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The Second Curve. Driving Individual and Organizational Change

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The following paper presents the applicability of the “second curve” concept in the organizational environment, emphasizing the importance of coordinating the individual and organizational changes in a pre-established direction. Moreover, the aim is to offer a theoretical and practical basis for all the practitioners that need to control change and to plan any further next steps, being it either an individual career development or an organizational growth planning. In order to conclude this, the paper approaches organizational change as a constant necessity, willing to demonstrate that the individual controlled changes implemented at the correct moment will have a controlled organizational impact and will therefore lead to organizational change and development. Also, using the “second curve” as the representation of a change in the initial path (considered the “first curve”), the paper redefines change as a solution not only to problems and issues, but as well as a method of keeping the current momentum going, when the current path is already positive. In terms of methodology, the paper approaches a qualitative method, starting by identifying the preconditions of any change, both at individual and organizational level, and the whole environment where the change further develops. In the end, the research is able to offer a process model that can be followed in order to make changes in controlled environments and to reach desired results.

Keywords: change, management, organizational development

JEL Classification: J24, O31, O29

1. Introduction

The present paper aims to present and analyze the dynamic concept of change in organizational environments. Considering that every organization is compounded of individuals organized in a formal entity, the analysis is made by depicting both individual changes and organizational changes. Moreover, the change concept is treated in its full complexity, being contextually defined either as an alteration, a transformation, transition, movement, switch, or as a needed action in order to determine a *second curve* in the trajectory.

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The second curve concept is highly valued in the management area and is often considered a basic principle to strategically plan a business growth. Transposing this at individual level, the second curve concept can as well be the basis of every decision in the development of an individual, being it a personal or professional development.

In terms of methodology and research strategy, the present study approaches qualitatively the subject of individual and organizational change. Considering the literature review and also some specific considerations from the management practice, the final scope of this research is to suggest a process model that can be followed in order to understand the change environment, predict and control it. Therefore, the present study attempts to crystallize the factors which influence change and how can change be valued in a controlled environment, in order for organizations and their individuals to benefit most.

In examining the existing literature, the opportunity of analyzing organizational change from the second curve concept perspective has arisen. The concept itself has been deeply analyzed and valued in other studies as well, but the added value of the current research comes from 1) situating the concept in the context of both individual and organizational change, and 2) bringing the concept under a new light and interpretation. It is not only about identifying the right moment for a change, and the direction it will lead to, but also about how to determine and influence this trajectory in order to leverage its consequences and impact.

2. Literature Review - Independent Analysis of the Premises

Considering the subject briefly presented above, it is necessary to start from analyzing first the existing literature, in order to then introduce the innovative contribution of the current paper. Therefore, the literature reviewed is structured below on three main topics, all of them needed to establish the baseline and the premises of the present research.

2.1. Understanding Organizations

In order to understand the environment in which the organizations operate, we must first underline that fact that business environment is constantly and rapidly changing, companies being forced to adapt in order to survive. All the changes that are coming from the external environment are pressuring the organization to do the same, to follow a certain given direction, or ideally the changes can even be proactively anticipated by the business, driving themselves and the whole market into a specific strategically-selected direction.

To prove the dynamics of the business environment, prior research has shown that the life expectancy of the companies is shrinking, as 61-year tenure for average firm in 1958 is narrowed to 18 years in 2015 (INNOSIGHT, 2015), regression depicted in Figure 1.

