

CONNECTING APPROACHES OF INNOVATION AND ORGANIZATIONAL CHANGE IN BUSINESS COMPANIES

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Abstract:

Throughout the present paper we discuss the relationship of organizational change and innovation within business companies. Within the first section of the paper we review the main features of the organizational change concept and we emphasize the source for the need of organizational change. Throughout the second part of the paper we present the managerial issues related to coordinating organizational change. Thus we discuss from managerial point of view the importance to acknowledge the effects of change and the necessary actions for each stage of the change process. Considering nowadays turbulent environment, managers worldwide have reached the conclusion that the success of their companies depends to a great extent directly to their management of change. The content of the third section is allocated to presenting the role of innovation within companies. We discuss about the implications of innovation at a micro level, within companies, and also at a macro level, within the knowledge-based economy, related to which is considered as a pillar. In this context, the elaboration and implementation of the right strategy, whether based on organizational change or organizational innovation, depends mainly on the leader's managerial skills. In conclusion, we argue that innovation and change are interdependent and form a dynamic relationship which makes it difficult to argue which of them generates the other. Throughout this work we emphasize that management of change and innovation within organizations should consider the managerial approach of people, resources and processes.

Key words: competitive advantage, innovation, knowledge dynamics, knowledge management, organizational change.

JEL classification: M10, M16, M21.

1. THE INFLUENCE OF ORGANIZATIONAL CHANGE IN BUSINESS COMPANIES

The most famous definition of innovation belongs to Schumpeter (1934), respectively "all changes to the purpose of implementing and using new types of products, means of production and transport, outlets and forms of organization of the production process", which has become a standard on financial markets (Schumpeter, 1934; OEDC, 2005). An entrepreneurial type of manager is the one who associates the necessity of change with the opportunity of growth by developing new issues for the business (Drucker, 2002). This type of approach can be associated to the definition proposed by European Commission (2013) that considers innovation as "accepting any idea of a product, service, system, technology, policy or program that can be adopted at the level of an organization" (OEDC, 2005).

Romanian legislation speaks of innovation as a product and innovation as a process, with different influence on the enterprise as a whole. Innovation as a product is "the introduction of a good or service that is new or significantly improved in terms of its characteristics or intended uses" (Nica et. al., 2016). These include significant improvements in technical specifications, components and materials or other functional features. The innovation regarded as a process represents integrating new techniques, new equipment or new software within the production cycle of the goods and services (Baesu & Bejinaru, 2014).

The approach of innovation and change from the perspective of sustainable development has become very important for the business of a company, regardless of the domain (Christensen, 2004). If addressed with the necessary attention, the prospect of sustainable development offers

many additional benefits in the long run. The capacity of innovation is a critical ingredient for a company competitive advantage. Supporting the accomplishment of these benefits, should be achieved by identifying those directions and methods of sustainable development that are in line with the company's vision and which lead to the achievement of the established objectives. This essential role of innovation in determining the overall development of companies is complex and intensely debated (Nica et. al., 2016; Milic, 2013).

The wellsprings for change might be several, such as: unforeseen happenings, inadequacies, process requirements, progressions for business and markets, demographic fluctuation, progressions over perception, new learning and knowledge. In this context, the innovation might be recognized as a viable result to business development, we highlight those requirements to utilize strong improvement as an approach of the economic impasse (Hadad, 2015; Hadad, 2017).

Organizations need to solve problems that are wider than current ones. For this it initiates processes of change. Organizations may need to grow business, capital and services, adopt new behaviors or organizational culture. This is where development processes are being launched. In crisis situations, crisis management approaches are being initiated. The field of organizational change and development contributes to ensuring current maintenance, success, success in the world of organizations. His knowledge offers the opportunity to train specialists in organizational consultancy. An organizational change may concern the entire organization, a department, group or even a post or occupant of the job (Bratianu & Bejinaru, 2016).

2. IMPORTANT COORDINATES OF CHANGE MANAGEMENT

The phenomenon of organizational change has been widely acknowledged as playing a critical part for a company's success or failure and represents a basic component for the organizational learning process. Across time, it has been given various approaches, namely an adaptation process; a rationalization process of resource allocation; a process of selecting the advantageous strategy within a context influenced by natural, economic, demographic, or social factors. Modern perspectives over the organizational change phenomena include elements as the change that arises in the company employees' behaviour; the change in "the company value systems, symbols or policies; the change in company organizational system" (Demers, 2007, p.14). We agree more to the idea that, generally, change within the organization it is approached as an adaptation issue. More and more, along with the need of adaptation in order to survive, it is identified a new issue: that of growth and restructuring, based on the life cycle phases of the organization (Demers, 2007).

