being brought together in autonomous work teams, cross-functional teams, and task forces – the work

organization is becoming more integrated. (Koufteros et al 2007: 476) When firms possess a higher level of integrated mechanism, they are more inclined to increasing the social interaction within the organization (Chen, Huang 2007: 107). The more intense the interaction amongst employees, the more efficient is said to be the communication and exchange of knowledge, thus higher levels of integration should lead to greater organizational learning.

Holan and Phillips (2004:1603) have mentioned three terms that should be remembered when conducting organizational change. First, they bring it out that it is not enough to simply be able to create or transfer knowledge in a momentum but one should avoid forgetting it before it gets transferred to the organization's long-term memory. Second, organizational memory decays and important pieces of knowledge may be forgotten if organizational memory is not maintained. This often happens in small firms where the functioning of a whole department is built up on the skills of one member. When this member leaves without having taught the rest of the members the necessary skills, an organization will face relevant decrease in its efficiency. Third, they also say that it is not always the organizational learning that guarantees success but sometimes organizational forgetting might also prove to play an important role. Namely, depending on the form of knowledge, it sometimes might have to be forgotten before it can be replaced with new institutions of work. The last often proves to be a significant barrier to change as the organization has to step back from proven, objective success and allow unproven, subjectively based experimentation.

Therefore in long-run those acquired routines may develop into a disadvantage for the company. Namely, they make it difficult for its actors to unlearn their skills and adapt to new ones which would be more adequate to the changed environmental conditions. Therefore it often happens in the industry that entrants who are more flexible will easily replace old organizations which have become too dependent on their work routines. Then again previous research has shown that the importance flexibility has on a firm's survival depends on the nature of the novelty – if it destroys or enhances the

competences of existing organizations. It has been argued that entrants play a much more significant role in the case of "competence-destroying" change while established organizations witness greater success in "competence-enhancing" changes. (David 1991)

Nevertheless, as put by Quattrone and Hopper (2001:416) knowledge (learning) and action (change) are interdependent: knowledge is a form of action inseparable from the activity of doing. Analogously, action is a form of knowledge because acting requires learned practices to make it possible. Hence it has been said that in order for organizations to change they need to be able to learn. A good proof of it is the fact that organizations with recent experience of change are more likely to attempt future changes meaning, that as they learn from the process they lower the risks and also become less afraid of conducting change. The following chapter of the paper will look whether the European companies have realized the effect learning and skills would have on their competitiveness and how the European institutions are trying to popularize training and lifelong learning within the business environment.

2. Organizational Change in the European Union

The European Union is home for approximately 20 million businesses from different sizes and origins. Due to the cheap labour from developing countries and the rising competition from Asia and U.S., these 20 million companies face every day the question of how to make better use of their knowledge, technology and human resources in order to stay competitive on the global market. Therefore those enterprises need to implement organizational changes to maximize the benefits from new technologies, particularly information and communications technology (ICT) in order to realize productivity increases from investments in both tangible (plant, equipment) and intangible (research, training) assets.

In practice, it has been proved that the type of organizational change selected depends on two levels of indicators (Murphy 2002:5):

1. The firm and sector level indicators;

2. National level systemic, cultural and institutional indicators.

Hence, the following chapter will be divided into three paragraphs. The first will look at the firm and sector level performance of European companies and the second will give a closer insight to the institutional framework built by the EU to ease the process of organizational transformation of the local enterprises. The third paragraph will discuss in short the match between the two levels – how well do the institutions suit for the current situation in the organizations and how similarly have the organizations and the policy creators predicted the future trends on the market.

2.1. How Do The European Companies Change?

As the advancement of technology has noticeably shortened the product life cycle and created the possibility to constantly renew products, then enterprises have witnessed the need to change their work organization in order to be able to move the whole production closer and focus it on the customer. Thus, it has been noted that a majority of companies in Europe as well as around the World are shifting from highly hierarchical bureaucratic organizational forms towards more flat, team based ones making the production process more flexible and allowing more rapid response to customer needs. Moreover, the companies have discovered that it is not the capital and labour alone that nourish the growth but it is rather the qualitative value they bring along with them. For this reason more and more companies are paying attention on forms of work organization that would help to distribute and upgrade the knowledge base of this labour force as well as on creating innovations which would lead to a higher added value of the product. (Progressive Policy Institute 2000:7)

2.1.1. The Characteristics of Organizational Change in the EU

Generally it seems that enterprises are well aware of the need to transform their organizations to match the conditions of the surrounding business environment. According to the study conducted by Capgemini (2009:7) amongst the leading European companies, 82% of them confessed that being able to transform the organization has become a vital importance in business. Even more, they claimed that they have launched, on average, one project of organizational change every six months. A similar conclusion was made by Price Waterhouse Coopers (2008:10) according to whom 76% of CEOs said that their ability to adapt to change will be a key source of competitive advantage in the coming years. 72% of them were saying that their companies had taken on five or more major change initiatives over the previous three years, ranging from going through a merger and acquisition event, reorganizing key business functions or implementing new business models, processes, and strategies.

The response of the companies can well be explained by looking at the surrounding market conditions. As can be seen from the recent developments of the Euro Area Business Climate Indicator (Figure 1), then change in economic environment is taking place rather rapidly. For the companies to be able to take advantage of not only the highs but also to survive the lows, they have to be capable of reorganizing their tangible and intangible assets in the same speed. As has been proven by previous as well as the ongoing economic crisis, the ones who are able to predict, cope and adjust the fastest to new conditions will have a higher likelihood of survival and they will collect higher profits from applying new technologies.

Figure 1.: **The Euro Area Business Climate Indicator** [1]
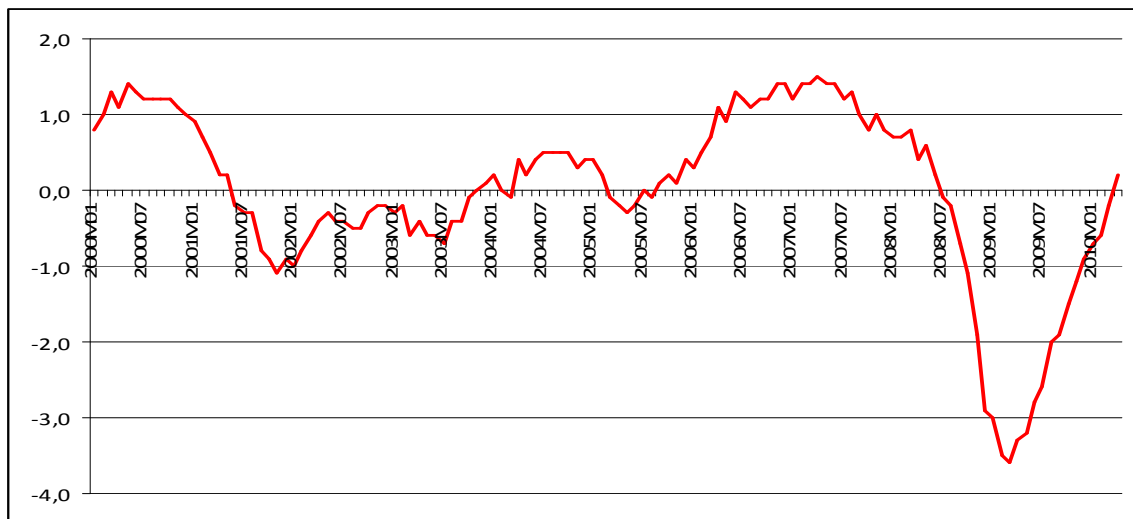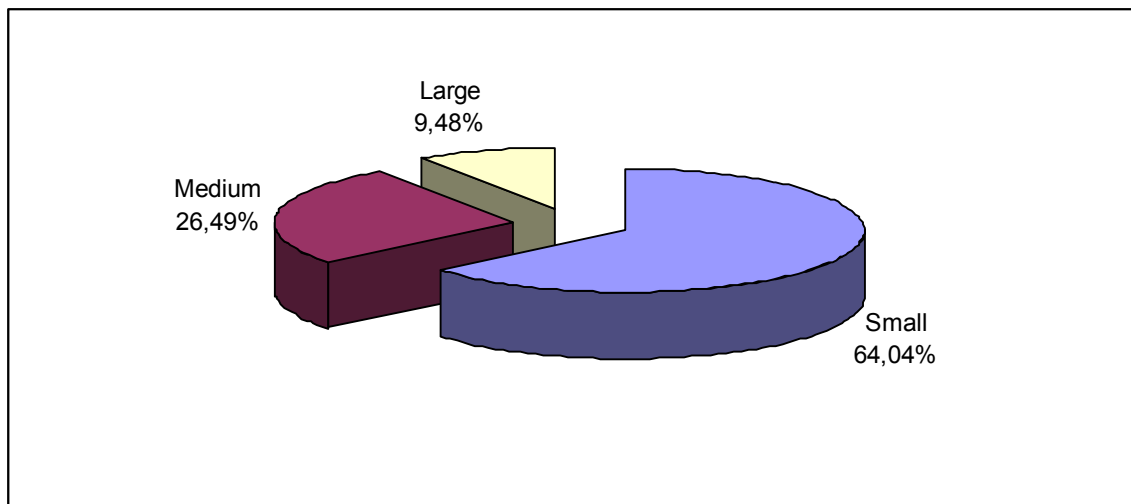

Source: Eurostat

Although one might think that the down trends of the market would lead to delaying the existing projects of change in the need to cut all non-essential costs, then the survey conducted by Ernst & Young (2009) has proven otherwise. Their report showed that critical conditions are rather accelerating reshaping trends. Namely, they noted that 34% of the questioned companies were thinking of transforming their business through some strategic acquisitions, 29% wanted to divest their non-core activities, 23% were

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[1]The Euro Area Business Climate Indicator is an indicator based on the monthly survey of the manufacturing industry designed to allow a timely assessment of the cyclical situation within the euro area.

considering outsourcing or co-sourcing and 22% were looking for new locations for their operations which would allow them to save in a long-term perspective.