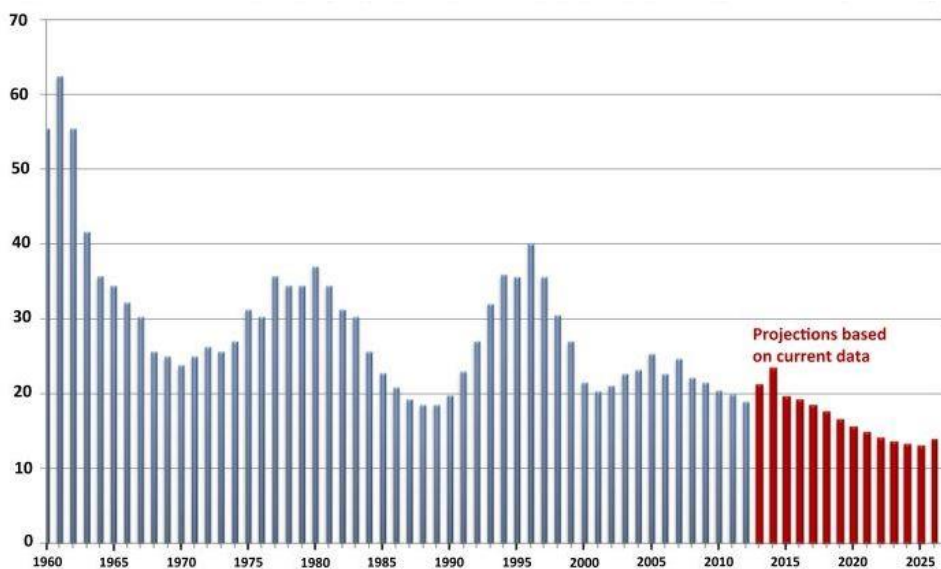


Figure 1. Average company lifespan on S&P Index in Years (rolling 7-year average)

Source: INNOSIGHT, 2015

To confront this dynamicity, there has been a lot of attention and interest on what should be the correct response to such an environment, both at a theoretical and a practical level. Therefore, the study presents below some of the important aspects that are presented in the literature as key components of a strategical organization that aims to analyze and understand the environment they are a part of.

The PEST Analysis is one of the most common types of analyses that can be made by an organization, in order to understand its macro-environment. As it is presented by Gupta (2013, p.35), PEST stands for Political, Economical, Social and Technological analysis, and describes a framework of factors that can be used by an organization to structurally scan its environment. The model has been afterwards developed to a more complex one: PESTLE analysis, adding two more factors (Legal and Environmental) (Free Management eBooks, 2013). Depending on the way the external macro-environment is defined, the organization can afterwards align its capabilities to the needs and trends coming from the outside.

A method that is usually complementing the PESTLE analysis is Porter's Five Forces analysis, the two of them providing techniques that help the organization assess the external environment (Free Management eBooks, 2013). In particular, Porter's Five Forces framework recommends five factors that can help in identifying the potential opportunities and risks for the organization: Competitive Rivalry, Threat of New Entrants, Threat of Substitutes, Bargaining Power of Suppliers, Bargaining Power of Customers.

Another method of conducting such an environmental analysis is to approach it holistically using a type of context analysis, in the form of the SWOT analysis. It is often used to understand both the internal and external environments, providing information that can help in aligning the internal capabilities with the external environment in which the organization operates (Free Management eBooks, 2013, p.8). The acronym stands for Strengths & Weaknesses (considered internal factors which can be, up to a certain level, controlled by the organization), Opportunities & Threats (seen as external factors, that can't be controlled by the organization). Such an analysis is directly dependent on the aspect that is being analyzed and is indeed subjective, but usually creates a baseline that can afterwards be further deepened.

Considering all the above mentioned types of analyses that can be performed, the organizations can now have a clear picture of their internal and external advantages and disadvantages. Therefore, the conclusions from such studies can be afterwards further analyzed in order to define the correct opportunities and strengths of the organization, becoming their main competitive advantages on the market and in front of any possible change that would come from the outside world.

Such competitive advantages can even be structured on the People-Processes-Technology triangle, which has appeared at the end of the 20th century, finding wide acceptance (Clarkston Consulting, 2009). The model was also referred to as the P3 Model, where Technology was replaced with Products, the model becoming a People-Process-Product Tringle (Khan, 2004). The People component is referring to ensuring the right people, with the right skills, at the right place, in the right time. The Process component, on the other hand, relates to the certain sequence of steps needed to reach the organizational objectives, making sure the right processes are in place. Finally, the Technology/Product component integrates the need of certain tools, technologies needed in order to implement the processes previously defined, as suggested by the ITIL v3 Foundation Framework.

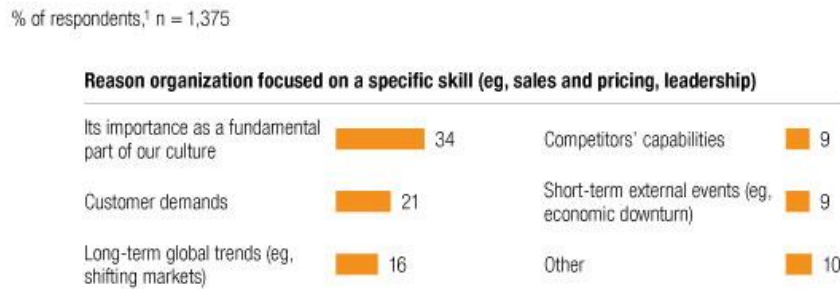
However, in the 21st century, there have appeared many other components that could be added to this initial triangle, such as: Organizational culture – suggested by Buttles-Valdez et al (2008), Information – suggested by Pearson (2009), Organizational structure - suggested by Clarkston Consulting (2009), Partners – suggested by the ITIL v3 Foundation Framework, Data – suggested by Wagner (2017).

