

Hard and Soft Approaches of Strategic Organisational Change Management

Ferenc Farkas

University of Pécs, Pécs, Hungary

Abstract

The nature of strategic organisational change management is different now from what it was in the past. As we could say either level of corporate strategy or itself the management presents changing character either level of corporate strategy or daily operation and both theoretically and in the practice.

The conference paper wants to analyse the data of many change initiatives delivered by students' (mainly MBA students of Pécs University during the past decade) well-structured short cases and case studies. These documents have been based on different change management concepts. Some of them were traditional well-known old concepts, while some of them were new developments of change management. The hypothesis of this paper is: however, there are many different concepts, theories, approaches to change (particularly strategic management nevertheless the success or failure of these initiatives independent of concept used. In other word, there is no one best way of strategic management changes. The author is arguing that the changing profile of organisational change can describe at least by two main approaches. The hard and the soft approach are two general options for managing strategic change in the organisations. The ways of value creation, efficiency improvement can be targeted successfully by both of these approaches that will be introduced in the paper. The relevance of hard- and soft-oriented change management process has been proved with students' short cases, respectively the rich in-the-field experiences of the author. However, the good balance of them is needed. The proper combination of hard and soft concepts and practice for achieving organisational success is wished.

Keywords

Changes, strategic change management, soft and hard approach, short cases, change initiatives.

1. Change and organisational responsiveness

The crisis culminating in the second half of the last decade has left an indelible mark on enterprises both in respect of operations and management. In retrospect, it is clear that the management of organisations was unprepared to tackle the organisational issues and requirements presented by the crisis. Hungarian experts on management science (educators and researchers) attempted to sum up the experiences and the consequences retrospectively (Balaton & Gelei, 2013). The profession is trying to find a way out by processing 150 years of Hungarian business thinking (Antal & Baksa, 2015) and equally, by presaging management innovations (Inzelt & Bajmóczy, 2013). Previous analyses on the future evolution of organisations (Kocsis & Szabó, 2000) in Hun-

gary did not have sufficient clout at the time to enable enterprises and their management to prepare for what was looming ahead of them.

Besides publications processing the national models of the crisis and crisis management crying for new corporate strategy, it has been a general experience that papers and studies — including those cited above — can become *tools of prevention* only to the extent of meeting their own specific goals. By definition, a crisis is a forced strategic organisational change, and the customary response to it is proactivity. The only way organisations can achieve a more effective form of crisis management is by heightening the level of *organisational responsiveness*. This term appeared in the terminology of management in the 1990s. Originally, it was perceived as an ability to respond to environmental changes (Cheng & Kesne,

1988). It was only after the ground-breaking article of Bartlett & Ghosal (2002) that the role of people, in particular, the quality and adequacy of human capital, came to be perceived as the key driving force behind an organisation's responsiveness. What does organisational responsiveness imply with respect to the changes of a "typical" organisation? Main factors:

1. The understanding of the complexities of large-scale organisational changes.

It has become widely recognised worldwide (Yaeger, 2006) that complexity entails the ability to give adequate answers to the following questions:

- What and why? – choosing initiatives
 - ✓ strategic alignment
 - ✓ social and professional priorities.
- Risks associated with action or inaction:
 - ✓ customer,
 - ✓ financial, and
 - ✓ reputation risks.
- 80% of success is in How.
 - ✓ execution,
 - ✓ results vs. methods,
- Who? – differentiating between mere impact adopters and drivers:
 - ✓ customers,
 - ✓ stakeholders,
 - ✓ enablers (of decision-making and action).
- When? – managing multiple initiatives
 - ✓ simultaneous,
 - ✓ overlapping,
 - ✓ sequential

2. Getting the "governors" of changes prepared.

"The corporate governance issue is puzzling because different organisational structures exist throughout the world; and there are examples of good and bad corporate governance in every country" (Gup, 2007). The question raised in the title of the article — Does the board structure matter? — is still relevant today, and the answer is: yes. Board structure does matter. Who is engaged in changes affecting the organisations of banks and on whose behalf? What is their expertise and what interests motivate them? In a very recent article, the well-known Hungarian research fellow writes: "So, good governance first of all means serving the interests of capital. However, the time horizon of market mechanisms is too short to be

able to ensure the smooth operation of the economy. Therefore, a new public management system should be developed, which is different from the exclusively enterprise-centred logic" (Botos, 2014, p. 285). A part of this endeavour could be the specification of change management for the companies and institutions of the financial sector. In examining this particular topic, we are addressing the key issues of organisational responsiveness in the context of change management. Picture 1 represents a new value model for change direction of the public sector.