When looking at the distribution of companies who are actively undertaking a form of improvement in their organization, then a prevailing portion (around 65%) of them are introduced in small enterprises with 10 to 49 employees (see Figure 2). They are followed by medium size enterprises and then large enterprises with over 250 employees. The distribution of it is likely to be highly correlated with the structural features of the European businesses as the small size enterprises are known to form a majority of the local economy. Another reason for this discovery might also be the need for greater flexibility of small enterprises. As their reserves and access to resources is limited compared to the bigger competitors, they have to be more prone to changes in order to stay competitive and survive. As they are less hierarchical and possess more simple forms of work organization, then it is also easier for them to execute the change projects, it takes less time and during the same period they will be able to move through numerous interconnected projects.

*Figure 2.*: Companies Engaged in Any Form of Organizational Change

Source: Eurostat

While talking about the most common types of organizational change that the companies in the leading European economies have undertaken (see Figure 3) then restructuring the organization seems to be in top of the list with 62%. Almost an equal

amount of companies, 57% and 56% correspondingly, have been engaged in some sort of corporate transactions (mergers and acquisitions, divestitures, etc.), outsourcing or off-shoring and implemented a cross-functional performance improvement programme. Mergers and acquisitions seem to be especially common in France and less likely to happen in Netherlands. 52% of the respondents said that they have incorporated a new enterprise-wide IT project and 51% have improved their value-chain. 44% of them have additionally decided to make other strategic transformations like changing their business model or entering a new product market.

Figure 3.: **Organizational Change Projects Undertaken By The Companies Within The Past Three Years**
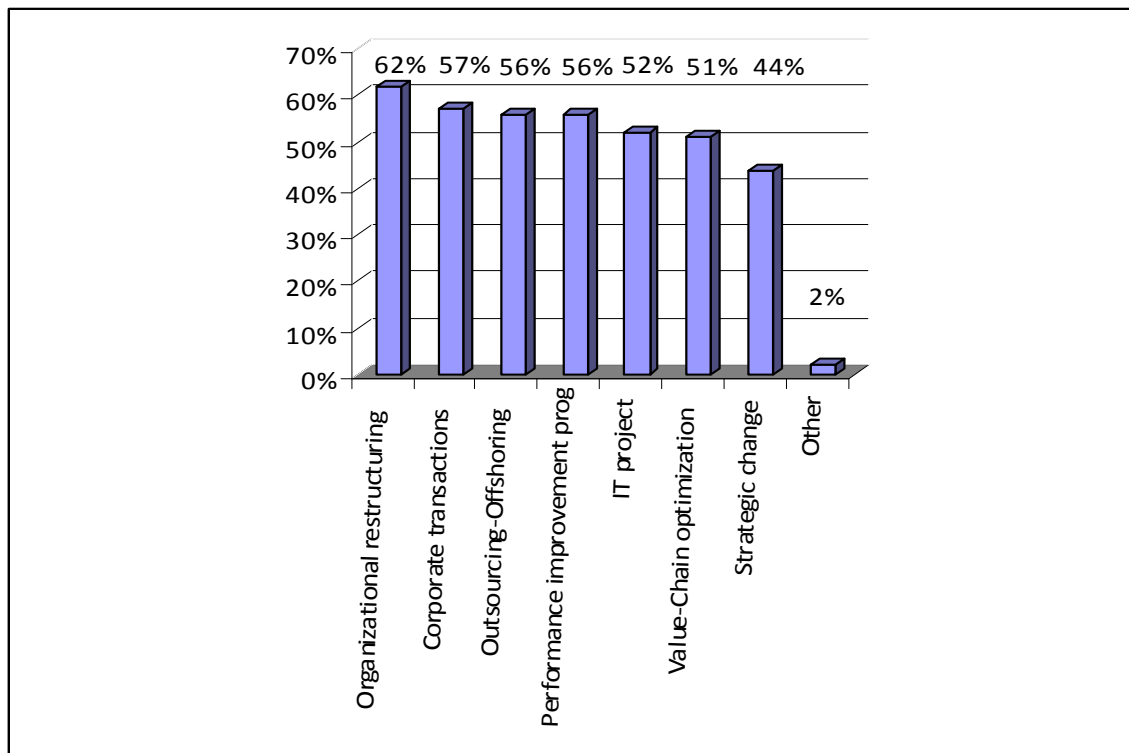

Source: Capgemini 2009:8

According to Ernst & Young (2009), 43% of leading European companies have changed their operating models permanently since 2006. The most common means of transformation seem to be strategic acquisitions and forming new strategic alliances. They are followed by change of location or expansion to a new location, mainly in order to cut costs or use the opportunity to gain higher profits on more promising markets. As above, 29% of the companies in the survey of Ernst & Young have also reported strategic decisions of entering new business areas or developing new product lines.

Although the theory of organizational change suggests a trend towards decentralization and greater worker responsibility, then the shock of the current crisis seems to have increased the amount of regulations and internal control. Finally, likely to be also the cause of the crisis of 2008, 18% of the responding companies said that they had undertaken changes in their financial structure in order to raise more capital.

In addition, 23% of the CEOs who participated in the survey of Ernst & Young said that they had increased the proportion of outsourcing or co-sourcing in their production process. The most common functional fields to be outsourced were the ICT management with 30% of the respondents and logistics and transportation with 23%. 14% of the companies had decided to rely on external expertise for recruitment and training but also for customer related activities like call centres or PR management. Internal audit and accounting on the other hand were the most unlikely fields to be outsourced with a response density of 3% and 10% respectively. The small number of the latter might also be caused by the increased concern about the financial state of the company which might motivate some of them to keep closer look at the cash flow records.

While a majority of companies are constantly transforming their work organizations in order to stay in competition, then what are the outcomes they hope to gain in this process? The survey conducted by Capgemini during a time of massive financial deficit suggests the main motivation to be simply cutting costs (Capgemini 2009:8). Based on the data collected by Eurostat for the year 2006 on the other hand, cost reduction is placed only third amongst the expected outcomes of organizational improvement. Namely, 35% of the investigated enterprises said that the most important effect of organizational change for them is the improvement of quality of goods and services (see Figure 4). It was followed by reduced time to respond to customer or supplier needs with 32% and according to Eurostat, the least valued outcome of the transformation would be an improvement of employee satisfaction or reduced rates of employee turnover with 16% respectively.

