

## Change Management in the Private Sector: A Literature Review and Proposed Research Questions

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### Abstract

*Following calls to examine change management in the private sector, the method of Kuipers et al. (2014) was followed. The literature written on change management in the private sector was combined based on five aspects of change: content, context, process, outcomes, and leadership. The period between 2000 and 2015 was the focus. Searching engines EBSCO Discovery Science and Google Scholar, the terms change management, private sector, organizational reform, organizational change, private organizations, private management, private companies, and learning organization were used. Articles were from academic journals and peer-reviewed. The article discussed the evolution of change management in the private sector and provided future research recommendations for scholars to follow.*

**Keywords:** *Change management; private sector; organizations; leadership; literature review.*

## 1. INTRODUCTION

*"The world hates change, yet it is the only thing that has brought progress."*

*Charles Kettering*

Since the beginning of the new millennium, change has become the only constant in business organizations where management believes that continuous change and evolving are the only way to remain competitive in the business (Arnold, 2015). Armenakis et al. (1999) provide an extensive literature review on studies of change management between 1990 and 1998. From their analysis, one can conclude that denial, resistance and performance (individual and organizational) were the themes of the era. In addition, the scholars proposed enactive mastery as one of the most effective solutions in implementing, and sustaining, change. Nevertheless, we believe that their review of the literature: 1. did not explicitly differentiate between private and public organizations; 2. requires validation to its applicability in the present time as during those twenty-five years, a lot has changed in how organizations operate and what forces affect them. Change is conceptualized as "restructuring, downsizing, mergers and acquisitions, strategic change, and cultural change." (Farooq et al., 2011, p. 757). Change is about reinventing the wheel, changing its direction or building its momentum. In all cases, change happens when organizational management perceives potential or actual failure as a result of certain changes in the business field (new technology, new competitor) or in the environment (new political system, economic turmoil, globalization...). The decision to engage in a transformational initiative has the ultimate goals to stay ahead of the competition (Abukhader, 2015), and to improve "profit margins, sales values, return on investment, increased overheads, wastage, complaints and quality" (Green et al., 2014, p. 29).

Dunphy et al. (1993) argue that "managers and consultants need a method of change that is essentially a "situational" or "contingency" method, one that indicated how to vary change strategies to achieve "optimum fit" with the changing environment" (p. 905) (mentioned in Al-Haddad et al., 2015). Articles fail to fairly explain all the situational factors surrounding the change; hence, providing one global change approach seems naïve and explains exactly why most of the change initiatives fail. In 1997, McHugh argued that employees experiencing an environment of constant change suffer from negative affect, more importantly, stress. Kansal et al. (2014) report that 80% of organizational mergers and acquisitions do not proceed as a result of change management failure.

In this review, our attempt to explore the four (or five) aspects will shed light on change management from a strategic perspective. That is looking at change from the start of planning it (content and context) towards analyzing the consequences of it (outcomes). Al-Haddad et al. (2015) classified the change aspects as change type, change enablers, change methods and change outcomes. It is worthy to note that the four (or five) aspects are highly interrelated and interdependent. Hence, it is difficult to discuss one aspect without touching upon the other. For example, in an earlier study, Barnett et al. (1995) concluded that considering both content and process provides the most insightful types of information on change management. Al-Haddad et al. (2015) also attempted to examine the content (type of change), process (method of change) and outcomes together.

We believe that the research on public institutions is more evident as institutions managed publicly are quite famous for its bureaucracy and inefficiency. Accordingly, with the changes happening globally, scholars expect public organizations to change significantly and hence, they are interested in examining them. Kuipers et al. (2014) have attempted to combine the literature written on change management in the public sector based on four aspects of change; namely content (system, structure and we added people), context (external and internal environments), process (how change is carried out) and outcomes. The scholars finally add a new fifth dimension, namely the leadership present in the organization that supports the change.

