Organisational change and firm growth in emerging economies*

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This paper examines how various types of organizational change influence a firm's growth in the short/medium term and long term within emerging economies. We classify organizational change on two dimensions: the scale of change and the duration of change. The proposed hypotheses were tested on a sample of 1446 companies from 28 emerging economies. The results of our analysis suggest that rapid realignment and rapid transformation is more likely to have stronger impact on the firm growth in the short/medium-term, but a weaker impact in the long-term for emerging market firms. Significant evidence on the impact of slow realignment and slow transformation on a firm growth could not be obtained.

Dieser Artikel untersucht, inwiefern verschiedene Typen von organisationalem Wandel das Wachstum eines Betriebs in Schwellenländern kurz-, mittel- und langfristig beeinflussen. Wir klassifizieren organisationalen Wandel in zwei Dimensionen: das Ausmaß und die Dauer des Wandels. Die aufgestellten Hypothesen wurden mittels einer Stichprobe von 1446 Unternehmen aus 28 Schwellenländern getestet. Das Ergebnis unserer Analyse zeigt, dass rapide Neuausrichtung und rapide Transformation eher einen starken Einfluss auf das kurz- und mittelfristige Firmenwachstum in Schwellenländern haben, aber langfristig einen schwächeren. Signifikante Aussagen über den Einfluss von langsamer Neuausrichtung und langsamer Transformation auf das Firmenwachstum können nicht gewonnen werden.

Key words: organizational change, firm growth, emerging economies, short/ medium term performance, long term performance (JEL: L22, M10)

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1. Introduction

In today's global and competitive business environment, a firm's ability to adapt to its environment, and the ability to manage organizational change, become crucial for survival and growth. During the time when change is 'more the rule, rather than exception' (Bouckenooghe et al. 2009), executives' ability to manage organizational change and build commitment to change is becoming increasingly important (Jaros 2010). Analysis of organizational change has become one of the most popular topics in organizational studies. At the same time, there is a lack of research of the influence of organizational change on firm performance and growth. Analysis of the literature shows that the results of previous studies on this topic are somewhat ambiguous.

Most of the research shows that organizational change does not often lead to planned results and therefore can rarely influence the firm performance and firm growth positively in the short-term (Beck et al. 2008; Burnes/Jackson 2011). Despite the enormous number of publications devoted to the classification of types of organizational change, few studies demonstrate the influence of various types of change on firm performance or firm growth.

The number of publications on the growth of firms has grown significantly in the past decade. The majority of them focus on revealing the external and internal factors that influence growth. Much evidence has been found on how various environmental factors such as competition (on the industry and sector levels) and economic and political situations have an impact on growth (Wiklund 1999; Davidsson 2004). Research results also show that internal variables as age, size, owners' and managers' growth motivation, legal status, organizational structure, strategy, profitability, and location of the firm influence firm growth (Becchetti/Trovato 2002; Covin et al 2005; Delmar/ Wiklund 2008; Delmar et al. 2013). Almost all studies indicate that size is the significant influence on firm growth. Despite this research however, the evidence on determinants is often contradictory, making the creation of a generalized model of firm growth problematic.

Despite increasing interest in firm growth, the effects of various types of organizational change have not been studied thoroughly. This may be due to the fact that majority of research on firm growth is devoted to SMEs, which are more focused on survival and rarely have all the needed resources to conduct organizational change, specifically radical and fundamental change (Bloodgood 2006).

It should be noted that most of the research dedicated to organizational change considers firms operating in developed economies. These studies are based on the assumption that the firms in question operate in a stable market environment, that the top management of these firms is motivated to help their companies to achieve effectiveness and efficiency, and that the business operates in a relatively stable institutional environment. Recent studies, however, present doubts as to

whether it is possible to generalize the results of these studies for emerging economies (Judge et al. 2009).

