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Risk Responsiveness Based Organizational Change Management

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Abstract

Risk management, and in particular, risk analysis is a dynamically developing area of strategy management. Its necessity is validated by several business strategies, or rather by the failure of their execution. Besides the exploration and prognosis of uncertainties originating from the outer environment and the inner operation, the role of risk management in strategy management — including organization development — is to make these uncertainties calculable, and to compose action plans to avoid or reduce the occurrent negative effects. In terms of risk analysis it is analysis which types of change management actions are matching with environment and internal resources and capabilities. In the paper it is examined how the company strategy and operational environment determine the effectiveness of organizational development philosophies, and culture, size, profile, partnership of the enterprise. Based on diagnoses is proposed an optimal organizational development goals helping the successful change management.

Keywords: organizational development, change management, strategy, project, risk

Introduction

Risk management, and in particular, risk analysis is a dynamically developing area of strategy management. Its necessity is validated by several business strategies, or rather by the failure of their execution. Besides the exploration and prognosis of uncertainties originating from the outer environment and the inner operation, the role of risk management in strategy management — including organization development — is to make these uncertainties calculable, and to compose action plans to avoid or reduce the occurrent negative effects.

The process of risk management can be broken down into these recurring phases:

Mapping the endangered values and activities that are liable to risks

Exploration, registering and prioritizing the risk factors and sources of danger

Analyzing the effects of the risk factors

Determining action tasks to manage the risks

Executing the chosen risk management methods

Monitoring and improving the program

Phases i-iii of risk management are related to risk analysis, and phases iv-vi are related to risk handling. The risk management's general and typical functions in organization development mean decisions, procedures and methods described below.

Taking the result of the preliminary survey in consideration I focused my research to improve the methodology for strategy evaluation and underpin change management. It is presented the risk assessment steps that lead to the determination and evaluation of strategic options. The business mission as the basic policy of the company is connected to the values and

expectations, and the determination of vision as a strategic direction is the starting point of strategic planning. The analysis of the company's internal and external environments should be subordinated to the contents of the mission and the vision. After an environmental and company diagnosis (for example, an SWOT analysis) the strategic directions can be determined (by Porter's Competitive Strategies, for example) along with the strategic alternatives (by TOWS Matrix.). The development methods and resources can be determined by a company value chain and resource analysis.

Endangered Valuables, Resources at Risk, Mapping of Activities

Risks related to the realization of strategic goals arise from the elements and processes of organization development, and from the quality and usage of resources. Above all, the identification of risks needs the identification of such threat categories and typical blocking factors that can generate the unexpected effects. On the one hand, risky threats and blocking events can arise from the usual course of business, and on the other hand, damages that cannot be planned may cause significant losses. From another approach, unfavorable effects on the realization of the company's business goals may be derived from the weakness or insufficiency of strategic resources and competencies as well as from the changes in the outer factors and the regulatory environment. A change management project is threatened by factors such as:

Uncoordinated or ineffective (elements of) company operation.

Low quality or insufficient usage of material resources, assets and information.

Insufficient human resources, lack of knowledge.

Bad relationship with stakeholders.

The methods described below may help the company in making a "risk map".

The assessment of the organization *through questionnaires* give a full map to the tasks determining organization development. The evaluation of the factors by their ranks sheds light on the uncertainties and weaknesses behind each subtask. As a matter of course, this method of assessment can be used for mapping any resource and competency of the organization. One of the best-known methods of assessment is the so-called EFQM (European Foundation for Quality Management) model (Mullins, 2007). According to this, there are factors and abilities (so-called enablers) that basically defines the operation of an organization, such as:

Leadership

People

Strategy

Resources

Processes

The evaluation of other factors include an examination of the successes that determine the competitiveness of the company. Such success factors or success gauges are:

Company behavior qualifying the customer relationships

Key indicators showing the financial situation

Advancement of the employees, learning skills

Public relationship, social responsibility

In structure this method of assessment is similar to the so-called Balanced Scorecard method in several respects (David, 2011). In the first phase, the components of the organization are evaluated, then the strategic elements indicating the success of competitiveness are examined.