Nevertheless, one strategically important aspect of an organization is to build organizational capabilities. In a McKinsey Global Survey (McKinsey & Company, 2010), the results showed that building organizational capabilities is a top priority for most companies analyzed. However, the implementation of such strategies is often difficult. In the survey, the capability is defined as “anything an organization does well that drives meaningful business results”. Therefore the present paper follows the same definition and considers that all the strengths and opportunities that were previously identified in the analysis phase, can now be considered as the organizational capabilities the business needs to invest in, and to treat as a strategic priority.

The organizational capability, or the “distinct set of tangible and intangible resources” possessed by the organizations is what differentiates them on the market, contributing to obtaining strategic advantages (López-Cabarcos et al, 2015). However, in this context it is noticeable the reference to resources in general, not specifically or solely to human resources, as the capabilities of the resources must be coordinated in the right direction in order to obtain superior results. The complementarity between the skills, competences, the

natural inclinations of the personnel, and certain well determined and oriented actions will become the most powerful strategy of the organization in gaining a competitive advantage on the market.

Concerning the need of orienting the employees into the right direction and making them part of a bigger strategy, organizations are often struggling to make the strategy accepted by the employees, or as it is called in previous research, “embedded” (Galunic and Hermreck, 2012). The same research mentions the importance of embeddedness, given the fact that in modern economies, “employees cannot simply be told what to do”. It is interesting, though, that the majority (34%) of the respondents to the previously mentioned survey, considered that the focus of the organization on certain capabilities is due to the fact that the respective capability or skill is part of their companies’ culture, not necessarily justifying it as a competitive strategy on the market (McKinsey & Company, 2010), as shown in Figure 2.



¹ Respondents who answered “don’t know” are not shown.

Figure 2. Reason for building certain organizational capabilities
Source: McKinsey & Company, 2010

In the light of the above mentioned conclusion, the authors of the current paper consider that the motivation of such organizations and their employees is even higher taking into account that their interest in building such capabilities is seen as part of their culture, being an intrinsic orientation they prove.

Returning to one element from the 4Ps framework, People, the paper aims to shortly present the strategic importance of the human resources in the development of any organization. There are certain ideas that have been largely discussed when talking about HRM (Human Resource Management) and trying to define the concept, but one of the most common references when talking about personnel is: “Human resources are our most important asset”. There for sure is a grain of truth, as prior research has largely discussed the competitive advantage given by the inimitability of the human resources (Wilkinson et al, 2010, p.37). Considering this, the employees represent an important element of every organization, their development needing to be aligned to their own needs, but also to the organizational objectives and needs. This alignment can often put both parties – organization and employees, in a difficult situation, but it is of a strategic importance to value the synergy between the two.

On the topic of personnel motivation there are again multiple studies trying to demonstrate the factors that ensure a high level of motivation and engagement of the human resources. One of the most common discussions is regarding the comparison between financial and non financial incentives that are the most effective motivators for the employees. Another McKinsey survey of 1047 executives, managers and employees from a range of sectors (2009) shows there are three nonfinancial incentives that are more effective than the three highest-rated financial ones, as shown in Figure 3.

As presented in the figure below (Figure 3), the three nonfinancial incentives that were ranked higher in terms of effectiveness, represent three needs of the employees in order to feel *recognized* (due to the need of a praise from the immediate manager), *important* (receiving attention from leaders) and *trusted* (being given new opportunities and higher responsibilities). In such an environment, the input-output-outcome perceived by the employees is equally balanced, their development contributing directly to the success of the organization, as well as to the failure of it, in more negative scenarios. Either way, the employees are feeling the responsibility and the importance of their own actions bringing more maturity in their professional attitude and behavior.