Figure 4.: **Highly Important Effects of Organizational Change**

Improved employee satisfaction and/or reduced rates of employee turnover 17%

Reduced time to respond to customer or supplier needs 32%

Reduced costs per unit output 16%

Improved quality of goods or services 35%
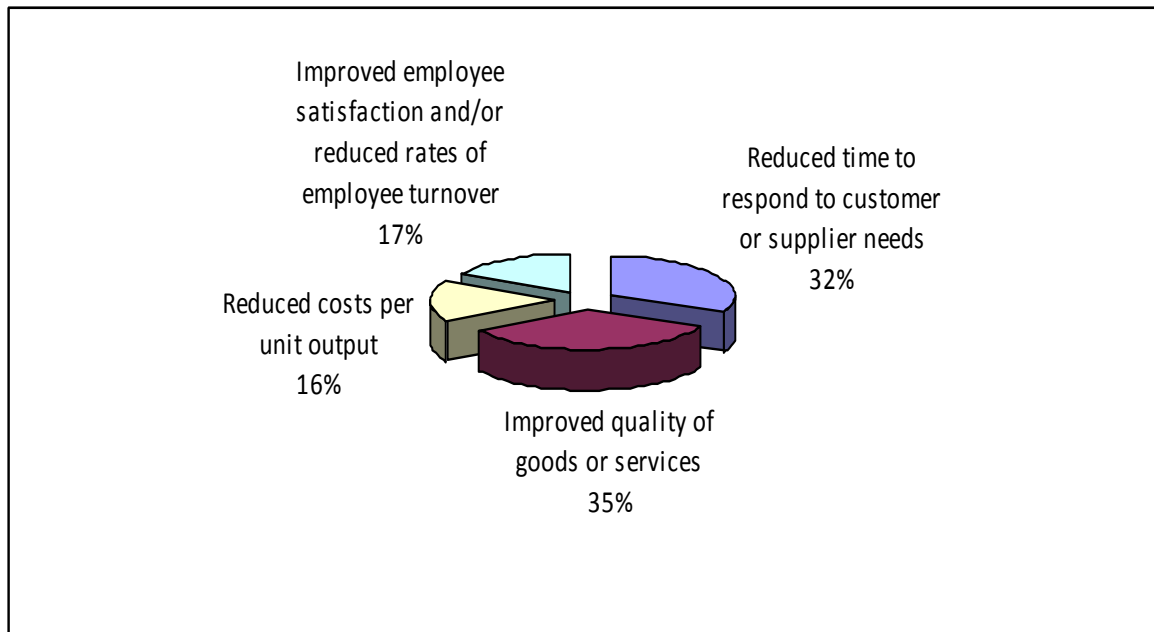
Source: Eurostat

The importance of the effects seems to vary though to some extinct depending on the size of the enterprise. Namely, larger companies with more than 250 employees have rated cost reduction higher than small and medium sized companies (20% compared to 15% and 17%). On the other hand, small companies with 10 to 49 employees are putting more value on increasing employee satisfaction than their bigger competitors (18% compared to 15% and 13%). This might mainly be due to the fact that in small scale companies employees play a more important role and as they are not that easily replaceable, the organization is trying to increase their motivation to stay and create higher turnover.

The direct link between organizational change and innovation has unfortunately not been investigated on a statistical terms. One can notice though while looking at the awaited outcomes as well as the forms of organizational change undertaken by the companies that improving the quality just as coming up with new ways of doing things play an important role on both of the levels. Thus one could guess that organizations that are more prone to change are also more successful in innovating and implementing those innovations in real life terms.

2.1.2. The Central Forces of Organizational Change for EU Companies

Amongst the most influential triggers for organizations to conduct the above described changes are the shifts in the global economic trends. 64% of the enterprises interviewed by Capgemini (2009:12) mentioned the development of emerging economies as major reasons for redesigning their business strategy (see Figure 5). Surprisingly, sustainable development was ranked 1% point higher than the shifts in economic trends. This could partly be because from one side the companies are seeing major potential for future growth in the new "clean" technologies during the time of increasing shortage of raw materials. Then again the rise of governmental attention on environmental conditions is setting new institutional boundaries. The legislative framework regulating the usage of, e.g. carbons will force the companies to look for new inputs to their production functions.

Figure 5.: **The Most Relevant Triggers Of Organizational Change**
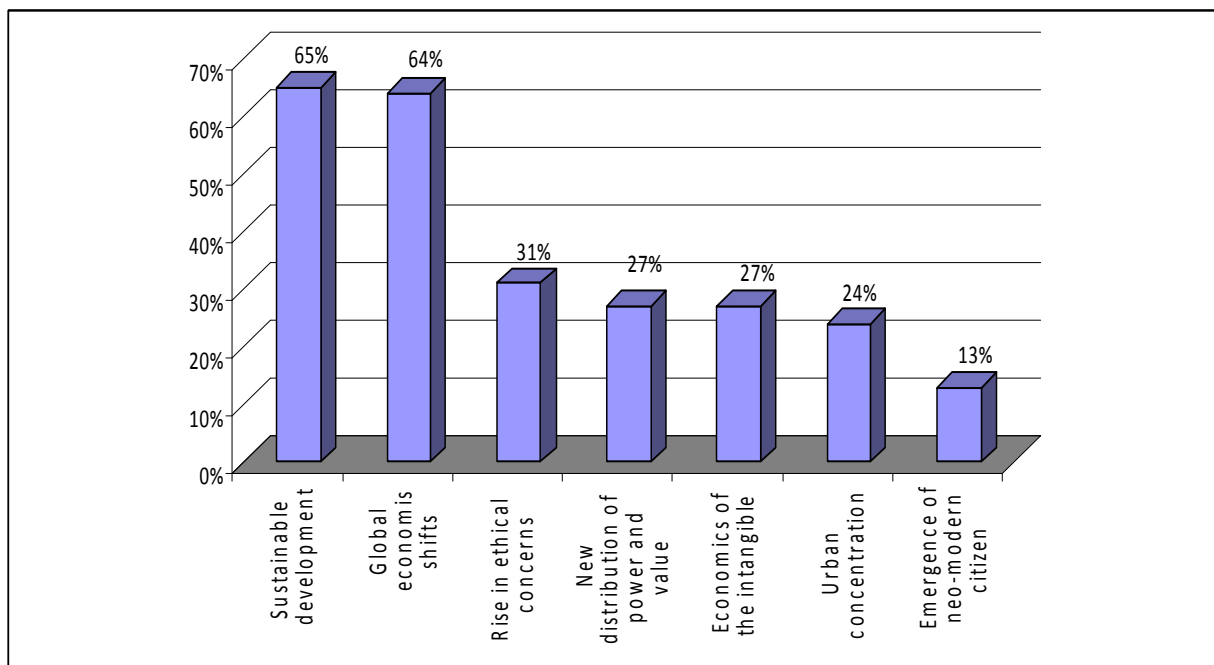
Source: Capgemini 2009:12

Another interesting tendency that the Capgemini survey revealed is the growing attention on intangible assets, like employee satisfaction, power distribution between the employees and the managers, knowledge and access to information. This means that not only have the enterprises acknowledged the influence modern technologies

(mainly ICT) have on reshaping their own internal structures, they have also started considering the ways those technologies have transformed the society and thus also the market in which they are trying to survive. Moreover, the business sector has understood the value of talented people and informal resources that have shown to play an important role in leading companies to success. Thus 45% of the enterprises who mentioned intangible assets as triggers of change said that their future will be affected by the new ways of organizing business through flexible structures and interactive multi-channel customer relations. The new structures will be built with the hope to increase knowledge transfer not only between employees but also with the intention of easing the flow of information from the market to the company.

Still, although 27% of the enterprises had acknowledged the intangible assets and a further 27% the redistribution of employee values, research still shows that nearly 75% of all organizational change programmes fail, not because leadership did not address adequately infrastructure, process, or IT issues, but because they did not create the necessary groundswell of support among employees. (Dawson and Jones 2007)

A similar conclusion was made by Capgemini (2009:9-11) where they argue that not only do merely 47% of companies consider themselves to be able to excel in transforming their organization, they also name employee acceptance as the most challenging (with 46% of the respondents) side of the process to deal with. This is closely followed by the problem of communicating the objectives of the reshaping project to the employees (43%). A remarkably stronger side of the human resources is considered to be setting up and managing a suitable team for conducting the transformation project. Only 19% of the respondents saw it as problematic and 81% rather named it as one of their strengths.

This leads us again to the statement made earlier in the theoretical part of the paper – namely, in order for the company to change successfully, it needs to be in possession of a work force which would be able to relate and adapt fast to new circumstances. The organization should be able to learn. Although the entry level capabilities for this criterion are built during the educational track, then upgrading and maintaining of those skills is left amongst the responsibility of the future employer. Therefore a number of

the European work force is enrolled in some programme of life long learning or formal or non-formal training related to their job tasks.