Emerging economies, including those with transition economies realizing the move from a centrally planned system to a market system, are widely recognized by management and business researchers as a valid context for testing existing theoretical concepts and subjecting them to a deeper analysis and further development and modification (Hitt et al. 2004; Meyer/Peng 2005; Cieslik/Kaciak 2009). According to (Meyer/Peng 2005), emerging economies represent a testing ground for 'social quasi-experiments,' both in relation to foreign companies entering their markets, and in relation to local companies and new ventures. While we see a need for all companies to continuously improve their capacity for organizational change, regardless of the institutional context, it is possible that the best opportunities for improvement and development of the theory of organizational change is the study of organizations that operate in emerging economies (Meyer/Gelbuda 2006). However, most of the organizational change research in emerging economies has focused on "state-level policies, such as liberalization and privatization, leaving firm-level strategies relatively unexplored" (Zhou et al. 2006:249). Thus, "how organizations strategize during fundamental institutional transition still remains largely unknown" (Peng 2003: 277).

In this paper, we attempt to fill a gap in the study of organizational change: on one side, providing assessment and analysis of how various types of organizational change influence firm growth in the short /medium and long term and on the other, analyzing the behavior of firms in emerging economies. We classify organizational change two dimensions, the scale of change and the duration of change. The proposed hypotheses about the impact of different types of organizational changes on the firm growth were tested on a sample of 1446 companies from 28 emerging economies. Accordingly, our contribution to the literature on organizational change is the expansion of knowledge about the effects of different types of organizational change on firm growth in emerging economies.

The paper has four parts. The first section contains theoretical background and hypotheses linking the effects of different types of organizational change with the firm growth in emerging markets. The second part describes the research design and data analysis method. The third part presents the key results. The last section consists of conclusions and suggestions for future research.

2. Theoretical background and research hypotheses

Current literature on change management contains various definitions of organizational change. Some authors emphasize the processes of change (Barnett/Carroll 1995), while others focus on the content of change (Van de Ven/Poole 1995; 2005). Terms such as 'organizational change,' 'transformation,' and 'company reorganization' denote organizational reforms that lead

to changes in people's values, attitudes, and behaviors, along with simultaneous changes in processes, methods, strategies, and systems. Van de Ven and Pool (1995) defined organizational change as a difference in form, quality, or state over time in an organizational entity. The entity may be an individual's job, a work group, an organizational subunit, the overall organization, or its relationships with other organizations (Van de Ven/Sun 2011). McGuinness and Morgan (2005) consider organizational change as the organizational ability to implement permanent changes and the ability to start and manage a series of related organizational change that fits the company's strategy. Eisenhardt and Martin (2000) have a similar view of organizational change: presenting it as the ability to see new opportunities for development and understand the internal changes that must be initiated.

Organizational change is facilitated by a learning process, because the simultaneity of change and learning is important for modern organizations. Changes in strategies, structures, and systems are insufficient if they are not accompanied by changes in the mindset that generates these strategies, structures, and systems. Several authors believe organizational change cannot be separated from organizational strategy and values, and vice versa (Rieley/Clarkson 2001; Burnes 2004; by 2005; Burnes/Jackson 2011). For example, Mintzberg's 'change cube' is one of the most comprehensive approaches to organizational change (Mintzberg et al. 1998). Major organizational change includes all elements of the cube: strategy and organization, from fundamental changes to highly specific ones. Conceptual changes (e.g., changing the culture or mindset) and specific, narrow changes (such as changes in equipment or replacing of a particular employee) may affect both the organization (its state), and strategy (direction) (Mintzberg/Westley 1992).

An analysis of research on organizational change shows that scholars have long studied typologies of organizational change and the characteristics of various types of such change. The majority of such studies distinguish between incremental and radical change (evolutionary and revolutionary, cumulative and discrete). This distinction was first made in the early 1970s, when Watzlawick et al. (1974) introduced the concept of first- and second-order changes. The former was understood as 'a variation on a basic theme,' the latter as a critical breakthrough not related to the past. This classification seems somewhat general, and it may be interpreted as related to content and process, or to both simultaneously. On one hand, this is an obvious advantage of this classification (high degree of generalization); on the other hand, it creates some confusion in the literature on organizational change.