Managers must adapt their strategies of managing in accordance with the major evolutions in the business environment like: the change of clients' behaviours and needs, technological progress, new legislation, and many others (Bejinaru & Baesu, 2013, p. 127; Certo, 2002, p. 366). In order to create the favourable context for the new strategies to work, managers must prepare their subordinates by creating the appropriate state of mind. Strategic preparations are necessary mostly because individuals must deal with their resistance to change which represents the major factor of organizational change failure. For instance, resistance to change might be identified within the organization through a series of situations like: slowing down of the activity; delaying of the activity; or ineffective actions along the process of change.

From psychological point of view, the issue of change is, mainly, about accepting change. Fear of change is an objective factor that operates at individual level, as well as at group level, similarly with passing from something familiar (very well known) to something unknown, uncertain, implying risks. From managerial point of view it is important to acknowledge the effects of change and the corresponding stages of each process of change.

Kurt Lewin argues about five sequences regarding the natural reaction to change of the individuals. Therefore, in the first phase appears the *instantaneous shock*. The *defensive reaction* comes naturally as the trial of defence against the unknown. In order to successfully overcome all reactions to change, the change process has to be very carefully prepared. *Acceptance* of change is

conditioned by the acceptance of the necessity of change and the good effects it will lead to. The *transformation* happens only after a period of “accepting the idea of change” or even after a first reaction of rejection to the idea of change. We understand *adaptation* as the sum of efforts and actions taken to accomplish a transformation and therefore, to realize through change, a new fraction of the organization’s evolution. The process of change must be understood as a complex and multilayer transformation developed at individual level, within groups, between groups and individuals, as well as at the entire organization level under the managerial coordination of leaders.

When speaking about change at organizational level, “*the leadership represents the promoter of change. Leadership is a process based on the power to influence people through motivation in order to implement change, and achieve a specific purpose*” (Bejinaru & Baesu, 2013, p. 131-132). Speaking to the point, ‘change’ is not the final aim but rather an intermediary process used while implementing a specific strategy in order to accomplish a specific objective. In this sense, we agree to the idea that the successful change is directly dependent by the leadership power as a combination of talent and vision which drives the people and develops the organization (Bratianu, et. al., 2010, p.25).

Factors which determine organizational change divide into two categories: at organizational level and at individual level. In the first case, change may be induced by secondary factors like: competition, changes within the business environment and technological progress, legislative changes, societal changes, globalization, fusions or rapid growth of companies. At individual level, changes may be independent of general change in the organization, under the influence of other factors like promotion, dismissal, transfer or retirement.

Further we will present another model of organizational change in order to emphasize the directions towards which must be driven the efforts of individuals and the organization when change is needed or wanted. Kurt Lewin model, or *the three step model*, is a well-known one. We appreciate that this model stands for a *dynamic thinking*. The main argument that sustains this idea is the analogy with natural phenomena, namely freezing and unfreezing. The metaphoric analogy with the natural phenomena is explained through the significance of its stages. The process of change starts with the stage of ‘unfreezing’ which ensures the disbanding of the solid structure. The unfreezing is necessary when the existing models don’t work anymore and the organization must prepare for learning. The new texture of the organization becomes more flexible and easier to shape at any moment. In order to provide coordinates for successful change there must be a secured organizational context that is necessary for preparation and practice opportunities, that ensures support and encouragement.

The ‘refreezing’ stage has the role to complete an organizational change procedure and it doesn’t mean the return to the previous estate. At this point is relevant the creation of support, reward and training systems. Lewin’s model of change (Figure 1) represents a relevant example of knowledge dynamics within the organization. These issues converge both conceptually and pragmatically since they point towards the ongoing dynamic evolution of the organization within the global market. Furthermore, both the implementation of change management and the achievement of the learning organization are in the charge of leaders.

Knowledge may be considered a generator of two phenomena integrated at the same time within the same system which is the organization, but fundamentally distinct between them. On one hand, knowledge processes stand as a base for organizational change. This change may be completed through the expansion of activities, extension of actions to various domains, or renewal by changing identity, culture and organizational practices. On the other hand, knowledge represents the ground of organizational stability. Starting from the organizations ‘stocks’ of knowledge there are established routines, language, practices, culture and identity. Additionally, organizational knowledge is the basis for reproducing the structures through coordination, whether explicitly through communication, or implicitly through socialization.