Figure 6.: *The Participation Of The Labour Force In Education And Training*
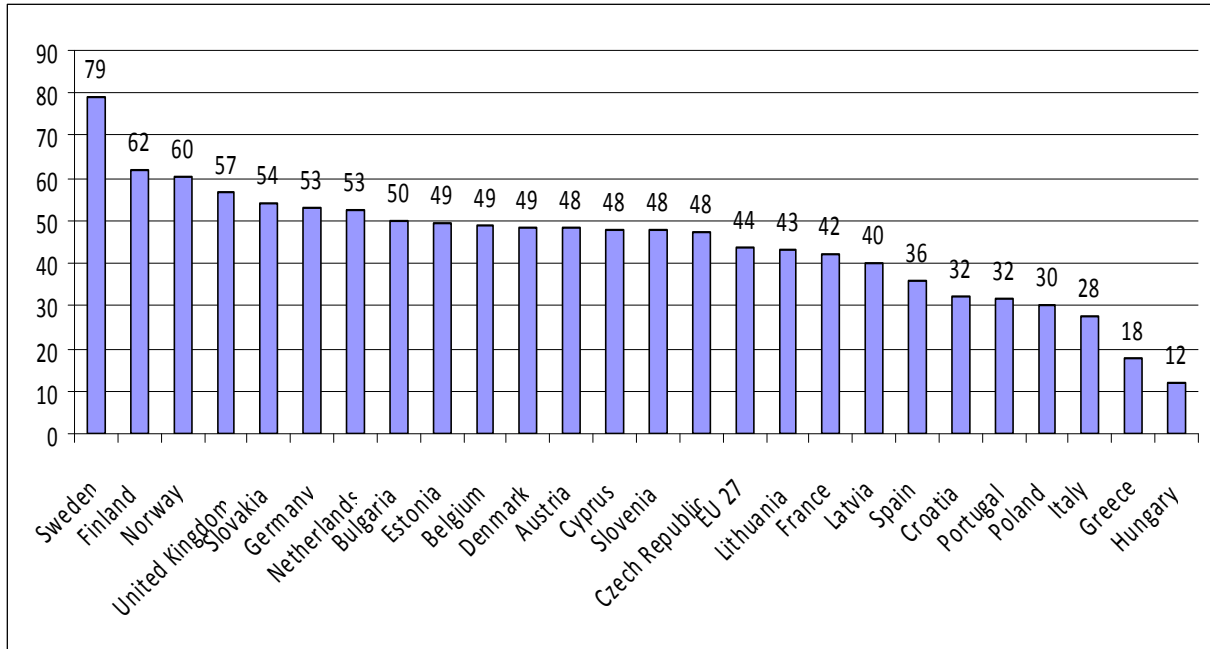
Source: Eurostat

According to Eurostat, an average of 48% of labour force is participating in training (Figure 6). The highest rate of participation in training is in Sweden with 79%, followed by Finland with 62% and Norway with 60%. A remarkably lower level of employee participation has been measured in Southern European countries, Latvia, Poland and Hungary, the latter with only 12%. Whether it is due to a coincidence or a measurable causality, but he same countries scoring lowest in the labour force training participation have also been ranked unsustainable or in danger according to the European Economic Sustainability Index (see Table 1). As high levels of employee training also provide greater labour force flexibility and more rapid response to change, then it should increase the reaction speed companies have to dealing with critical situation.

Table 1.: **The European Economic Sustainability Index**[2]

| Rank	Country	Score	Group
1	Sweden	0,55	TOP
2	Denmark	0,45	TOP
3	Estonia	0,45	TOP
4	Finland	0,42	TOP
5	Netherlands	0,28	HIGH
6	Germany	0,24	HIGH
7	Luxemburg	0,24	HIGH
8	Austria	0,20	HIGH
9	United Kingdom	0,07	MIDFIELD
10	Czech Republic	0,05	MIDFIELD
11	Slovakia	0,03	MIDFIELD
12	Poland	0,02	MIDFIELD
13	Belgium	-0,01	MIDFIELD
14	Bulgaria	-0,02	MIDFIELD
15	France	-0,03	MIDFIELD
16	Ireland	-0,08	IN DANGER
17	Slovenia	-0,09	IN DANGER
18	Cyprus	-0,10	IN DANGER
19	Lithuania	-0,13	IN DANGER
20	Malta	-0,15	IN DANGER
21	Hungary	-0,17	IN DANGER
22	Romania	-0,19	IN DANGER
23	Latvia	-0,22	IN DANGER
24	Spain	-0,23	IN DANGER
25	Portugal	-0,29	UNSUSTAINABLE
26	Italy	-0,38	UNSUSTAINABLE
27	Greece	-0,93	UNSUSTAINABLE

Source: European Policy Centre 2010

When looking at the employee motivations for participating in training then it can be seen that the majority of the respondents bring the desire to do a better job as the main reason for their interest (see Figure 7). This goes in accordance with the expectations of employers who expect to raise the quality of their goods and services through organizational transformation, a process the training is said to aid. 28% of the training has been completed due to the participation being obligatory, 22% in order to obtain a certificate which would allow to enter new work fields, 16% with the hope of a promotion or getting hired and 14% of the respondents said that they only undertook the training because of their fear of getting fired.

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[2]The European Economic Sustainability Index is an index developed to assess simultaneously the short-, medium- and long-term economic sustainability of EU countries relative to each other. This index is constructed using six domains: deficits, national debt, growth, competitiveness, governance/corruption and cost of ageing.

***Figure 7.*: The Employee Motivation To Participate in Training**
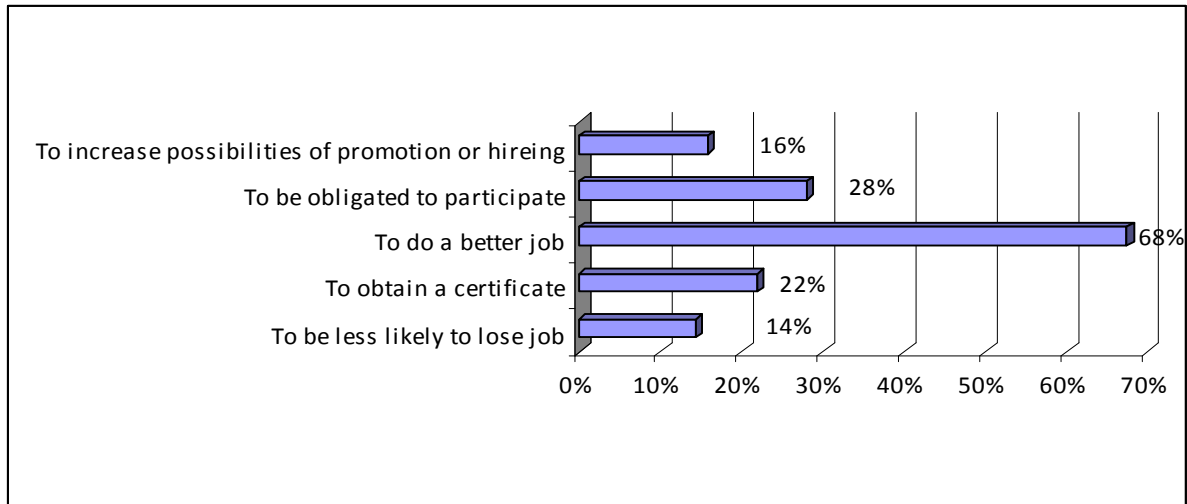
Source: Eurostat

While looking closer at the part of the labour force who participated in training to improve their work performance, then one can see the prevailing proportion of employees with tertiary education (Figure 8). This could be from one side due to their deeper understanding of the work organization and the connections between work performance and ones financial gains. From the other side, each level of education increases ones future career perspective, thus the benefit from additional training will be higher for an employee with tertiary than for one with primary education.

***Figure 8.*: The Participation in Training In Order To Do The Job Better Or Improve Career Perspectives According To The Highest Level Of Education Obtained,**

Source: Eurostat

50
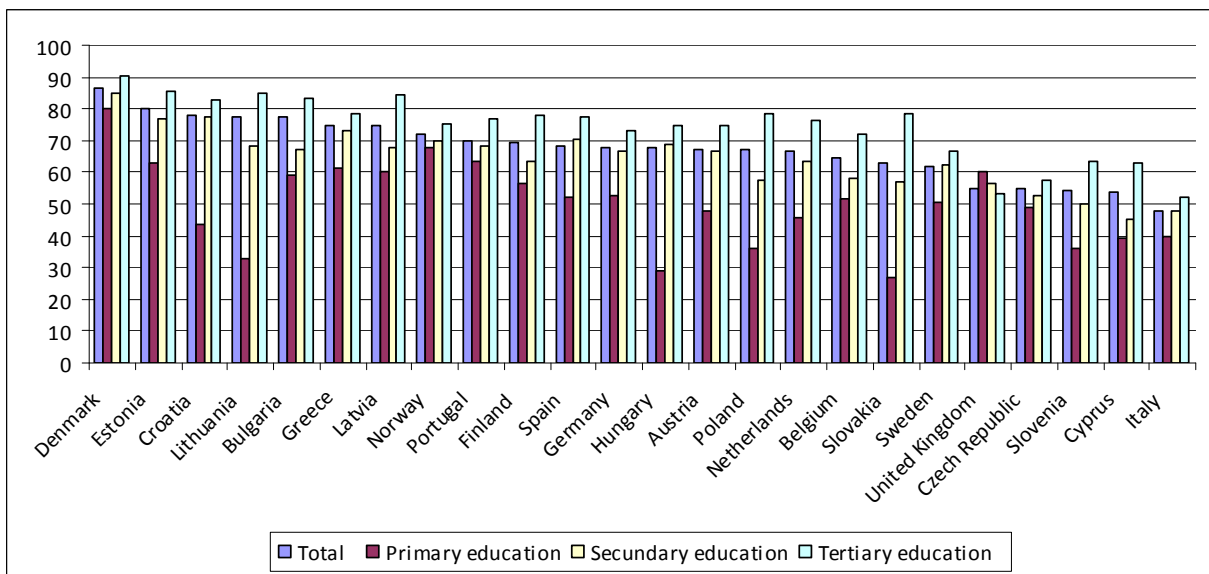
One of the most common fields lately where companies provide training is the use of technologies, especially ICT. In the European Union an average of 40% of companies, no matter the size, offer their human resources additional tutoring in order to improve the efficiency of ICT (see Figure 9). An average of 28% of them has targeted the training to ICT specialists and 36% to everyday users. The percentage is higher in both cases for large companies which have more resources for conducting the trainings as well as higher needs of proficiency due to the complicacy of their production. The availability of the training also seems to be correlated to some extent with the usage of Intranet and Extranet in the companies. The more extensively the enterprise has integrated the ICT in its production process, the more it has to pay attention to the employees having the appropriate skills for using the technology efficiently.