Current research on change management critiques existing approaches to classifying organizational change and attempts to build new approaches to distinguishing various types of change (Graetz/Smith 2010; Burnes/Jackson 2011). Typically, suggested approaches offer a continuum, with opposite types of

change at the ends, based on one or another attribute such as duration of change, speed of change, or the strategic approach that is applied. For example, incremental change is distinguished from transformative change (Dunphy/Stace 1993), episodic from continuous (Huy 2001), planned from unexpected (Bamford/Forrester 2003), evolutionary from revolutionary (Pettigrew 1985), first order from second order (Bartunek/Moch 1987), convergent from radical (Miller/Friesen 1982; Greenwood/Hinings 1988; 1996), and so on.

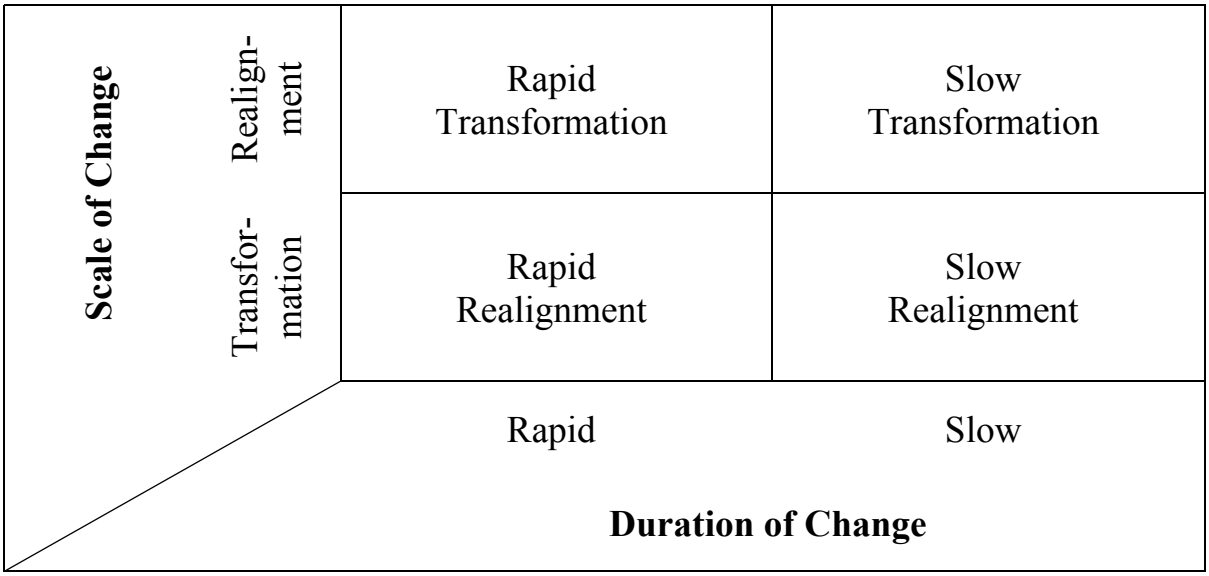
The approach described above, which dichotomizes different types of organizational change, has a certain utility for research, but does not provide a general understanding of this complex phenomenon. Moreover, the traditional use of 'change' often has an ambiguous and inexact character (Marshak 2002) or paradoxical logic (Nasim/Sushil 2011). In general, this is because only one classificatory attribute lies at the root of classification of types of change. For example, the main characteristic of planned change is the degree to which it is exposed to managerial control. However, no less important characteristic of planned change might be the style of change, i.e. directed or participatory (Maes 2008). Some authors attempt to overcome the limitations inherent in the use of only one characteristic for typologies of change by using two or more classification attributes, creating a matrix, to then propose different types of change (cf. Nadler/Tushman 1989; Meyer et al. 1990; Dunphy/Stace 1993; Marshak 2002; Burnes 2004; Balogun/Hope Hailey 2008). One of the more successful attempts at generalizing typologies of organizational change is presented by Maes (2008), who provides a systematic approach, implementing seven attributes of change.