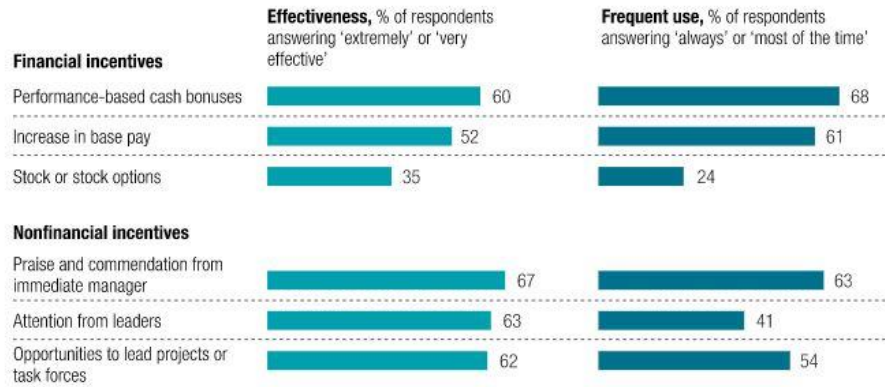


Figure 3. Ranking of financial and nonfinancial incentives
Source: McKinsey & Company, 2009

2.2. Performance Management

Once the analysis of the organizational environment is done, the companies have another critical aspect they constantly need to focus on: performance management. This is mainly the first priority of the organizations, all their actions aiming to increase their performance, and consequently, grow and demonstrate their strength.

As summarized by Gavrea et al (2011, p.287), defining organizational performance proves to be difficult, mainly because of the various interpretations of the concept in the academic literature. If initially, organizational performance was defined as the extent to which the objectives are fulfilled, the definition later evolved into being the ability of exploiting the organization's environment for accessing and using the limited resources. Later on, the organizational performance definitions refer as well to the effectiveness (accomplishment of goals) and efficiency (efficient use of resources in the efforts of achieving the objectives). But as a common factor to all the definitions, it can be concluded that in order to measure and express the level of performance of a certain organization, there need to be clearly identified and quantified results of its activity.

Trying to analyze the quantitative indicators that can prove organizational performance, there are certain metrics that support these efforts, some of them being the following (Boundless Management, 2016):

- Margin (the amount by which the organization wins)
- Growth (raw revenue growth)
- Market share (the percentage of success relative to the competition, showing brand awareness)
- Customer satisfaction/retention (relates to the perceived quality of the organization's activity).

In addition to the financial measurement of the performance, in the academic literature there are many references to the concept of the *balanced scorecard*, which suggests analyzing performance through "assessing areas such as: customer relationships, customized products, product innovation, employee skills, motivation and information technology" (Tătar, 2011, p.113). Using this method, the overall long-term strategy of the organization needs to be translated into measurable tasks, making possible the appraisal of every department's contribution to it. Therefore, the balanced scorecard becomes a performance management tool that supports both individual and organizational performance evaluation.

In a very common perspective, individual performance is usually evaluated by following certain Key Performance Indicators (KPIs) that are initially established by the organization for every employee, depending on his/her role, responsibilities, objectives and expectations. The respective indicators would be periodically reviewed and the actual performance compared to what was initially expected from the individual, the process being formally known in organizations as individual performance appraisal.

2.3. Change Management

When talking about change, on the other hand, defining the concept proves to be relatively easy in comparison to other management concepts previously mentioned. Change represents any alteration, transformation, transition, movement, switch or modification in the status quo. Of course, change itself is not necessarily a management concept, but its complexity is indeed growing in the organizational context.

Organizational change is considered to happen when there is a transition from a current mode of operation to a desired future mode of operation. The transition itself involves transformation of the status quo, change being perceived by the entire organization at a lower or higher intensity. The reasons for changes in

the organizational context can vary from: a current routine that needs an element of dynamicity, a certain dysfunctionality in the current state, a prediction of a decrease in the efficiency parameters in the near future, or maybe even the existence of too many dependencies to third parties orienting the organization into wanting or needing to initiate a change. In addition to these situations, where the change is initiated by the organization itself, there are also changes that come from the external environment and make the organization react to an imminent change.

There are, of course, many types of changes that can appear in an organization, but as briefly presented in the *Field Guide to Consulting and Organizational Development* (Authenticity Consulting, LLC), an organization can usually experience the following types:

- Organization-wide vs. Subsystem change
- Transformational vs. Incremental change
- Remedial vs. Developmental change
- Unplanned vs. Planned change

There is already a first proof that change is not necessarily just a negative response to an external influence, as it can be perceived often by employees who do not completely embrace the new direction given. Change can also be coming from the intrinsic need of the organization to develop and even to grow its potential of offering opportunities to its personnel.