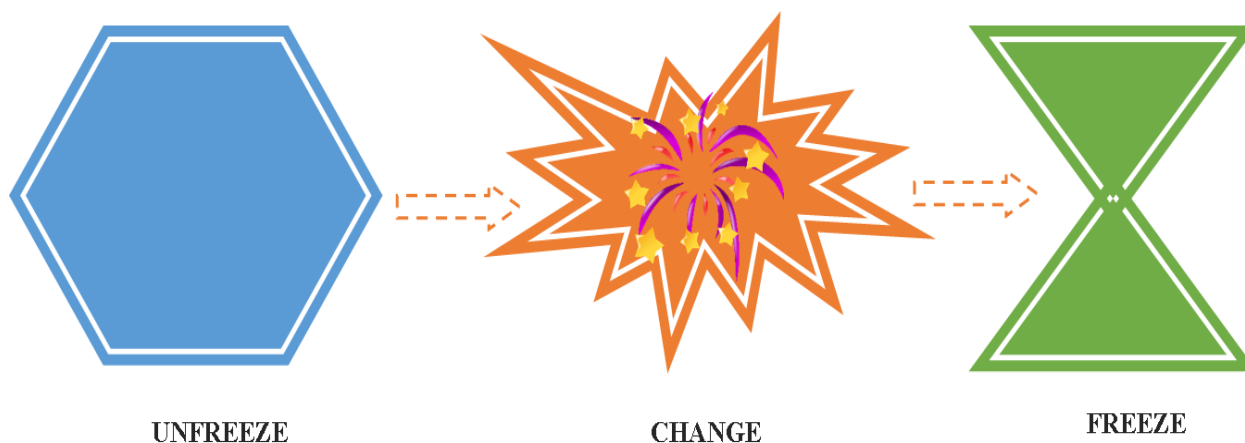


Figure 1. Lewin's three step model

Source: adaptation after Lewin's model

3. THE ROLE OF INNOVATION FOR ORGANIZATIONAL CHANGE

Since the accelerated growing of the knowledge economy, innovation has been in the focus of many debates, research and strategies due to its endless potential of generating positive effects. Innovation is acknowledged as one of the knowledge economy pillars together with: “economic and institutional development stimuli; educated and skilled workers that can facilitate the creation and dissemination of knowledge; an adequate innovation system able to embrace the globalized knowledge stock, grasp it and adjust it to particular regional/local conditions; up-to-date information infrastructure enabling communication, information delivery and handling of information and knowledge” (Hadad, 2017, p.203).

The perspective which has been contoured upon the new knowledge economy spread also towards the social dimension and thus in the writings of the 2003 edition of the World Science Forum in Budapest appears the definition of the „society based on knowledge” as a society based on the principle of lifelong learning. This new umbrella shelters scientists, researchers and practitioners from all areas together with companies and institutes involved in the processes of research and production of high-tech goods and services. “This kind of partnership generates a national innovation and production mechanism that is interlinked with worldwide networks of production, distribution, exploitation and protection of knowledge” (Hadad, 2017, p.208). Another major role of knowledge that scholars have identified is that it represents the core of effective innovation in any type of organization (Cooke, De Laurentis, Tödtling & Trippel, 2007; Harris, 2011; Lundvall, 2010). The previously mentioned ideas drive us to conclude that a major role of knowledge is to contribute at enriching the opportunities in all area and enhance individuals to build a sustainable society.

In the past, according to the paradigm of the past economy, innovations were regarded as outputs of independent processes of research and production, but according to the new paradigm of the knowledge economy, innovation is being generated within networks and throughout collaboration. Neither in literature nor in practice, can the concepts of creativity and innovation be entirely separated and independent. Even if they are similar they are not equivalent, which in many cases leads to confusions. The creativity is represented by an individual's feature and potential of being creative while innovation refers to the added value brought in the shape of an entirely new product or partial improvements to a process or product. In this case technological innovations are considered as materialization of human creative potential.

In this context of globalization and increasing competition, the business world has wisely re-evaluated the role of innovation as a main determinant of production and as a strategic factor of business success. A fresh and dynamic perspective of the knowledge-based economy switches the

focus on innovation and entrepreneurial initiative while knowledge is considered as one of the production factors (Skrodzka, 2016). In order to briefly align the previously comments we present the figure with the characteristics of the knowledge-based economy as designed by White, Gunasekaran, and Ariguzo (2012):