The change management is on one side a method to change the people's behavior to achieve the organizational goals, from the other side it is project management point of you to manage the execution procedures

Drawing a *decision tree* is reasonable in the case of a complex, multiphase organizational development, when at the end of each chapter of the project there are more than one imaginable ways (decision variant) to continue. While planning the

project we can add probability levels reflecting the expected outcome of each variant. Of course, after a decision there will be only one way the project continues. For that we must have a proper scenario. In organization development this method is basically used by project managers for making project plans.

The exploration, analysis and sorting of risk factors and threats are based on both the evaluation of factors examined by the method of questionnaire and the analysis of the radar chart (Figure 1) drawn after the weights of the factor groups were given.

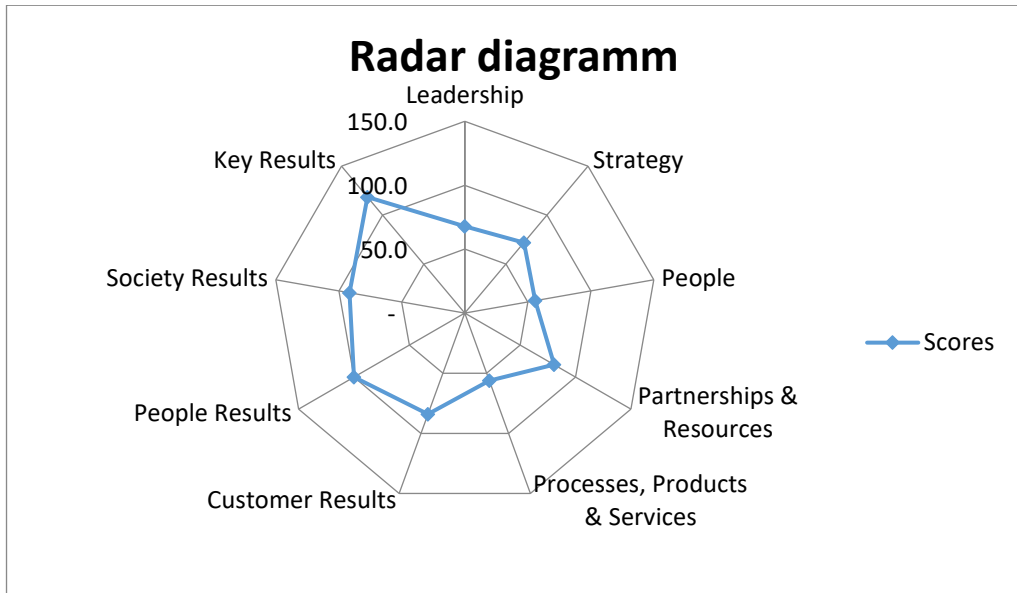


Figure 1: Results of Evaluation (example). Source: Compiled by author

The figure shows which areas are underestimated, and on which areas it is needed to examine both the need for organization development and the method thereof. In this example, the treatment for the employees and the public relationships justify further audit and analysis.

Analysis of the Risk Factors' Effects

During the analysis, the set of independent variables is made of the characteristic elements — discovered during the identification of risks — of blocking factors or threats (macro level, market, technical, technological, financial, etc. risks). The consequences of these risks are expressible as changes in the dependent variables (such as implementation time, implementation cost, slippage caused by employee dissatisfaction, etc.). The measure of the caused change shows the danger level of each risk factor (Turner, 2009).

By doing a risk analysis we should examine all dangers and risks, and determine their possible combinations. The probability of damages and various damage combinations have to be analyzed. At the same time, determining the possible financial requirements is an equally important element of the examination. During risk assessment it is not to be neglected that what areas of the company are affected by the risk events. It is also a question if the negative effect would make an impact on the whole company or just a part of it?

In the practice of organization development projects the *probabilistic sensitivity analysis* gives the most information for risk analysis. This method shows the measure of impact the change in the incidence rate of each risk factor (independent variable) has on the success of organization development (implementation time, implementation cost, pace of change).

First, each variable must be identified by determining the areas getting relatively bad or critical values during the evaluation of the organization elements. (Figure 1.)

We have to explore the connection between cause and effect to see what further troubles the growth of an organization level problem may cause in the life of the company. Professional estimates can accompany this method of examination in a way that even the probability analysis calculations can be based on probabilities derived from the estimated incidence rate of each risk factor.