However, when change is not initiated by the organization, and is not fully understood by the employees, the resistance to change can become a major problem. As considered by Quast (2012), resistance can “range from fairly subtle, such as avoidance or passive-aggressive behavior, all the way to outright defiance, hostility and sabotage”. Nevertheless, there are certain recommendations offered in the specialized literature to the organizational leaders in order to anticipate and treat the possible negative reactions to change and even reduce resistance. When analyzing the attitude towards change, it was considered that it can be correlated to the psychological reactions to risks (Hillson & Webster, 2005):

- Risk-averse: does not accept change, being uncomfortable with uncertainty;
- Risk-tolerant: accepts change, as a normality;
- Risk-neutral: perceives change as worthy for the high future pay-offs;
- Risk-seeking: challenges uncertainty, often minimizing the threats.

In the light of the above mentioned attitudes to risk, and consequently to change, the resistance to change becomes slightly more predictable, once the profile of the population subject to change is analyzed and understood.

Getting back to the initial concept of change, there is another important aspect regarding the timing of the change. Closely connected to this, the concept of the *sigmoid curve* (also known as the *S curve*) is considered to be the key to sustainable growth, being it applied in personal or professional contexts. The concept itself has been developed as a cyclic structure that is applicable to any entity, activity, initiative, relationship, career, product etc., considering there are three main phases that every activity goes through, as depicted in Figure 4.

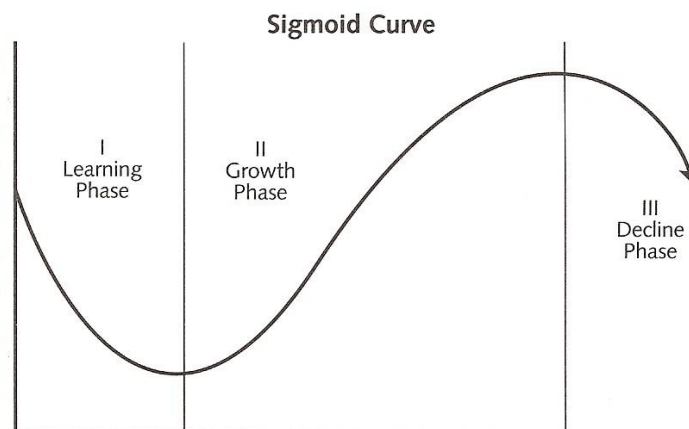


Figure 4. The Sigmoid Curve
Source: Tolan, 2009

As presented by Tolan (2009), here are some important aspects that characterize the three phases of the Sigmoid curve:

- *The Learning phase is the initial timeframe*, when the territory is unknown and the main scope is to learn and understand, to make plans, to take risks, to work hard, even without necessarily seeing any improvement or feeling any accomplishment. Because of the intensity of the effort perceived in this initial phase, due to investing in a considerable amount of resources, materials and time, the current phase can be significantly frustrating, especially in the absence of any promising accomplishments in the near future.

- *The Growth phase*, on the other hand, is the opposite, offering an increasingly high level of energy, trust, confidence and security. All the hard work and the investments that were done in the previous phase are now seeming to pay back their price, and the activity becomes more mature, the highest maturity level being obtained during stagnation, when the curve is being at its peak.

- *The Decline phase*, in the end, can be the most challenging one, being the moment when the energy lowers, the scope becomes questionable, and therefore is usually the moment when organizations or individuals decide to make a change. However, this is not the right moment to do it, as Charles Handy suggests when introducing the *second curve concept*, detailed below.

The second curve concept was introduced by Charles Handy in order to support organizations and individuals to correctly choose the right moment for introducing a change, this being a way of reinventing themselves by changing completely the direction, or a way of keeping the current momentum going (meaning that the second curve would just be an adjunction to the current state in order to maintain the first curve in its maturity peak, and not letting it follow the natural decline phase).

According to Handy (2015), any change in the current trajectory (considered the first curve) needs to be done during the Growth phase, ideally even before stagnation happens, when the energy and enthusiasm are high, and so are the resources as well. This way, the new curve begins in a moment when the first one can still support it (Bagley, 2013). Even though it does not let much space for enjoying the success of the first curve, postponing the moment of the second curve initiation would only lower its chances of success. This unsuccessfulness of the second curve could happen because its initial learning phase (already characterized by low energy and tremendous work) would happen in parallel with the decline phase of the first curve, when the security level, the confidence and the revenues are all decreasing. The model is presented in Figure 5.