In our study we consider the classification of types of organizational changes in terms of two dimensions (see Figure 1). All types of organizational change may be divided into two categories, according to the scale or extent of change desired: realignment and transformation (Balogun/Hope Hailey 2008). At the same time, all types of change may have various durations and can be implemented either very rapidly or slowly, step-by-step, during longer periods of time. This results in four clusters of organizational change, depending on their scale and duration. Thus, we can distinguish four major types of organizational change: rapid realignment, rapid transformation, slow realignment and slow transformation.

Realignment is a change in the way of doing things that does not involve a fundamental reconsideration of the central assumptions and beliefs within the organization (Balogun/Hope Hailey 2008). This approach to change focuses on separate organizational components, the goal being their adaptation or reconstruction for optimal interaction with other organizational components. Realignment occurs within the framework of the existing organizational strategy and structure (Nadler/Tushman 1989). This approach to change includes so-called incremental or slight changes, and is directed at small improvements, without radical change in organizational hierarchy and culture (Balogun/Hope Hailey

2008). The concept of incremental organizational change is rooted in the theory of 'logical incrementalism' of Quinn (1980), and Nelson and Winter (1982) 'evolutionary theory,' which describes incremental, evolutionary change emerging from the cumulative interaction among basic systems, called 'routines.' In contrast to most types of organizational change, which are considered to be the responsibility of top managers, improvement is frequently associated with 'implementers' (Choi 1995). Depending on the duration of the change in question, two clusters of change might be suggested: rapid realignment and slow realignment.

Figure 1: Clusters of organizational change



Rapid realignment occurs in compressed period of time and is usually of a local nature, i.e., it is carried out as a change project. According to Kanter (1999), these actions can succeed in the short-term, especially if they are focused, oriented towards concrete results, and do not disrupt company traditions. However, if they are discrete, autonomous projects, as a rule, they would have no real long-term results, the memory of them would disappear, and later generations would repeatedly address the same problems. Rapid realignment might include such projects as 'Quick Wins,' developed by PricewaterhouseCoopers, and the 'Fast' project, initially used by Ford Company (Harrington et al. 2002).

Slow realignment is well known in business theory and practice, and this cluster of changes corresponds to Kanter's third level of organizational change (Kanter 1999). Companies implementing this type of change are capable of continuously achieving innovation, and of improving and creating goods or services before they are required by external circumstances. These are the organizations that mobilize many people to carry out change. Success depends on whether the conditions needed for transforming the organization into one capable of doing continuous changes are present (Kanter 1999). Studies and business experience of applying the concept of 'slow realignment' show that significant investments are

not required to carry out this type of change, but a long-term outcome is noticeable (Cao et al. 2000; Love et al. 2000). Slow realignment can be transformed into continuous adaptation and take root in the company. This type of change includes such widely known concepts as kaizen, lean production, and introduction of quality management systems into the company's regular practices.

In emerging economies, context institutional constraints or undeveloped institutions limit the number of strategic business alternatives (Hoskisson et al. 2000; Peng et al. 2008; Puffer et al. 2010). It is most important for managers to be aware of the concrete measures they can implement, and the specific factors on which they have to focus their attention to increase their company performance. This is especially important for firms in emerging economies, as they have a short history in a market economy and lack experience in modern management practices. Most of the companies have limited resources to implement their strategies, and are unable to engage in many different activities without being certain of positive results. Firms in emerging economies have to explore new mechanisms to learn how to strategize in order to facilitate effective organizational transformation and to search for new methods of operation during institutional transition. The organizational ability to adapt and change is essential for the survival and growth of the firm in emerging economy (Staber/Sydow 2002; Judge et al. 2009). However, the impact of the volatile and dynamic institutional environment may reduce the effect of rapid realignment in the long-term perspective, meaning that it is able to affect a firm growth only in the short- and medium-term perspective.