Thus, the above-described risk analysis methods complement each other. As a first step, the sensitivity analysis selects the “most dangerous” risks, then the probability analysis shows the combined effects thereof. In some cases an estimated-losses calculation may accompany the analysis of the risk factors, but this method’s usability and value in use is limited in organization development.

Determining Risk Management Action Tasks by Risk Types

In this phase we examine the possibilities of preventing the damages, dangers and risks to the organization, and by this we determine the possible direction of organization development. The risk-related solutions, the tools for risk control are (Mulcahy, 2010).

Avoiding risks

Reducing risks

Transferring risks

Sharing risks

The various types of action presume different organization development and so change management methods as well. These may be the following.

Avoiding Risks

If an event having adverse effect upon the operation of the company has a high probability of occurrence, then a solution is to withdraw from the very risky activity leading to that event. Organization development procedures opening a way before foreseeable, regulated and significant changes are needed (Child, 2008). It is achievable by certain strategic decisions, or it may need a reorganization of the procedures or the whole company. These kinds of projects are mostly covered by the BPR (Business Process Reengineering).

For example, reconstructing the sales department may be such a project, in which the company switches from the specifications of a product based operation to the allocation of procedures and resources by customer types.

Reducing Risks — Risk Management

In some organization development projects it is unexpected to get sudden, shock-like events. These projects aim to reduce the impact of damage, dangers and risks. Risk management includes foreseeable activities that have continuous effects on the long term, such as Six Sigma-type quality-assuring projects that includes procedure reorganization and aims to reduce the production error percentage.

Transferring and Sharing Risks

The company may transfer its risks related to its activities and the resources thereof. In organization development, the common “transfer direction” is an outer (sub)contractor. Characteristically, there are lots of uncertainty factors, the management should expect everyday problems, and it is hard to plan any internal improvement, but following the necessary management decisions this method can achieve significant results. A typical form of transferring risk is the outsourcing, which means that after laying down certain conditions in the contracts, the company outsources its non-strategic activities.

Adoption of Risks, Exploitation of Opportunities

If significant risk to the organization cannot be identified, or if the risk is manageable in the usual course of business, the company applies indirect risk management. The company environment is changing continuously, the pressure to adapt is constant, so the recognition of possibilities makes it a necessity to formulate the strategic goals and actions. In these cases risk management basically consists of project (development) risks that is not within the scope of this article.

Choosing the “Best Strategy”

During the process of the evaluation of strategic options supported by the result of a situation reading, the drawn planning scripts are compared to each other and evaluated.

First of all, I compare the company's mission and vision with strategic options that was set in concord with the former situation evaluation. By this I examine the coherency, and filter out the options that do not meet the requirements. After this I examine if the requirement of completeness is fulfilled; the options that contain goals in accordance with the predefined set of premises can be compared to each other. After selecting the "best strategy" the examination of acceptability gives answer to the question; Could we find the best organizational development objectives to achieve the strategic goals ? In the case of negative answer the strategy creation process starts from the beginning.

Summary

By using the organizational risk assessment we can choose one from the possible solutions, or find a combination of solutions that corresponds to the general goals of the company, and most effectively serves the execution of the company's strategic goals. The specific organization development tasks and measures can be distributed among the levels of senior and middle management in accordance with the division of labor in the management.

During organization development the results should be continuously monitored and assessed to always keep the applied evaluation procedures improved and updated. The results and derived conclusions serve to strengthen and enrich the learning skills of the organization.

After I evaluated the environment and the inner resources, I had to designate the possible "roads" on which the vision of the company can be realized. Considering the consistency requirement for the planning process the steps are building on each other. The strategic directions, as planning options, are connecting status quo with the company's vision, thus creating a bridge between present and future. Besides the designation of a strategic direction, a frame for the task supporting the realization of the strategy, namely the action plan, also has to be defined. In this respect, keeping the requirement of consistency in mind I determine the possible set of strategic instruments by using the methods below.

During the evaluation and quantification of the risk exposure I review the cases in which the strategic factors revealed formerly are "flying away", unexpected events do happen, company resources erode, or the internal shortcomings are not eliminated entirely. This kind of approach helps to think about actual risks for each strategic factor. The risks revealed this way are standardized by the expected events' financial, organizational, market or environmental nature.

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