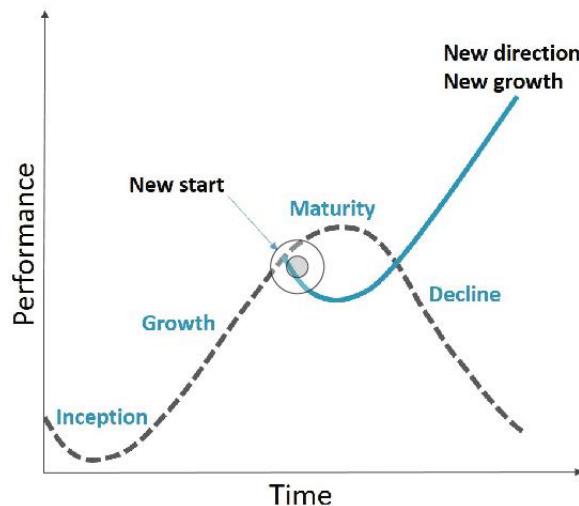


Figure 5. *The second curve*
Source: American Translators Association, 2016

Moreover, in the specialized literature, there are even certain formulas provided in order to support practitioners in identifying when the right moment to introduce a change has come, or better said, when would a change be welcomed. The formula initially developed by Dave Gleicher and enhanced by Dick Beckhard and others, is being presented by Sean McPheat (2011) as follows:

$$C = (DVF) > R$$

where:

- C = Change
- D = Dissatisfaction
- V = Vision
- F = First steps
- R = resistance to change
- DVF represents Change justification

In interpreting the formula, it must be taken into consideration that the principle upon which the formula is based, is that change can receive the general acceptance of the entire organization, only when (1) the dissatisfaction regarding the current state is high enough, (2) the vision in regard to what can be improved and obtained is clear, and (3) there is a common understanding on the first steps that need to be taken in order to reach the desired state. If these three mentioned elements are known and understood by the community, the justification of change exists and needs also to be bigger than the resistance to change. Once this happens, the change will be accepted and the entire collective would contribute to implementing it.

3. Research Premises and Methodology

Considering the vast literature review, and the current paper representing a theoretical study, the premises are mainly based on the main ideas extracted from the academic research and the correlations previously detailed.

Due to the complexity of the theoretical concepts analyzed, but nevertheless considering the absence of a practical research that can validate our premises and conclusions, the paper is planned to be further developed and extended into a quantitative research that can bring the needed validation to the model the current paper suggests in the Conclusions section.

As a summary, the Change Readiness Process Model that is going to be introduced at the end of the current paper, is based on the following premises:

- The organizations are deeply challenged by the dynamic context they are activating in, and therefore need to develop and use strategic models and apply various tactics that can help them define their advantages, opportunities, needs, and possibilities.
- Considering the continuous interest of the organizations to increase their performance, the attention needs to be focused both on the organizational performance and individual performance, valuing the capabilities of their community and gaining their support in implementing the organizational strategies.
- Being aware of the complexity of factors that need to be taken into consideration when introducing changes (selecting the right time for introducing a change, anticipating and reacting to the change resistant behaviors etc.), organizations need to carefully plan their changes and make sure of the change readiness of the organization overall.

The change readiness concept is of enormous importance when orienting organizations to control changes and to correctly drive them. It is the organization's capacity to correctly respond to changes, and to even initiate changes in such a way that brings added value and increased performance, having chances to become that so much needed competitive advantage on the market.

4. Analysis. Discussion and Conclusion

In the light of the literature review, and the management expertise of the authors in various institutions and organizations in both public and private sector, the paper aims to finally suggest a Change Readiness Process Model.

The model is created based on the following pillars that need to sustain any organizational strategy, as concluded from the premises and the variety of organizational concepts previously analyzed:

- The need of understanding the context
- The need of a good timing
- The need of a careful planning
- The need of a correct execution
- The need of knowing where does the organization stand

Based on these steps, the Change Readiness Process Model (Figure 6) sets the basis to approaching any change in a strategic way, making sure the organization is continuously prepared for a change, and always aware of its direction, no matter of the confusion that is usually associated with changes.