Investigating change management, we found numerous studies and analyses on the public sector. We believe that scholars are more interested in studying change in these institutions due to 1. Change imposed is usually uncontrollable (emergent); it is the result of external environmental factors that force change upon institutions. Hence, the outcomes are highly unpredictable 2. Public institutions are reputable for their bureaucratic structures and inefficiency. Hence, change unfreezes the organization and introduces major to radical changes that are of utmost interest to scholars; all wanting to explore the "new public sector" (Brignall et al., 2000).

In our review of the literature, we focused on the period 2000-2015. Searching engines EBSCO Discovery Science and Google Scholar, we used the terms change management, private sector, organizational reform, organizational change, private organizations, private management, private companies, learning organization. We also confirmed that articles were from academic journals and peer-reviewed.

## 2. CONTENT

In Kuipers et al. review on the public sector, their discussion of the content focused on the technical aspect (i.e. differentiating between three tiers of change, discussing types of reforms or structuring introduced). Nevertheless, we believe that they missed discussing the human aspect. After all, organizations are social systems and change cannot be initiated and implemented without people. Hence, we focused on determining the role of the employee in the change.

Change management requires two types of new factors. Transformational factors that affect employee behavior such as culture, vision and leadership. Transactional factors that control the consequences of the new change including policies, systems, skills and abilities new required and management practices.

Employees involved in the change are an undeniable part of the change content. An “adaptable workforce, which is positively disposed to change (Guest, 1992; and Iverson, 1996) can go a long way in ensuring the success of the change intervention.” (Sahoo et al., 2015, p. 29). However, with change comes uncertainty and ambiguity that lead to anxiety and stress on the employee side. Accordingly, they start resisting change and jeopardizing its success. The same aforementioned scholars argue that organizations should invest in aligning their HR strategy with the new change proposed to alleviate worry and ambiguity between employees. Simoes et al. (2014) concluded that communication is one way to reduce employee resistance to change leading to better outcomes.

Jurisch et al. (2014) found that private organizations rely extensively on training and effective communication to counter resistance to change. Interestingly enough, the scholars reported the same results for public organizations. However, it was proven that employees in private organizations have better capacity to change (self-efficacy) and that the private organizations are typically more experienced in managing change. AbuKhader (2015) also noted the importance of user training.

A different way of seeing change management is exploring how it failed in the merger of America-on-Line and Time Warner. Inability to motivate employees, incongruent organizational structure and cultures, different budgeting plans and organization size (Kansal et al., 2014) were all reported reasons behind the failure.

Smith (2002) determined that the drivers of change success are managerial and leadership support, addressing employee needs, and access to sufficient amount of resources. Al-Haddad et al. (2015) argue in their comprehensive literature that both duration and scale of change should be clearly articulated for employees.

## 3. CONTEXT

Context is typically described in terms of all the external influences that trigger the need to change. As discussed by Kuipers et al. (2014), these environmental factors could be general (on the country level) or specific to certain industry or even an organization. Dunphy et al. (1993) argue that “managers and consultants need a method of change that is essentially a “situational” or “contingency” method, one that indicated how to vary change strategies to achieve “optimum fit” with the changing environment” (p. 905) (mentioned in Al-Haddad et al., 2015). Articles fail to fairly explain all the situational factors surrounding the change; hence, providing one global change model of change seems naïve and explains exactly why most of the change initiatives fail.

Vedenik et al. (2015) discussed the enormous changes that happened in the Slovenian environment (for example, public-to-private ownership transition, independency, political changes...). The scholars address the failure of change management that happened in the organizations as a result of: 1. the management’s lack of knowledge about how change has *changed* the business environment. 2. their choice to ignore the cues. 3. their reactive rather than proactive responses to change. 4. their lack of resources to implement change. In another example of a sample of organizations from the Netherlands, Morales et al. (2012) found positive association between competition and initiation of change.

#### **4. PROCESS**

In their aim to address the flaw of Lewin's 1951 change model of unfreeze, change and refreeze, scholars attempt to provide procedural steps that guide change management inside the organization. The scholars Vedenik et al. (2015) developed a model to help SMEs. The proposed model has quite a few steps that include 1. Organizational self-assessment of current states. 2. SWOT analysis of the change proposed. 3. Determining the change to be imposed using clear definitions. 4. Change management (planning, implementing and controlling).