3. The expertise and knowledge of managers and their subordinates, as well as their attitude to accepting changes are of crucial importance.

Even the smallest financial institution is structured; both from an organisational and a geographical perspective. It may have organisational units spanning over continents, countries and regions.

The form of the organisational units may also be extremely complex and diverse from subsidiaries to branches. Their common feature is the use of labour-intensive human resources. This intensity characterises front office and back office personnel alike.

Contrary to mainstream economics, according to social psychology the individual, as part of a group, is by nature a social animal (Aronson, 2008). The individual decisions of a middle manager working in a branch or division often reflect values defined and followed by groups (Kardos, 2013, p. 1261). This means that harmonising the interests of the individual and the group representing the organisation (in this case, the financial institution) is of key significance. Work values are the practical manifestations of organisational responsiveness. As the individual and the group perform their tasks; so the organisation improves its ability to comply with externally and internally induced changes.

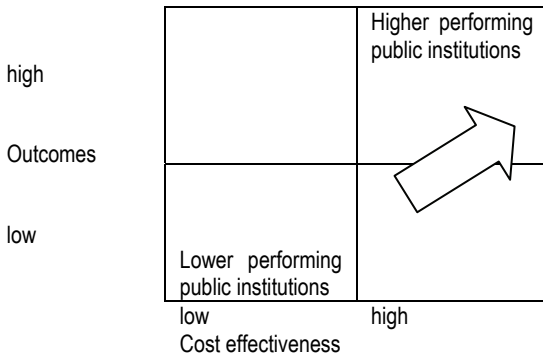


Figure 1 Public Sector Value Model
 Source: Frankóné 2007, p. 58

4. The improvement of individual competencies is a typical human resources management duty at the organisations of the economic sectors.
5. In analysing the different aspects of organisational responsiveness, a number of specificities should be considered:
 - knowledge depreciation has perceivably accelerated in the domestic organisations of the sector;
 - the technology of operation is intensifying;
 - the tightening of the legislative environment has increased the demand for *responsible working practices*;
 - the generation shift among the managers and employees has accelerated, with an increase in female employees and new entrants; and
 - employee expectations (assumptions) in respect of training and development are rapidly changing — mostly increasing — worldwide (Kaur, 2012).

(5)The organisations have several special traits, which is natural as each sector differs from the others in many regards. They may differ in terms of mission, attitude to profit generation, organisational culture, applied technologies, and so on. Organisational sciences have developed numerous methodologies to explore organisational specificities, such as the approach known as contingency theories (Child, 2005), which sum up the factors affecting organisational design. The real cases worked out were utilized the well-known and widely used STEEPLE-analysis (see: Farkas, 2013) describe the controlling specificities through exploring the external environment. This may focus on an entire sector and/or the individual organisations/enterprises of the sector. Inde-

pendent (explanatory) and dependent (output) variables are customary terms in management as well, and the problem of dependency is a frequent matter of discussion.

6. The ownership structure may impede the recognition of the trigger for organisational change.

The ownership structure of large (especially multinational) banks is complex, multiply structured and often lacks transparency. Hungarian banks are no exception after the privatisation of the banking sector. This structure has given rise to large-scale efficiency issues for some time now (Várhegyi, 1998). The revision of the structure is a change objective in itself as a macro-level change. From the aspect of national-level changes, concentrated professional versus dispersed ownership presents a number of dilemmas for organisational actors, including the following:

- Who are the initiators of changes from the group of owners, especially at banks with hundreds of thousands of owners (shareholders)?
- How many channels are needed by the governing body or management representing the owner and owners' interests to become an agent of change?
- To what extent can the total separation of owners and employees (in space and time) ensure the formation of commitment to the change objectives? Wouldn't the "death of distance" be replaced by the "blocking force of distance" as a hindering factor?
- To what extent does the phenomenon of "strategic decision at the centre – execution at the frontiers" facilitate the formation of the *commitment* required by the change management models presented later in this study?

As a reply to this last question, we present an example of a change management practice of an anonymous financial organisation.

Example of our MBA students' preparation:

"The central decision was integration.