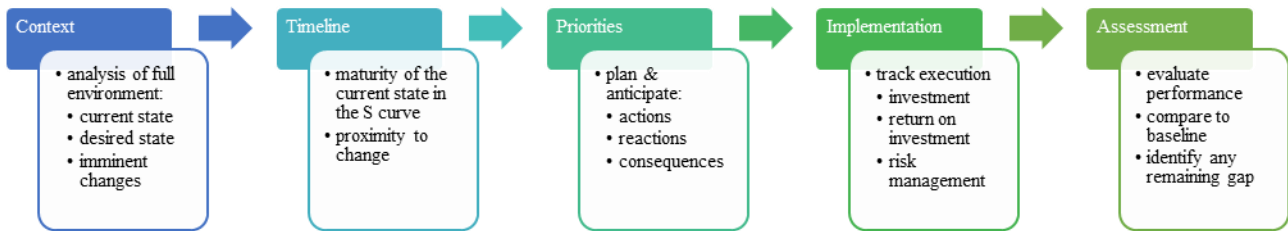


Figure 6. Change Readiness Process Model
Source: authors' view (own contribution)

As depicted in the model above, the paper suggests that organizations need to follow certain steps in order to make sure they are ready for change and that they master the so called change readiness ability. In pursuance of this capability, organizations need to constantly concentrate on the following five pillars:

- *Context* – a deep analysis of the entire environment is needed, in order to understand the current state (current mode of operation), the desired state (desired mode of operation) and any imminent changes that are foreseen in the internal and external environment. By having such an analysis constantly reviewed, the organization is prepared at any time to respond to changes and to make sure any action that is going to be implemented will contribute to the strategic direction already established of the organization.

- *Timeline* – refers to constantly keeping in consideration the correct timing of every action. The first exploration that needs to be done is the organization's current position on the S curve (sigmoid curve), understanding if the current state is in the learning, growing or decline phase of the current state. Once this is examined, the organization needs to understand, considering the context analysis previously performed, when is the confront with the imminent changes estimated to happen (what is called to be proximity to change). Based on this analysis, the organization is capable of creating the basis of a thorough plan, having named the most important initial milestones: where is it now, where does it wish to be and when, what other external/internal factors can alter the migration from current state to future state and when are these interferences estimated to appear.

- *Priorities* – answers the need of creating a careful plan of the future actions, and constantly review it and adapt it as needed. Based on the complex analysis of the context and of the timeline, the organization needs now to find those actions that can support it in the journey from current state to desired future state. This involves initially a brainstorming, creating a pool of ideas from where to extract afterwards the most suitable ones that correctly respond to the needs, strategies and possible changes that were predicted. Once the selection of the ideas is done, the organization can focus on carefully planning every aspect of its future actions or reactions to changes, documenting an action plan for: (1) its own migration from current state to future state, (2) possible reactions to changes depending on the type of change that can appear, and also (3) what consequences have been identified for every type of change and its corresponding reaction from the organization. Having such a record, allows the organization to follow a well-defined path even in times of confusion, bringing an additional level of security and confidence in achieving its goals.

- *Implementation* – this step is followed of course when the organization needs to execute its previously created plan. Based on the milestones, on the actions defined and on the priorities established, the implementation should be done in controlled parameters, where the investment needs to be constantly compared to the return on investment, and to make sure there is a risk management process in place, in order to have a mitigation plan for every possible risk. By having such a good control over the entire action plan, the organization will diminish its chances of being taken by surprise and will develop an effective governance of these actions.

- *Assessment* – the final step of the model refers to the need of constantly evaluating the results in comparison to what was initially desired to be achieved by the respective moment. Depending on the assessment result, the priorities can change, the plan can be adjusted and implementation accordingly adapted, the process returning to the Context initial pillar and start it all over again, as it can be also seen as a cycle.

By following this steps, the Change Readiness Process Model can be perceived as a continuous improvement cycle for the organization, considering that all the steps need to be done and reviewed constantly, in order to keep the change readiness capability at a high level. Depending on the analysis, the timeline and the gap between the current state and desired state, the Implementation pillar can be optional and execution could be postponed to a certain time in the future. The right moment will be identified through the constant assessment actions.

Considering all of the above, the paper acknowledges the absence of a validation of the suggested Change Readiness Process Model, and this is indeed a limitation of the current study, but nevertheless a future research opportunity.

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