We believe that the implementation of the change is the most important aspect of change management as it determines the ultimate organizational performance. A sound implementation will ensure that the organization becomes adaptive and learning, accordingly, its performance will surpass other organizations. In addition, effective implementation will ensure the negative aspects such as inertia, stress, depression, anxiety and ambiguity are addressed rather than ignored. Hence, employees involved will be at ease supporting the transition process effortlessly.

Clardy (2013) believe that effective management of the change process requires seven steps. They are "increasing organizational readiness for change, management approval, preparing leaders, raising employee motivation for change, operationalizing change interventions, validating the change process, and embedding change into the organization." (p. 33).

Clardy (2013) contends that all scholars' endeavored steps to manage change can be grouped under a seven-step model (the IMPROVE model): 1. Increasing the organization's change capacity; ensuring that all employees and top management are ready to pursue change at any opportunity (boosting self-confidence, motivation, and providing training on accepting and managing change initiatives). 2. Securing Management's approval for the change initiative; Clardy believes it is the responsibility of the change agent to deliver a pitch on the change initiative's potential and costs to have them on board. 3. Preparing direction and leadership. 4. Raising employee motivation for a specific change initiative; among the proposed methods were employee engagement. 5. Operationalizing the change. 6. Validating the success of the change initiative. 7. Embedding (maintaining) the change in the organization.

Mella et al. (2012) conceptualized the process as: 1. Acknowledging the need for change. 2. Identifying the optimal objectives to be achieved. 3. and 4. Mapping and strategizing the way to reach the defined objectives. 5. Directing the whole organization towards change. 6. Controlling the process of change to ensure non-divergence.

#### **5. OUTCOME**

Al-Haddad et al. (2015) mention the change project outcomes as "the ending result of the change project. A change project is deemed successful if it is completed within the predetermined objectives (i.e. completed within budget, within schedule, conforming to customer requirements and satisfies the main stakeholders) (Kendra et al., 2004; Nicholas et al., 2008; Project Management Institute Inc., 2004) (p. 251). Kuipers et al. (2014) define outcomes as "substantive results of the implementation of change that can be intended or unintended and positive or negative" (p. 12).

In a study on private Saudi hospitals, the most important reason for accepting change by practitioners was to simplify and standardize the business processes (AbuKhader, 2015). Hence, outcomes include employee changed behavior (they are willing to share information and participate in lean operations), more efficiency and shorter response time. Bohl (2015) reflected on the outcomes realized by the privatized Budapest airport as slight decrease in passenger rate and profits followed by extensive increases in both.

Morgan et al. (2003) consider type of change (content) and employee involvement (process) in Australian organizations and how both affect trust (outcome). Their study proved that the type of change affects the level of employee trust negatively due to the arousal of negative feelings. Low employee involvement in the change process was significantly associated with lack of trust in management. Structural change had the highest significant impact on employee trust. Nevertheless, the same study reported that structural changes happening on the individual level that cause favorable changes in status, responsibility, compensation and others were accompanied by positive reactions to change.

## 6. LEADERSHIP

As mentioned by Banker (2012), leaders of change are the “sense-giving” to employees to understand and implement change initiatives. Studies attempted to examine the influence of leaders, taking their management level into consideration, on change and the implementers of change. Leadership is considered one of the enablers of change to happen (Al-Haddad et al., 2015).