After the acquisition they immediately set down to work out the integration project, as the two banking businesses had a completely different operational and information technology background and different financial core activities. With a view to improving the operational efficiency of the Group, the objective of the project

was to ensure the implementation of uniform IT solutions and the introduction of uniform accounting and reporting systems with optimal resource utilisation (time, money, people), and all this was to be achieved by taking advantage of already existing assets and solutions.

The implications for local-level executors included the following:

- as soon as the integrated organisational structure was set up, there was no longer need for the work of some of the IT staff, and
- as a general trend, managers from one of the banks were downgraded or transferred to different positions, while new positions with higher decision powers were created for the employees of the other banking business”.

The following case is also intended to illustrate this point.

“When change initiatives run aground — as they so often do — change agents can be quick to point a finger at the people who never got on board. The assumption is that they resisted a perfectly logical move, so it fell apart.

However, blaming resisters not only is pointless but can actually lead to destructive managerial behaviours. When managers perceive resistance as a threat, they may become competitive, defensive, or uncommunicative. They are sometimes so concerned with being right—and not looking bad—that they lose sight of their original goals. In stubbornly pushing things through without understanding the resistance, they sacrifice goodwill, put valuable relationships in jeopardy, and squander the opportunity to engage sceptics in service of a better plan. They presume that only the other folks—the resisters—need to alter their behaviour for the change to succeed. The authors of the deservedly world-renown paper serving as the source of the extract (Beer & Nohria, 2000) wrote:

“In our research and consulting work, we’ve had the opportunity to study change initiatives at scores of large and small companies and we’ve found that to understand resistance to a program, you need to start by adjusting your own mind-set. Ask yourself two questions: ‘Why am I seeing this behaviour as resistance?’ and ‘If I viewed the resistance as feedback, what could I learn about how to refine the change effort?’. Once you’ve honestly answered those questions, you can begin

to see resistance as a resource—as energy to be channelled on behalf of the organisation. Even difficult people can provide valuable input when you treat their communications with respect and are willing to reconsider some aspects of the change you’re initiating. Here are two ways you can use resistance to effect change more productively” (Farkas, 2013, p. 183).

Understanding the *nature of change* is the primary requirement for decoding resistance (Ford & Ford, 2009).

The section of application examples of this paper addresses this subject.

2. Types of change: managed and unmanaged organisational changes – hard and soft continuum

There are numerous classifications of organisational changes depending on characters of change.

The literature addressing the topic of changes offers ample advice about how to proceed in planning and implementing changes. The multitude of concepts all agree on one thing: solutions are aimed at clear state of affairs and the management of transparent situations. That notwithstanding, large-scale social and economic regime changes at the end of the 20th century and subsequently, the financial-economic global crisis demonstrated that the set of tools available for the management of changes is insufficient, lacking any effective solutions for managing novel or, from a different perspective, “messy”) organisational situations and problems (Senior & Swallers, 2010). Without a doubt, the range of concepts pondered when changes occur or when changes are being made should be broadened.

The classification that distinguishes between

- *managed* and
- *unmanaged* changes

provides a sound framework for the analysis of *macro and micro-level* changes.

The relevant papers of Kornai (1999) and Angyal (2009) are helpful in understanding the concepts and Hungarian adaptations of these two main types.

The next part of this article is focused on the analysis of managed micro-level organisational changes.

The *micro-level approach* to change management addresses changes initiated by member of the organisation and management. It covers intentional, purposeful organisational changes, by which the organisation intends to respond to the

challenges generated by the environment and by its own internal operations. Planned organisational changes represent an intention on the part of central and local-level management and employees to improve, through the changes effected, the organisation’s adaptability and alter the behaviour of individuals as intended. Nowadays the trends of differentiation and integration are simultaneously represented in organisation restructuring concepts. Under such conditions managed changes may be suitable for identifying the right orientation of organisations. Subsequently, however, two important details of the conceptual framework of change management will need to be addressed. Firstly, the model of the equilibrium theory should be described, as it helps explore correlations between transition management and the maintenance of dynamic capabilities. Secondly, we should examine the typical attitudes to changes in various phases of the change.