In considering slow realignment, it can be expected that the effect on the firm growth will be long-term, while the short-term effect will be negligible. Slow realignment is primarily aimed at introducing business practices based on continuous adaptation and improvement, which, as a result, even in an ever-changing, unstable external environment, will lead to the firm growing in the long-term. During slow realignment an organization is able to adapt its processes and procedures to dynamic business environment, thus in the short term perspective, these changes are likely may not influence firm growth. However, in the long term perspective, the probability of growth may be much higher. Thus, we propose the following hypotheses:

> *Hypothesis H1: In emerging economies, rapid realignment is more likely to have a stronger impact on firm growth in the short- and medium-term than in the long-term.*
>
> *Hypothesis H2: In emerging economies, slow realignment is more likely to have a stronger impact on firm growth in the long-term than in the short and medium-term.*

Transformation is "change which cannot be handled within the existing paradigm and organizational routines" (Balogun/Hope Hailey 2008:21)**.** In the litera-

ture on organizational change, the term 'transformation' is frequently used interchangeably with 'reorganization,' 'conversion,' 'renovation,' 'radical change,' and similar terms. A common aspect of these concepts is that they are all directed towards changing the organization as a whole, not its individual parts. In this study, 'transformation' means radical organizational change, i.e. change that relates to organizational strategy and structure, such as a 'second order' change, according to Bartunek and Moch (1987). The concept of radical, or revolutionary organizational change, is rooted in the 'quantum theory of change' by Miller and Friesen (1982) and 'models of punctuated organizational change' (Tushman/Romanelli 1985).

Some scholars claim that a transformation requires change in the paradigm of thought, intellectual models, and organizational values (Sheldon 1980; Mezias/Glynn 1993; Clarke/Clegg 2000; Mcadam 2003; Burnes/Jackson 2011). Appelbaum and Wohl (2000) define 'transformation' as creating new contexts and areas of opportunity that did not exist earlier. In their opinion, transformation results in fundamental change in three areas: financial results, industry practice, and the organizational context in which the members of the organization are located. As a rule, radical organizational change requires significant financial investment and produces a rapid, short-term effect from their application to the results of organizational activity. However, long-term influence will depend on the type of transformation conducted.

Rapid transformation relates to 'programs of change,' the second level of organizational change in Kanter's (1999) classification. These tend to be interconnected projects, developed to facilitate joint organizational action. Rapid transformation means that change occurs in a compressed period, and is directed towards changes in key elements of the organization. Examples of rapid transformation include such programs as outsourcing operations, internalizing operations that were previously outsourced, introducing or eliminating a product line, and others.

Slow transformation deals with a prolonged program that can be achieved over months, or even years, depending on the size of the company. Examples of large-scale organizational change include mergers and acquisitions, creation of joint ventures, changes in company strategy, and others. All these programs require not only significant financial investment, but also serious expenditures of time. According to Hannan and Freeman (1984), large-scale change hurts the reliability of results of activity, because fluctuations in quality occur and operations become less timely in periods of fundamental change. Strategic change rarely occurs in a short period of time. More often than not, a firm expends a certain amount of time on similar change programs, and over a set time period, existing bonds with the environment are broken and new relationships are established, which retards the growth of the firm.

In practice, the majority of large-scale conversions show that similar changes are primarily undertaken by top management to achieve some immediate effect, which usually occurs. However, when the long-term effect of transformations on the growth of firms is examined, the effect should depend on the type of organizational transformation being undertaken. While rapid transformation can improve the internal processes of the organization, it can be reflected in sales growth in a short time period. Over time, the impact of a rapid transformation will decline and eventually disappear as a result of organizational inertia. Significant changes in an organization such as change of structure, culture, or strategy need time and careful planning to be carried out. They may come as a shock to employees and managers of the company and require time for adoption. The reasons for rapid transformation may be changing competitive conditions the organization is facing. An organization may also need to implement planned transformation rapidly, because, for example, the organization sees the need to preempt fast competitor response, or realize that rapid change is necessary to meet changing customer needs.