Herrmann et al. (2014) analyzed the influence of the executives’ personalities, using the Five Factor Model (conscientiousness, emotional stability, agreeableness, extraversion and openness to experience), on change. Their results, on a sample from Ecuadorian SMEs, proved that personality factors of conscientiousness and agreeableness were negatively related to leaders initiating change. Emotional stability, extraversion and openness to experiences were positively related. However, conscientiousness and emotional stability moderated the change implementation-organization performance positively while agreeableness had the opposite effect. The same scholars argue that executives are the ones who set the organizational stage for effective change implementation. A step we referred to previously as one of the most important steps in change management. Klonek et al. (2014) focused on employees who execute the change from middle and low managerial levels (known as change agents). In their own words, they “explore how specific verbal behaviours by change agents can trigger resistance to change – in terms of sustain talk – in change recipients.” (p. 336). Their study showed that change agents who are so controlling (similar to extraversion) that they do not listen to their employees nor accept their input in the change process (low employee involvement) evoke resistance to the change. Moreover, the scholars found that it is two-way process. As employees show resistance, as a reaction to their managers, managers respond with more provocative behaviours that lead to further resistance to change. This study coincides with the latter one. However, the first study attributed the negative effect to the executive’s personality while Klonek et al.’s study attributed the effect to communication problems. Morales et al. (2012) found that managerial power has adverse effects on initiation of change in the Netherlands. AbuKhader (2015) found that IT departments were considered the leaders in managing change in Saudi private hospitals. Yet, the most important revelation from this study is that change management’s effect on the organization is not the same across all organizations, fields, departments... etc. for example, in this study, change management was compared with size of hospital and type of change applied. Hence, argument about the contingency approach is supported.

### 6.1 Public versus Private Organizations

Green et al. (2014) concluded, from a selected Indian sample, that change management in private organizations is significantly similar to public ones except for the technological aspect. This raises the question whether our pre-held assumptions about the difference between private and public organizations are true. Rainey et al. (2000) argue that there is an extensive pool of research on the differences between public and private organizations. The aforementioned authors have compiled evidence on convergence-divergence between public and private organizations on dimensions of goal complexity, organizational structure, logistics and routines, job outcomes (motivation, job satisfaction). Yet, we almost did not find any addressing the topic of change management.

Bohl (2015) refers to the term “dynamic capabilities” as the “the internal abilities of the organisation to change the metrics in their business model, to integrate, reallocate and reconfigure resources within the company, which have led to superior performance.” (p. 33). In other words, these abilities reflect the organization’s inherent talent in evolving to cope with change. In his case study of a recently privatized airport in Budapest. The identified pillars of managing change were: 1. Time-sensitive strategic decision-making; covering a supporting top management, and leaders who handle conflict and have sincere open communication channels with their employees. 2. Flexible resource allocation; untying resources to certain processes have led to faster responses to changes in the market and it was only made possible through the organizational culture. 3. Release of resources; to achieve flexibility and cost reduction, outsourcing and using temporary workforce were proven effective. 4. Coevolving of different parts of the organization; involves creating integrated teams to pool KSAOs.

### 6.2 Areas of Future Research Consideration

Based on previous literature reviewed, we suggest further investigations in several areas. First, it is evident that the five pillars of change management are not independent. Their interdependency urges researchers to examine more than one aspect at the same time to further understand how they interact and how their congruency affect the outcome of the change. Second, one of the studies proved that freeing the system (allowing for outsourcing and temporary workforce) proved successful. Hence, when is it appropriate to outsource change management? And how to outsource?

Third, typically organizations change in order to stay in the competition. How does enforced change differ from proactive one in terms of outcomes? Forth, it is also important to address the question whether change management actually differs between private and public organizations. Fifth, change management requires studying from a strategic perspective. In order to determine the actual success of change, a follow up is called for to realize has the outcomes sought remained sustained over time. Sixth, change management is inherently about control; yet, no study was found that explicitly discuss control aspects of change. Finally, we suggest that scholars use the bracketing strategy in examining change management in private organizations.

## 7. CONCLUSION

We conclude with two points. First, one must admit that change is not a one step process neither it is unilateral. Change management best follows the *bracketing* strategy in which change happens both top-down and bottom-up (Mella et al., 2012). As articulated by the scholars, "If the change begins to operate in the macro systems, then it quickly spreads to the lower systems. If the change begins in the subsystems, then even the higher-level systems will start the three wheels rotating, though at a reduced speed." (p. 261). Second, we also believe that change management is inherently a social process that should focus on people first. Finally, it is apparent that change management is inherently similar in private and public organizations covering the five spectrums of content, context, process, outcome and leadership.

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