The first question is: does the impact exerted on the organisation’s participants by transformations generated by dynamic capabilities through unmanaged changes produce the same response graph as in the case of managed changes? Secondly: did resistance to the change materialise inside the organisation and how did the organisation recognise and overcome the resistance? Thirdly: did the organisation apply, during the instinctively occurring changes, the methods used to overcome resistance in the case of systematic, planned changes, including training and communication; participation and inclusion; assistance, support, negotiation and persuasion? Fundamentally, change management means managing the transition between an organisation’s existing state and its future (planned) state. In the lack of pressures for change, the organisation is at rest. As soon as the triggers of change make an appearance a transformation begins, which must be constantly managed until the organisation — having incorporated the changes — returns to a state of rest.

This change in equilibrium is illustrated by Figure 2:

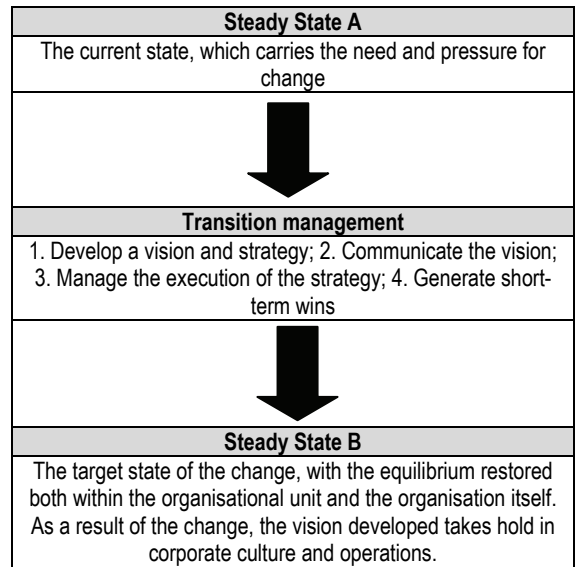


Figure 2: Public Sector Value Model
 Source: Farkas, 2013

Organisations may reach State B from State A through unmanaged changes (transitions) as well. The main difference is in controllability and the result of the expected outcome. The level of uncertainty and unpredictability depends on the mobilisation and quality of the organisation’s dynamic capabilities. The methodology applied by Voszka (2013) to analyse the history of changes in state ownership in post-transition Hungary also resembles the three phases of the equilibrium model. In the author’s opinion, the triad of nationalisation – privatisation – nationalisation implied the vested interests and value relations of the ever-present attitude of equilibrium seeking. The desire to outdo the previous state through changes can be considered a basic goal of change management.

3. Practical issues of soft and hard continuum

The rich methodology of change management provides users with a multitude of procedures, models and know-how. This paper can only offer a glimpse of how these tools are utilised in the wide range of organisations either in the business, or in the public sector. The examples mentioned so far have served this main purpose, while, however, they also touched upon the tailoring of these concepts to the sector.

Below we present a few examples of the vast collection of cases amassed by the University of Pécs during the courses given on the subject of change management over the years. We learnt that

the most popular change management model among our Master and MBA students is definitely the Kotter model based on world-famous research and epoch-making publications of Harvard professor, John P. Kotter (Kotter, 1996; Kotter & Schlesinger, 2009). Knowing this evidence we are searching for other applications within the framework, of hard and soft continuum of change management practice.

Change management has a hard side and a soft side. Our learning from MBA students' cases was that most managers tend to have some familiarity and experience dealing with the 'hard' aspects – like goals, strategic plans, structure, and performance targets. However, most managers know far less about how to deal with the 'softer' aspects of change, revolving around factors like staff emotions, politics and organisational culture. The problem, of course, is that it is the soft side which so often wrecks change management efforts. If not dealt with effectively, for example, emotions like fear and scepticism can quickly create resistance and disengagement that can really damage or thwart a change process.

3.1. Jick's Ten-Step Model Focusing on the Hard Side of Change

The overview of Jick's Ten-Step Model (1993) provides a good opportunity for analysing the case of a bank where management attempted to manage the evolution of a change that was aimed at restructuring a unit of the banking organisation.

1. Analyse the organisational need for change

Once the decision was made, management strived to provide justification for the change through several channels (e-mail, internet, meetings). Due to the nature of the situation, however, it was insufficient to be understood and accepted by everyone.

2. Create a shared vision and common direction and

3. Separate from the past

The goal was to create a uniform communication process inside the organisation, based on standard operating procedures. With that in mind, they restructured the organisation of the unit and standardised the rules. As a result, the existing rules were either eliminated, or transformed. Management set up a separate team for the project.

4. Create a sense of urgency

Everyone understood that it was easier to work according to uniform rules, and co-workers can offer help more easily if they understand each other's work. In addition, the clear declaration of new dependencies and responsibility levels, and especially the elimination of the previously prevailing existential uncertainty, served everyone's interest.