Figure 9.: **Enterprises Providing Training in ICT**
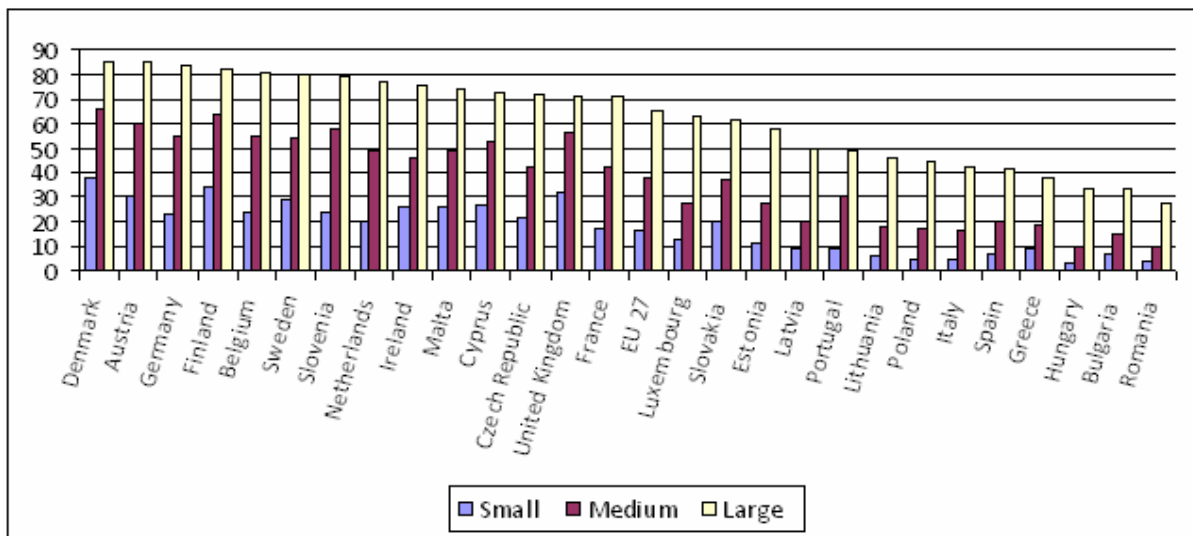
Source: Eurostat

Then again, not all of the members of the labour force have access to additional training. According to Eurostat only an average of 25% of employees say that they face no obstacles when looking for an opportunity to upgrade their skills. As above, the percentage is higher amongst workers with tertiary education, 41% and lowest amongst the ones with only primary education, 12%. The most influential obstacle for participation was said to be the lack of employer support, approximately 6%.

Still, according to PricewaterhouseCoopers (2008), 22% of the leading European enterprises claim technological innovation as their primary source of competitive advantage. As an investment bet, technology trumps people, process, and adaptability in the minds of the world's business leaders. Although a large number of entrepreneurs have acknowledged the importance of the skills of the labour force and its learning ability in providing necessary flexibility, there is still a long way to go till the intangible assets will not be an obstacle for the success of organizational change.

2.2. How Do The European Institutions Influence Organizational Change?

The European Union with its 27 member states forms one of the most prosperous economic areas in the World producing a GDP of 11,8 million Euros in 2009 (European Central Bank). According to the World Competitiveness Report, nine out of twenty most competitive business environments are situated in the EU and an additional two are members of the European Economic Area (see Table 2). It is not easy though to maintain the competitiveness of the whole region as all of the Member States still operate on a national level in addition to the union level, they all have their own cultural characteristics and institutional specificities.

Table 2.: **The Global Competitiveness Index 2009-2010**

Country	Rank	Score
Switzerland	1	5,60
United States	2	5,59
Singapore	3	5,55
Sweden	4	5,51
Denmark	5	5,46
Finland	6	5,43
Germany	7	5,37
Japan	8	5,37
Canada	9	5,33
Netherlands	10	5,32
Hong Kong SAR	11	5,22
Taiwan, China	12	5,20
United Kingdom	13	5,19
Norway	14	5,17
Australia	15	5,15
France	16	5,13
Austria	17	5,13
Belgium	18	5,09

| Korean Republic | 19 | 5,00 |
| New Zealand | 20 | 4,98 |

Therefore all the policies suggested by the institutions of the European Union to aspire towards this goal are rather from a directive than a compulsory nature. They set a common strategic direction for the area and provide a range of various measures how they could be reached, but in the end the tools chosen will depend on the national governments. For this reason the situation can differ to a large extent between the Member States of the EU; some of them might be more prone to organizational transformation and will rank higher in competitiveness, others have preferred to stay in the range of more conventional measures and are falling behind.

2.2.1. The Main Policy Areas

On a general level the regulations that address organizational change could be divided into six categories (The European Commission – Enterprise and Industry web site):

1. strengthening industrial competitiveness;

2. better regulations of the business environment;

3. creating a competitive European Standard System;

4. encouraging innovation;

5. simplifying access to necessary finance;

6. and improving the labour market conditions.

Although all of the six fields target a different side of business, they are interlinked and therefore the developed framework programmes are also interlinked and often address the same topic but from a new angle. This should guarantee the support from the EU not only for one type of organizational change but it should rather help to follow the whole process of transformation from its start till a successful end. In order to give a wide overview of the nature of the means used in the EU policies, the following section will try to describe some of the most relevant areas and framework programmes which are matching our concept of organizational change.

To start with, as already mentioned above, then one of the objectives of EU policies is strengthening the industrial competitiveness and that for a simple reason – competitive firms are known to be the carriers of change, providing the link between abstract ideas and innovation–driven, growth–generating market evolution. (COM(2002) 262:14) Therefore the ***industrial competitiveness policy*** must both support and stimulate the continuous process of adjustment to changing conditions and restructuring that is essential to remaining globally competitive. This is done by from one hand predicting and observing the movements on the global market and from the other hand by helping the companies to adjust their performance to those trends by encouraging the uptake of new technologies and helping them to respond to these new or well-known challenges through the creation of suitable institutional framework conditions. An institutional framework that is supportive to business is essential and this is again the point where the above mentioned policy areas are overlapping. Namely, in order for the companies to remain competitive the EU needs a transparent and coherent legal framework providing the right incentives for economic agents to work towards achieving the policy goals. Moreover it needs a well functioning and easily accessible capital market and a labour market that has the right incentives to adapt to change. In addition a true single market for goods and services that enables industry to harvest the efficiency and innovation potential of a market of 500 million citizens in stead of only national markets could help to raise the competitiveness of the enterprises in the whole region (COM(2004) 274).

Thus one of the policies within the industrial competitiveness policy influencing the changes taking place in the organizations is the ***competition policy*** itself. A competitive environment naturally drives firms to restructure or merge in order to gain productive efficiency. Efficient firms compete more vigorously, in order to further reinforcing their competitiveness. This can lead to a virtuous cycle of increasing productivity. Competition policy has recognised this in the Merger Regulation, which offers a one-stop shop to facilitate industrial restructuring. The current Merger Review offers an opportunity to assess whether the existing tools could be improved. In particular, it

offers an opportunity to decide whether the Merger Regulation should permit verifiable merger-specific efficiency gains to offset negative effects such as price increases caused by the creation or strengthening of a dominant position. The reasoning for that again lies in the pursuing of greater global competitiveness which could be damaged if an actor could gain a too big role on the local market.