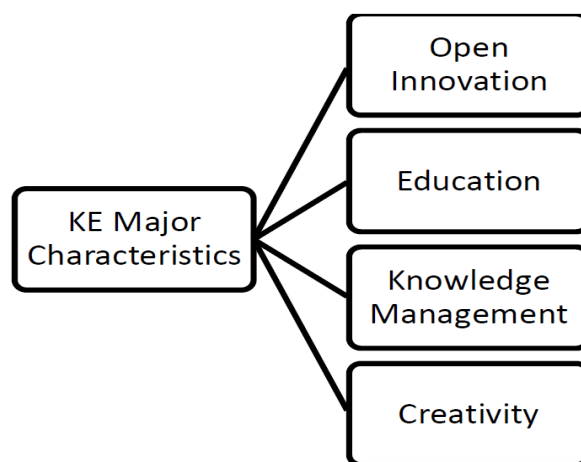


Figure 2. Major KE characteristics

Source: adaptation after White et al. (2012)

The authors White et al. (2012) argue that innovation is the main relevant component which drives business excellence. Throughout their research, White et al. (2012) show that open innovation represents the key ingredient towards the growth of the knowledge economy. In other words, since the engine of the industrial society was fuelled by physical capital components, the fire of the knowledge society is fed with information and innovation (Schiuma & Lerro, 2010).

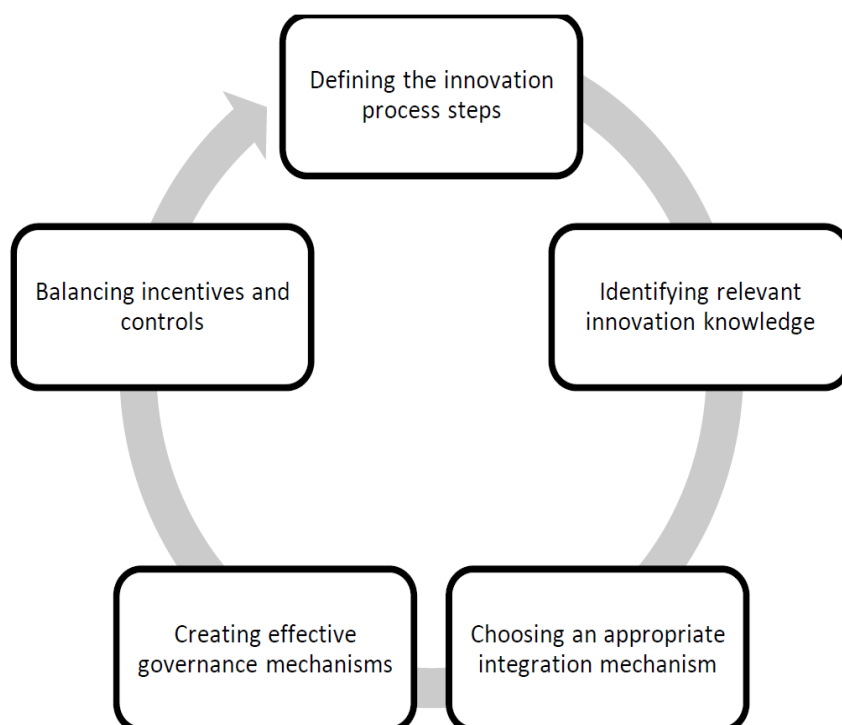


Figure 3. Open innovation states process

Source: adaptation after (Wallin & von Krogh, 2010)

Since innovation has been awarded the role of the pillar or driver of the knowledge economy has been thoroughly analysed by researchers and practitioners alike. This new type of open innovation is different because it involves several parties like customers, stakeholders and the public (Wallin & Von Krogh, 2010).

At the centre of the open innovation process is knowledge that drives the following five stages of the process: 1) defining the innovation process steps; 2) identifying relevant innovation knowledge; 3) choosing an appropriate integration mechanism; 4) creating effective governance mechanisms; 5) balancing incentives and controls. We agree that this sequence of logic actions is indeed effective for leaders at the moment they start implementing a long-term strategy for growing their business.

No matter the million approaches, we consider that innovation is the lifeblood for sustaining the company's development. A strategic and sustainable solution for managers would be to develop a culture of innovation that will deliver added value and benefits for all stakeholders (Bratianu et. al., 2011). A practical model of stimulating such innovation culture and really obtain innovative results could be the one in Figure 1 - the innovation change model. This model proposes a sequence strategy of five steps that will finally lead to a change within the organizational behaviour and thus to new results which might represent useful innovations.

The model starts with the assessment of innovativeness level within the organization. According to the results of the assessment there must be a planning for how to approach the change process. The third step implies a continuous monitoring of the journey of change. During the fourth stage innovation must happen and be systemized. Of course the final stage, step 5, is about measuring and further managing the outcomes. This model is proposed by a consultancy agency and might have more impact and results than the purely theoretical proposed models.