5. Support a strong leader role and

6. Line up political sponsorship

Management intended to centralise "powers" in a single hand. To that end, management tried to ensure that the person selected to lead the change was someone respected by employees both at the professional and at the human level and clearly suitable for resolving any problems down the line. After the announcement of the decision, upper-level managers stood up for the appointee as one, making it clear that they trusted him and that they expected everyone to follow his lead and help him in his work.

7. Craft/include an implementation plan, and

8. Develop enabling structures

Management and the new leader communicated each step of the changes throughout the project. They clarified new positions and responsibilities. Everyone was given a thoroughly specified new job description, whereby a clear picture emerged of the dependencies.

9. Communicate, involve people and be honest

Throughout the process, stakeholders and affected employees were requested for feedback at joint team building meetings, ensuring that any questions arising were analysed from different angles (e.g. evolution of personal relationships, provision of opportunities for development, etc.).

10. Reinforce and institutionalise the change

While the change was clear, the "conclusion" of the process raised a few problems. As a result, follow-up meetings and training courses were arranged to ensure the institutionalisation and smooth functioning of the new organisational structure.

3.2. Five-Step Model: A New Approach to Understanding the Soft Side of Changes

To help managers deal with the soft side of change, we frequently used a new ‘five-step’ model that has recently been developed by two American strategic management professors (Auster & Ruebottom, 2013). They developed their new framework from their wide consulting and academic work, including, apparently, 400 change projects carried out by their MBA students. The model revolves around assessing and classifying how the most influential people in the different groups of people associated with a change feel about that change and then working with those individuals in a targeted way to leverage their influence over others to gain wider acceptance. Here, in summary, are the five steps:

- Step 1. Map the political landscape of Change on a strategical level.
- Step 2. Identify the key influencers each stakeholder group.
- Step 3. Assess influencers’ receptiveness to change planned.
- Step 4. Mobilize influential sponsors and promoters.
- Step 5. Engage influential positive and negative sceptics.

This 5-step model, certainly is not a complete framework for dealing with all soft issues (e.g. organizational culture and values/beliefs), but it is an easy-to-follow and action-oriented guiding for change leaders on how to deal with key issues emotions and politics of main stakeholders. By our experiences this model is suitable to understand the importance of soft side change action. In the practice it is working!

3.3. Application Examples

3.2.1. The Soft Approach at the „Hungarian” Bank

Another case involves a project aimed at changing the organisational culture of a leading domestic commercial bank in Hungary. The case describes the process of change in a countryside branch where the need for change was signalled by the declining trend of sales revenues. The branch manager decided that, since the branch was unable to come up with the expected indicators anyway, there was nothing to lose by applying radical tools to execute the required changes. (According to this particular classification, there are two types of organisational changes: radical vs.

incremental change). When the radical version is the preferred choice,

- a large number of organisational characteristics are subject to changes,
- these characteristics prevail at several hierarchical levels of the organisation,
- changes occur relatively quickly,
- changes are effected through high-scale, spectacular “leapfrogs”, and
- they assume the support of senior management.

The branch manager reckoned with all this when he decided to “give a shot” to instigate changes of a cultural nature. From the get-go, it was important for the branch to adjust to the organisational culture of the parent company, which management tried to achieve by defining both external and internal values and having them accepted by employees. To replace the old, poorly functioning collegial relations, new relationships were created with new working groups set up, while fundamental, external factors — formerly being the stumbling blocks of effective work — were reshaped (office layout, modernisation of assets). In the new work environment and through the participation in new groups, employees gradually accepted the need for change and became supporters — especially when they recognised that in the improved workplace the changes allowed them to have more time for sales work and they could make more money as a result. Personnel changes in management were also on the agenda; moreover, employees needed an environment where they could learn from each other.

As a result, a supportive environment emerged, which helped in the introduction of new procedures. Obviously, the initial objective was to eliminate the superficial problems before getting to the root causes of the issues. Through these changes, the branch gradually integrated into the organisational culture of the parent company and gained an enormous momentum that could only be curbed by the impact of the subsequent crisis. When the leader drew the conclusions of the project, to his surprise he found that, overall, the change turned out to be incremental rather than radical as originally planned. In other words: it was a step-by-step process, adjustment to external circumstances was a predominant aspect during the implementation of the goals, and priority was given to the training of employees and the shaping of their attitudes. This, however, should come as no surprise: after all, there is broad consensus that

in the practice of change management the transformation of organisational culture is an incremental process.