Another policy that helps to strengthen the competitiveness of the EU enterprises but also channels the direction of the change within the organizations is the ***standardization policy***. Standards have, since ancient times, been an integral part of the market system and have played a key role in advancing the wealth of nations. Standards tend to increase competition and allow lower output and sales cost, benefiting economies as a whole and leading in the end up to a 1% rise to the value of the gross domestic product (COM(2004) 674: 5). From the perspective of organizational change standards help to guide the production processes in the desired direction. By setting standards (e.g. the ISO classification) the EU builds the boarders within which the companies are allowed to operate. For a number of firms this often means restructuring its production process in order to raise the quality of its products or the competency of its workers. Then again, by being a source of the most up-to-date technical knowledge, standards broaden the knowledge base of the economy and can help to integrate new technologies and research results harmoniously into the design and development process of new products and services (Action Plan for European Standardization 2009).

In addition, the policy possibly most spoken of during the recent years and continuously running through other policy initiatives, the ***innovation policy*** should also be seen as addressing the topic of organizational change. In general the innovation policy is about helping companies to perform better and contributing to wider social objectives such as growth, jobs and sustainability. One of the paths of reaching that goal is through helping companies to transform in the desired direction. As stated in the main EU innovation policy strategy, the "Broad-based innovation strategy for the EU", the cause should be seized through supporting nine priority areas, from which the following could be also seen as addressing organizational change:

1. Intellectual Property Rights;

2. standardization in support of innovation;

3. public procurement in support of innovation;

4. lead markets;

5. innovation in services.

As can be seen, once again the priority areas are mainly overlapping with the previously mentioned policies as something as intangible as innovation can be reached only in coordination of the whole system. In addition it has also been mentioned in the Broad-based innovation strategy that all forms of innovation need to be promoted, for innovation comes in many forms other than technological innovation, including organisational innovation. As the current paper sees organizational innovation to be one of the forms of organizational change, then a large extent of the measures mentioned above can be directly applied to introducing organizational transformation. For example, by creating better regulations of IP rights the EU lowers the risks that the companies could face while investing in the development of the production units for new or improved products. Through public procurement the governments can encourage the companies and create the demand for those new products. Under leading markets on the other hand the Commission is supporting the restructuring of specific sectors (e.g. renewable energies) as it sees them to have great potential and possible influence on the future of the rest of the market.

Moreover, one should not forget the policies aimed at human resources within the company while speaking about organizational change. It is said that globalization from one side requires a rapid response from the enterprises in order to adapt to the changing conditions of the global labour market, from the other side the labour market needs to change in order to provide the companies with competent work force which would allow the companies to be more flexible and open to change. This is also the reason why the EU *labour policy* is trying to pay more attention on finding new forms of flexibility and security on the labour market. This would satisfy the individuals increasing

need for employment security rather than job security (as fewer have the same job for life) and from the other hand would help the companies to adapt their workforce to changes of economic conditions which would lead to transformations in the structure, production or organization of work (COM 2007 359: 3). In this perspective, the EU has adapted the common goal towards flexicurity which should exactly be about flexible work organizations, capable of quickly and effectively mastering new productive needs and skills and also about adequate unemployment benefits to facilitate transition. Within the concept of flexicurity the citizens should be able to more easily find or change their job as well as develop their careers in every stage of their working life. By providing more flexibility and security that should reinforce each other the EU tries to ease from one side the movement of labour for example in case of decrease in the structure of the organization but from the other hand such an approach should also ensure the timely availability of matching skills necessary for a change in the production process in the companies.

The European Commission sees that flexicurity should be designed using the four following policy components (COM 2007 359: 5):

1. Flexible and reliable contractual agreements through modern labour laws, collective agreements and work organization;

2. Comprehensive lifelong learning strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable. This is especially important for the competitiveness of firms and long-term employability of workers as it simplifies the response to rapid change and innovation;

3. Effective active labour market policies that help people cope with rapid change, reduce unemployment spells and ease transition to new jobs;

4. Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility.

Understandably they are rather seen as guidelines of tools, based on which every Member State should make their own "mixture" depending on the existing labour

market institutions, cultural background and naturally, the current state of the market. Although the policy measures will have to be built up on national level, a consensus has also been reached on the EU level on a series of "common principles of flexicurity", from which the most relevant for organizational change might be the pursuit for both internal (within the enterprise) as well as external (from one enterprise to another) flexicurity. (COM 2007 359:9) In the end, the transition to flexicurity should ensure more high-quality work places with capable leadership, good organization of work, and continuous upgrading of skills which are important assets in making a company more adaptive and reactive to a turn in environmental conditions.

2.2.2. The Key Framework Programmes

All of the above described policies are formulated in various European framework programmes which set the strategic goals of the Union and also call out for the development of more specific programmes of action. One of the broadest documents directing the strategic goals of EU policy is the ***Lisbon Agenda*** which sets the objective of making the European Union the most competitive and dynamic knowledge-based economy in the world ("Establishing a Competitiveness and Innovation Framework Programme"). The prosperity of Europe is built on that of its businesses. Businesses are a key element in growth and employment, and that is why the Lisbon strategy made the above mentioned enterprise and industry policies one of its priorities in the region. Maintaining competitiveness is a constant challenge. Therefore the EU aims to encourage an environment favourable to initiative, to the development of businesses, to industrial cooperation and to improving the exploitation of the industrial potential of innovation, research and technological development policies. As seen above, these policies are of vital importance in the context of global competition and they often address directly or indirectly various measures of organizational change as in order to stay competitive on the global market the companies have to stay flexible and be able to respond fast to raising and transforming market trends.

Thus, most of the changes taking place within the European enterprises, especially in the SME's should be directed towards the objectives of the Lisbon Treaty. Those above

described policies should help the companies to ("Measuring and Benchmarking the Structural Adjustment Performance of EU Industry"):

1. create and improve the knowledge base in the companies;

2. create and attract jobs in existing and new enterprises;

3. increase the uptake of the ICTs;

4. try to encourage the use of eco-friendly technologies;

5. create an open and competitive market;

6. and promote innovation.

All of those previously listed goals are comprised in numerous smaller framework programmes aiming at the specific fields of the EU policies. From all of them the Competitiveness and Innovation Framework Programme could be seen as the one most precisely addressing the transformations of organizations and that through three subordinate programmes: the Entrepreneurship and Innovation Programme (EIP), the ICT Support Policy Programme (ISPP) and the Intelligent Energy Europe Programme (IEEP).

The EIP is the largest from the three and from the perspective of organizational change it supports the creation and growth of enterprises, especially SMEs and also the uptake and creation of all sorts of innovation, eco-innovations in specific. Then again it also addresses transformation from a more distant perspective triggering for example the development of entrepreneurial minds or easing the administrative processes that set boundaries for transformation. In general, the targets of the EIP have been explained as follows ("Establishing a Competitiveness and Innovation Framework Programme"):

1. Access to finance for the start-up and growth of SMEs;

2. Support for all sorts of innovation in enterprises;

3. Support for eco-innovation;

4. Support for entrepreneurship and innovation culture;

5. The creation of an environment supportive for SME cooperation;

6. The creation of enterprise and innovation related economic administrative reforms.

Besides the first point which addresses the eternal problem of financing, one should also look deeper into the second, third and the fourth point. Amongst the targets of the second point the ones of interest for this paper mainly discuss the uptake and application of new technologies and concepts. Namely, it could be seen that the EU tries to encourage the companies to integrate them in their structure and once already integrated, to try to improve their efficiency for the firm. The third point on the other hand stresses the importance of the uptake of green technologies for the sustainability of the EU economy. Therefore it supports the introduction and development of eco-innovations in the production processes and in the general management of organizations. The fourth of them addresses directly the intangible assets of the organization. It states, amongst its other goals the encouragement of the creation and transfer of enterprises as one of its main targets. This shows that the EU has acknowledged the force that the managerial minds have on introducing the organizational change and leading it to a successful end. From the other side this initiative could also aid the employees in fighting their fear against change and thus help the companies to execute their transformation projects.

The goals of the EIP shall be carried out by facilitating access to finance and investments for companies in the field of innovation and in certain stages of their life cycle: seed, start-up, expansion and business transfer. This will be done through three means: the High Growth and Innovative SME Facility (GIF) which will be operated by the European Investment Fund (it is divided into two "window" programmes from which the fist concentrates more on early stage investments and the second will cover the expansion stage), the SME Guarantee (SMEG) Facility and the Capacity Building Scheme (CBS) which shall be operated with international financial institutions.

The ISPP as the name already says is completely targeted at the uptake of ICT technologies ("Establishing a Competitiveness and Innovation Framework Programme"). The importance of ICT as an enabler of product and process innovation should no longer be questioned. ICT products and services are seen to drive economic performance across all sectors and it has also been estimated that the investments in ICT have been responsible for around half of the EU's productivity growth in recent years (ICT for Competitiveness & Innovation website). Thus an area that covers EU coordination of organizational change is the support for ICT by creating for example a favourable environment for e-business. But only if supported and accompanied by organizational changes, will ICT help enterprises to increase their efficiency and productivity, thus leading to an improvement in the European competitiveness. Therefore a framework for ICT has to be considered as a critical factor in achieving the Lisbon Strategy goals.