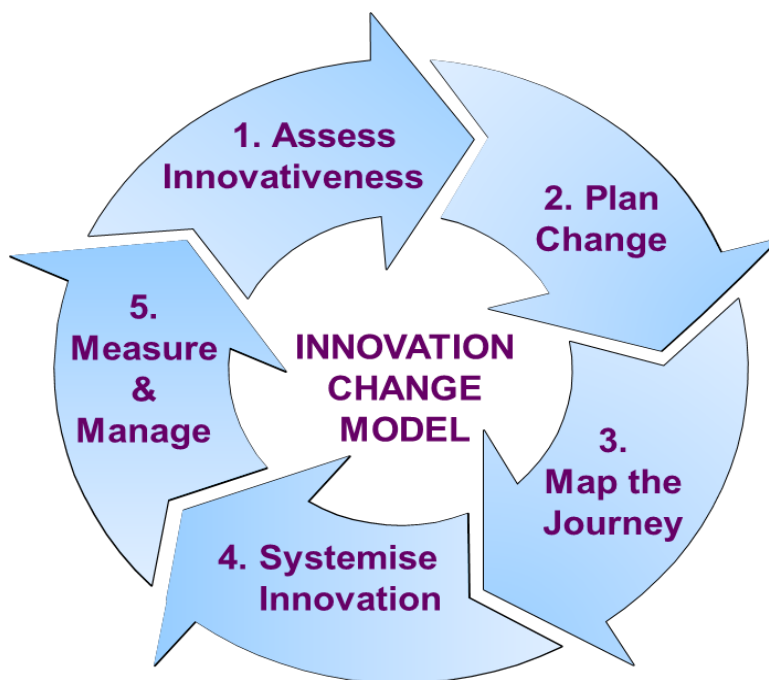


Figure 4. Innovation change model

Data source: figure retrieved from custellportal.com

Thus in order to achieve the level of sustainable development a company should embrace both the culture of change and innovation. They are interdependent and inseparable. An organization must be preoccupied to always offer its employees the stimulus to innovate. If there is no reward for the results of change or innovation then there will be no results, as the individuals have no reason to work out new ideas. A good start for creating an innovative organization would be to include change in an employee's goals, performance management process, and compensation plan (Prelipcean & Bejinaru, 2016).

Many of the theories about resistance to change come from the field of management and focus on the methods by which resistance can be overcome, thus implementing change quickly and efficiently. It is obvious that in this approach, resistance to change is considered a negative thing against which must be fought, which must be defeated, for the future good of the organization.

The continuously growing competition on the market, the higher customer demands and the globalization force business service providers to improve their quality. At present, it is not enough for a vendor to deliver the proper quality, it is more important for him to delight his client and deliver more than the client expects. Also, renowned research companies predict that customer satisfaction will become the main competitive criterion over the coming years. Thus change is imminent and companies have a large scale of solutions to face it. To introduce innovation in the survival process is a strategy with great potential for the organization (Dinu, 2017).

4. CONNECTING APPROACHES AND CONCLUSIONS

The results of this research are useful in order to better understand some new perspectives of organizational change and innovation within the context of the fast expansion of the knowledge-economy. These concepts and realities are all interconnected and interdependent. A manager should analyse the phenomena and consider their basic principles according to which they develop. The connection between innovation and organizational change involves the generation and implementation of those inventions that enhance the organization to learn from, to respond to and to manage environmental feedback.

We shall conclude that organizational change and innovation are fundamentally necessary in order to ensure the positive effects of the knowledge economy and the knowledge society. Without scientific knowledge, technological knowledge and management there cannot be produced goods, organizational and technological transformations and provided economic needs.

Finally we may say that when facing change, human resources don't behave the same. Intelligence and motivational factors may trigger various reactions to change. Consequently, the proposed change has to base on a consultative approach through which managers to ask their employees to express their feeling and opinions. Reducing resistance to change among employees is basing on the managers' capacity and intelligence to manage the whole process. Therefore, in order to achieve organizational change, managers have to convince their employees for which reasons is change necessary and only afterwards to motivate them to apply the behavioural strategies.

Organizational change is a complex process and all actions must be properly integrated. In this regard, the leadership plays a decisive role. Commonly, managers recur to change when the organization faces difficulties and this is why the process is envisioned as a hardship. Managers must be educated to foresee the positive opportunities that change may and might bring and this way to give a stronger stimulation to employees and optimize organizational processes. To conclude we state that organizational change models send the same message which includes a couple of basic ideas: to comprehend change and to act towards it (not against it).

Speaking at a global level, the major characteristic of the knowledge-based economy is represented by the speed by which companies and markets embrace and generate change. However as well as innovation, any type of change should be considered regarding both positive and negative effects. Still, the question remains, whether change generates or is generated by innovation.

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