This representative example comes from a case that is about the application of a change management method called *force field analysis*. The principle of force field analysis was developed by Kurt Lewin, a social psychologist (Lewin, 1947; 1972). In essence, the theory asserts that the commencement and implementation of changes are determined by the proportion of the helping forces and the hindering forces relative to one another. In other words: in order to effect changes, the driving movement toward a goal must be stronger than the blocking movement toward a goal.

Change, or maintenance of the status quo? This was the dilemma for a large multinational company in the case study, with a history of about 25 years and a network of 82 branches at the time of the study. The main driving forces (e.g. the need for social and HR changes, changes in information technology, pressure for innovation and expectations to meet changing customer needs) led to profound organisational changes.

Some of these forces were perceived as strategic, while another part of them were operational. In any case, ultimately the bank's performance indicators improved and problems reached a level of resolvability. This short example also demonstrates that even the simplest method can succeed if, filled with new content, it is applied in the context of a different professional environment.

3.2.2. Hard Approach at a Telecommunication Company

The organizational setting for this research was a large, national full service providing telecommunication company which employs approximately 17,000 employees. The external impetus for strategic reorientation was the announcement of complete deregulation of European telecommunication markets. There were several new entrants on the market. The vision of the company was to 'develop an integrated master change programme to transform the company into a cost efficient provider of world class customer driven products and services in a national and international telecom market'. The respondents (250 people) for this study were managers (from staff units as well as line units) in the company. They were asked to base their answers on experiences from one particular change project in which they had taken part as change agents. Half of the respondents

were asked to base their answers on 'fairly successful' change processes while the other half of respondents based their answers on 'fairly unsuccessful' change processes. The final sample was the following: it contained data from 51 percent with the first instruction and 49 percent with the latter instruction. A key investigation approach was used in combination with the use of perceptual measures, which is the most frequently used way of obtaining information on subunit, organizational and environmental variables in organizational research. Overall the results of the research showed that there is a positive relationship between participation and a number of outcome variables that are relevant for judging the successfulness of implementing strategic change. Participation was found to have a strong effect on all outcome variables; however, the relationships between participation and goal achievement, and resistance are somewhat stronger than the relationships between participation and the three components of organizational commitment. This short real case represents the possibility of hard and soft combination of change management when the company strategy has been involved by big change.

4. Summary: what really works

Primary management procedures — strategy, execution, culture and structure — provide the foundation of any business.

- A strategy must be clear, concise and target-oriented, and management should adhere to this principle at all times. The chosen method of growth should be carefully selected in order to avoid venturing into uncharted territories. The weight and the proportion of core activities should be increased. Management should rely on the organisation's core competencies and focus on their development.
- Execution means the achievement and maintenance of smooth operations. Once again, the most important factor is "how". Corporate champions are always realists. They recognise that they cannot outstrip their competitors in every aspect of their operation; therefore, they identify the processes most important for satisfying their customers' needs and then focus all their energy and resources on those particular areas to ensure that these processes are performed with maximum efficiency.

- Culture must be performance-oriented. At corporate champions, everyone gives their best. These organisations create a culture that encourages outstanding individual and team performance, where not only senior and local managers, but also employees are responsible for success. This is best achieved by direct, performance-based rewards. In addition, organisations and institutions adopting this line of changes provide an opportunity for harnessing the talent of people.
- The organisational structure resulting from the changes should be fast and lean with an ability to respond flexibly — it should be as simple as possible.

As regards secondary practices — talent, innovation, management, fusion and partnership —, several factors are key to success.

- Talented employees should be retained and new talents recruited.
- Innovations should be adopted to transform the industry and its organisations.
- Leaders committed to change are highly needed.
- A real chance for growth can be achieved through fusions and partnerships. Leaders willing to implement successful changes should work toward this goal. Their efforts serving the change should be concentrated on these objectives.

The management of change is not an easy task even at the local level investigated in this paper. Only an unquenchable thirst for information, continuous learning, training and self-education can make someone the master of change management.

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✉ Correspondence

Ferenc Farkas

University of Pecs

Vasvári Pál utca 4, H-7622, Pecs, Hungary

E-mail: farkas@ktk.pte.hu