Besides setting the goal for the Member States in general to create a good and highly capable ICT environment for the companies (e.g. developing a Single European information space), the ISPP also triggers the enterprises themselves to adapt and invest in ICT. Amongst the points brought out in the strategy statement the Commission mentions promoting innovation in processes, services and products that are enabled by ICT by at the same time taking into account the necessary skills requirements. On the other hand the Commission also addresses promoting and raising the awareness of the opportunities and benefits of ICT and its new applications for businesses, including enhancing confidence in and openness to new ICT through example given e-business.

The IEEP is the most specific of the three subordinate framework programmes addressing directly the energy market. In broad the goals of the IEEP could be brought out as fostering the efficiency and rationality of energy use and promoting the development and use of new and renewable energy sources ("Establishing a Competitiveness and Innovation Framework Programme"). From the view of organizational change it could be seen that the IEEP tries to decrease the risk of finance in the uptake of the specific technologies in the organizational structure and by helping to build a supporting national structure necessary for the use of the intelligent sources

of energy. From the other side the IEEP also addresses the more intangible side of the energy use as it tries to educate the minds of the people influencing the choices made about which source of energy to use in the production process. This is done by developing information, education and training structures and by promoting and disseminating the know-how on intelligent energy use to bring examples of good practices for the companies.

Another framework document that is mainly targeting the business environment is the *Small Business Act (SBA)*. In general, the SBA sets the goal to increase SMEs potential for innovation, research and development, in particular by ensuring that entrepreneurs and their personnel obtain necessary qualifications, by regrouping businesses in clusters and by coordinating national initiatives created in support of SMEs (http://europa.eu/legislation_summaries/enterprise/business_environment/et0001_en.htm). This is done through ten principles (COM(2008) 394):

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. Under this principle special attention is put on the transfer of family business. It has been estimated that 6 million small business owners will retire over the next ten years and those business will need help in changing their management in order to survive. Therefore the EU sees that the transfer of business should be given the same support as setting up a new business.

2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.

3. Design rules according to the "Think Small First" principle. SMEs bear a disproportionate regulatory and administrative burden in comparison to larger businesses. It has been estimated that where a big company spends one euro per employee because of a regulatory duty, a small business might have to spend on average up to 10 Euros. Easing the regulatory framework would not only leave some spear finances but also other resources like labour force which

could be engaged in additional processes leading to a restructuration of the organization.

4. Make public administrations responsive to SMEs' needs.

5. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs. As already said before, participation in public procurement could create the necessary demand and financing for new products and services which again would lead to the restructuring of the production process.

6. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions. This principle is to a large extent related to the Competitiveness and Innovation Framework Programme which provides over €1 billion to support SMEs' access to finance.

7. Help SMEs to benefit more from the opportunities offered by the Single Market. Besides the service of advising this principle also sees the need to help the SMEs in taking part in the standardization process, in identifying the opportunities on different markets and working on making cross-border trade easier. Providing the SMEs access to those services would lead essentially also lead them to a change in their organizations in order to match the market needs.

8. Promote the upgrading of skills in SMEs and all forms of innovation. The effect of skills and innovation on organizational change has already been described above.

9. Enable SMEs to turn environmental challenges into opportunities. SMEs are particularly vulnerable to the current trend of rising prices for energy and raw materials therefore they are also in greater need to turn those challenges into opportunities by restructuring their organization in a way that would consume less of those resources.

10. Encourage and support SMEs to benefit from the growth of markets. Often, in order to be able to benefit from a bigger market, the production process or work organization would have to be restructured.

To sum up, then the SBA basically assists the SMEs in gaining enough tangible and intangible resources to execute transformation projects and stay competitive on the market.

Amongst others, the Lisbon Treaty has also built up a strategy for jobs and growth through various smaller framework programmes which should help the Member States to guide their labour market policies towards flexicurity. One of those programmes, the **_Community Programme for Employment and Social Security (CPESS)_**, is established in order to provide financial support for the objectives of employment and social affaires. The programme is divided between five sections: 1) employment; 2) social protection and inclusion; 3) working conditions; 4) antidiscrimination and diversity and 5) gender equality ("Establishing a Community Programme for Employment and Social Security" 2006: 3). From the ones mentioned, the first two are the ones that should directly address the matter of flexicurity. The financing of the objectives of e.g. better use of short-time working arrangements, boosting job creation and facilitating mobility should come from three sources: the European Social Fund, the European Regional Development Fund and the European Globalisation Adjustment Fund. As the suggested labour market policy tools are from a rather recommendatory nature then the CPESS is also mainly executed through the creation of networks and workshops that would help the Member States to share their experience and learn from each other.

The labour market policies and frameworks are also closely linked with the education policy as many of them are built up on the basis of the skills created through the education system. Therefore the EU maintains the efforts to ensure that the strategic framework of education and training, **_"ET 2020"_**, would remain firmly anchored in the broader strategy of the Lisbon Treaty. Namely, the ET 2020 is contributing in the long-term goals for growth and jobs through four objectives ("A Strategic Framework for European Cooperation in Education and Training ('ET 2020')" 2009: 3):

1. Making lifelong learning and mobility a reality.

2. Improving the quality and efficiency of education and training.

3. Promoting equity, social cohesion and active citizenship.

4. Enhancing creativity and innovation, including entrepreneurship, at all levels of education and training.

It can be once again seen that the framework is overlapping with some of the previously mentioned addressing for example the importance of developing an entrepreneurial culture. The support for organizational change on the other hand rises from a more intangible side as the skills created during the secondary and tertiary education, vocational training or lifelong learning will not only provide the companies with minds open for change but they will also build a base of competencies that should be easily accessed due to a flexible labour market.

Although the Lisbon Treaty with its goals and objectives is slowly reaching its end date then the continuance of the chosen strategies is further expressed in the new agenda of *Europe 2020* which was called into existence in order to find better means for exiting the global financial crisis of 2008. Even though it first of all sets a strategy to help the Member States to come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion, in general it constructs a vision of Europe's social market economy for the 21st century. Similarly to the Lisbon Treaty, the Europe 2020 as well sets the priorities of:

1. Smart growth by developing an economy based on knowledge and innovation.

2. Sustainable growth by promoting a more resource efficient, greener and more competitive economy.

3. Inclusive growth by fostering a high-employment economy delivering economic, social and territorial cohesion.

Hence, in general although the European Union does not directly address the topic of organizational change, through setting the goals and incentives of growth and competitiveness it provides the companies with advice, knowledge and support for tangible as well as intangible resources which are necessary for the constant transformation of their structures according to the global trends in order to stay vital.

2.3. Discussion

In general terms, while looking at the current state of mind of the European companies and the policy initiatives of the European Union then it seems that the two are thinking in the same direction. The most evident proof of such a conclusion is the importance both of them put on staying competitive in the changing market conditions by changing along with the trends. Moreover, both of them recognize the roll the other plays in achieving this goal. The need for support from the EU institution is made especially visible by the fact that almost half of the enterprises do not figure themselves to be able to excel a successful change project. Hence the EU focus on industrial competitiveness policy is rather reasoned as, as mentioned earlier, 76% of CEOs acknowledge the need for change to stay competitive.

Another good example of the common direction of thought is the match between the priority areas of EU policies and the most important triggers of change that the companies have identified for themselves. The best example of such is the rise of the topic of sustainable development. Namely, as already described earlier, 65% of the investigated companies brought out sustainable development as the main influence on their transformation. The view of the company has two sides for that: from one side they see the new rising opportunities from such a development, from the other side they are influenced by the increasing amount of legislation that is forcing them to change their production to become more environment friendly. The last is mainly the cause of the EU legislation which is trying to preserve the environment and redirect the companies to use materials that would be renewable and have a bigger potential in the long-run. The first is more of an area of EU support as a number of incentive

programmes have identified the development and distribution of new "clean" technologies as one of their main goals. For example, not only is the encouragement of the uptake of eco-friendly technologies mentioned as one of the targets of the Lisbon Treaty and the Europe 2020 but it is also one of the main directions of the Competitiveness and Innovation Framework Programme, the Intelligent Energy Europe Programme.

Moreover, the EU focus on providing support for small and medium size enterprises can also be well reasoned when considering the fact that a big majority of the transformation projects are carried out by companies in this size group. It is even more reasoned when looking at the structure of the EU businesses as the SMEs take up the biggest part in this division. As they need to be more flexible but often lack of resources and are more threatened by the risks those projects might carry along then both the Small Business Act as well as the rest of the support programmes should help them in staying competitive. The point in the SBA that seem to be especially well targeted to the needs of the SMEs is the assistance in taking advantage of the Single Market. As could be seen in the previous paragraphs, then entering new markets is from one hand seen as one of the most important potentials for future growth but from the other hand it is also among the most popular forms of organizational transformation.

In addition, the strong surveillance of the control of the market position seems to be well reasoned. Namely mergers and acquisitions have been named as one of the most important tools in every form of organizational change. Thus, although from one side they could help to distribute new technologies and make some products available or cheaper for a large proportion of the market, then the growth of the structure of one organization could also cause major damages to the competitiveness of the rest of the participants on the market.

To continue, the standardization policy can help the companies in achieving their goals. One of the ways it could do so is by helping them to improve the quality of their products or help them to prove to the market their improved quality, which has been ranked as the most relevant awaited outcome of transforming an organization. Another

profit that could rise from the standardization is the decrease in the risks in any form of subcontracting. By establishing a common system of accepted standards the EU diminishes the costs of monitoring that the companies face when outsourcing some of their functions. As outsourcing or off-shoring play a major role in the transformation taken up by the European enterprises, then such a policy could help the firms to cut a lot of costs related to those activities. Moreover, standardization would also contribute in the distribution of knowledge and would create the need for upgrading the existing skills which, as well, has recently gained more attention from the companies.

Another area of importance to not only the EU but also for the companies is the support for the uptake and more effective use of information and communication technologies. As could be seen from the survey of Capgemini (2009), then more than 50% of European enterprises are undertaking organization wide IT projects to improve their performance. Even more, they also seem to be aware of the need to at the same time improve the employee competences in the field of ICT and they are therefore providing additional training for employees using the system simply on an everyday bases as well as for specialists in the field. This is in concordance with the ICT Support Policy Programme which besides the mentioned fields is also targeting the promotion of innovation in the processes, products and services that are enabled by the ICT. Still, although the companies have realized the opportunities of ICT some improvements could still be made. For example the potential of e-business is largely under exploited. Moreover, although tutoring is provided in the field of ICT, the proportion could be a lot bigger as it's only 40% of employees who are participating in the relevant training programmes.

A further EU policy that should address the need for companies to change is the labour market policy. As the businesses seem to be moving towards a team based work organization that would enhance the distribution of knowledge then the goal taken towards flexicurity and lifelong learning seems to be rather grounded. The heightened attention that firms are starting to put on intangible assets such as the rebalancing of power between the management and employees or the diversification of contracts is of good proof of the shift in the needs of the firms. As they need to build up more flexible

forms of work which would be able to adapt more rapidly to trends then the EU should also make an effort to restructure the labour market policies to fit the changing situation.

The need for more flexicurity can also be reasoned by the fact that 75% of change projects have been reported to fail due to lack of employee support. From one side it has been said to be due to the low acceptance rate of the employees which is probably caused by their fear towards the change and them being afraid of loosing their job. Thus providing greater security for the time of transition could raise the acceptance level of the employees. The other side of the problem is the difficulty of communicating the objectives of the reshaping project to the workers. This might be improved through increasing the awareness of the labour force which could also help to raise their understanding of the general environmental situation. The lack of suitable personnel for conducting the transformation project on the other hand doesn't seem to be one of the main concerns of the companies as 81% of them named setting up and managing a suitable team for the project as one of their strengths. This of course should not mean that EU shouldn't invest in upgrading the knowledge of its citizens; it would rather suggest that it should not be as complicated to find suitable capabilities in case of short term projects.

A more troubling matter on the other hand should be the engagement in lifelong learning and additional training. Namely, although on average 48% of employees are participating in training, there are a number of countries, especially in Southern States, where the participation rate is remarkably low. In the Nordic countries on the other hand, where the principles of flexicurity have been well built up, the labour force seems to be motivated to constantly upgrade their skills as Sweden, Finland and Norway rank the highest in the list of participation with more than 20% point higher outcomes. Moreover, the employees have also reported the lack of support from the employer for participating in lifelong learning programmes. In addition, it also seems that the access to additional training is easier to the highly skilled ones compared to the ones who would be in need of building up a relevant base of competences to be of value to the

production. Thus, although the goals set by the ET 2020 as well as the Community Programme for Employment and Security might be targeting the correct fields, the monitoring of the efficiency of those measures should be improved.

To sum up, it could be added that the general situation in the business world may be shifted a little due to the crisis. Although showing a trend towards more flexibility in the internal hierarchy before 2008 then now the situation seems to have changed a little as the companies are forcing stronger regulations on the employees and the employees are also less open to flexibility as it is not as easy to find a new position. Hence the EU might have to consider increasing the support for transformation during critical times as during times like that change tends to play a bigger role in the performance and competitiveness of the companies.

Conclusion

Looking back, then the objective of this paper has been to give an overview of the theory of organizational change using the illustration of the European companies and of the measures that could be used for directing the transformations to gain greater competitiveness. The subject was analysed through the systems approach while first building up a framework using the ideal system and later on observing the relations between the actors in a real system, the European Market.

Therefore, the paper has been built up in two chapters. The first one of them is theoretical and contributes to a literature review of the organizational change trying to build up a common understanding of the relevant terms and the supposed relations between them. To start with, it has defined what is meant under organizations and organizational change and following, the various aspects of change have been discussed: continuous versus episodic change, radical versus incremental change, revolutionary versus evolutionary change.

Moreover, the connection between organizational change and organizational innovation has been taken under closer surveillance. Namely, as according to Damanpour (1991:56) "organizational innovation is the adoption of an internally generated or purchased device, system, policy, process, programme, product or service that is new to the adopting organization," then the two terms can be seen as overlapping. From the other hand, a large amount of literature has been dedicated to investigating how changes in any level of the organization of a company could influence its innovation output. The current paper has left the question of whether innovation is a form of organizational

change or an output of change open and in its further analysis has accepted both points of view.

To follow up, the paper continues by looking at the two most frequently discussed types of organizational change – the structural and technological change. It has identified what is transforming in an organization in both of the cases and what could be the subsequent outcomes of such a process. To end with, the paper has brought out the main determinants, the external and internal institutions and organizational learning that could be used to promote and direct organizational change in companies.

The second part of the paper gives a brief overview of organizational change in a real system based on the European Union. The chapter has been divided into three paragraphs from which the first describes the attitudes of the European companies, the second looks at the corresponding European policies and the last tries to make a comparison to illustrate the match of the two sides. For conducting the analysis, secondary data from the European organizations as well as surveys from acknowledged international consultancy agencies have been used.

In general, the paper has found that the European companies are well aware of the need to change and that approximately 70% of them see change as a key source to competitiveness. The importance of transformation projects has also not decreased after the market got hit by the crisis but has rather accelerated the process. The largest amount of change projects were conducted by the SMEs who are also known to form the majority of EU enterprises. The most popular type of organizational change as anticipated was organizational restructuring. A comparable number of enterprises have also undergone activities to increase their horizontal and decrease the vertical integration by mergers and acquisitions and outsourcing or off-shoring. The most awaited outcome of change projects was the improvement of quality of products or services and the least often mentioned ones were related to the rise in employee engagement in the production process.

The input of human resources also came out to be one of the most problematic areas of changing the organization as it was said to be the biggest challenges for executing a successful transformation. Namely around 70% of companies reported a failure due to difficulties of communicating the objectives of the change to their employees and gaining their support. Although this might be improved through providing the employees with field-relevant additional training, in general only around 40% of the labour force is engaged in lifelong learning and the lack of support from the employer is at the same time named as the main obstacle for participation in training.

On the EU level though, it seems that the two sides are thinking in the same directions. The same policy areas that have been chosen to be put under priority are to a large extent matching with the most relevant triggers of organizational change for the next decade that have been identified by the companies. For example, the European Union has taken a great interest in developing "clean" technologies and supporting the uptake of renewable energy sources. At the same time, in the survey of Capgemini (2009) sustainable development was brought out as the most relevant trigger leading the direction of change in the European companies. Even more, the EU has addressed a number of policy measures towards the small and medium sized enterprises, which execute the most of the organizational change projects in the European Union.

On the other side, the companies also mentioned the raising importance of team based work organization that would ease knowledge and information distribution. After acknowledging the trend towards greater labour mobility, the EU as well has set new policy goals in order to provide greater flexibility and security to the European workforce. Unfortunately, for most of the European countries the way left to go till flexicurity is still long and the relevant foundations need to be built up through constantly upgrading the skills of the labour force and restructuring the labour market institutions.

To sum up, throughout the process of writing the paper the author has faced problems in the lack of relevant data and a common understanding on organizational change.

Thus, the author finds that there would be room for future developments in this research area in order to build up a more profound theoretical framework as well as gathering data to give a deeper insight to the process of organizational change on a microeconomic level.

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