At the same time, in the case of slow transformation, the long-term effect on the results of a firm growth can be significant, as top management would give serious attention to such programs in the long run. Slow transformation, on the other hand, require a long time for their full implementation and for positive results to arise. Taking into account the institutional context of the countries with emerging economies, rapid transformation will influence firm growth in the short and medium-term, while the long-term effect will diminish over time requiring further organizational change. At the same time, a slow transformation requires sustained effort and investment, which can eventually lead to a stronger effect on the firm growth in the long-term, but in the short and medium-term, it may even lead to slower growth or growth will be inconspicuous. With this in mind, the following hypotheses are proposed:

Hypothesis H3: In emerging economies, rapid transformation is more likely to have a stronger impact on the firm growth in the short- and medium-term than in the long-term.

Hypothesis H4: In emerging economies, slow transformation is more likely to have a stronger impact on the firm growth in the long-term than in the short- and medium-term.

3. Research design

3.1. Data and sample

Every three years, the European Bank of Reconstruction and Development (EBRD) and the World Bank conduct a study on the impact of state policies on business development and investment climates in Central and Eastern Europe

(including Turkey) and countries of the Commonwealth of Independent States (CIS). This involves examining Business Environment and Enterprise Performance Survey (BEEPS) results from 2002 and 2005.

In 2002, a survey was conducted among 6667 companies in 27 countries with transitional economies: 16 in Central and East Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Yugoslavia, Macedonia, Hungary, Latvia, Lithuania, Poland, Rumania, Slovakia, Slovenia, and Turkey), and 11 in the CIS (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tadzhikistan, Ukraine, and Uzbekistan).

In each country companies from two categories, i.e. industry and service were surveyed and the distribution of companies in these categories was determined by their relative contribution to that country's GDP (no less than 15% for each category).

Companies were classified as small, medium, and large as defined by Analoui and Karami (2003): companies with less than 50 employees were classified as 'small firms;' those with 50 to 250 employees as 'medium,' and firms with 250 or more employees as 'large.' (Companies with 1 worker or with more than 10,000 were excluded from the study.) As a minimum, 10% of companies in the sample were small businesses (2-49 employees), 10% were medium sized (50-249 employees), and 10% were large companies (250-9999 employees).

In 2005, the study on business environment and enterprise performance was repeated. The sample this time included 9500 companies from 28 countries, with Turkmenistan added to the 2002 list. Survey organizers in 2005 attempted to minimize the differences with the 2002 study, and they used the same prerequisites for creating the sample as in 2002.

An important element in this study should be noted: the 2005 sample included companies that participated in the study of 2002 and agreed to participate in subsequent studies. While 4952 companies initially agreed to do so in 2002, only 1499 companies (i.e., 30% of companies in the panel) actually did so in 2005, for various reasons. Our article uses only observations of companies that took part in both studies. It is also noted that, given the absence of data from a number of companies in the 2002 and 2005 data bases publicly available from the EBRD, the ultimate final sample contains surveys of 1446 companies.

The age of companies in the sample varies from 6 to 170 years. For 80% of the organizations, the age ranges from 6 to 20 years. The distribution of small, medium, and large companies in the 2002 and the 2005 samples is practically identical and is presented in Table 1. It should be noted that the sample corresponds to the criteria of the EBRD and the World Bank, according to which each group in the sample must account for no less than 10% of the firms.

Table 1: Size of the companies in the 2002 and 2005 samples

2002 sample		2005 sample	
Number of Employees	**% of the Companies**	**Number of Employees**	**% of the Companies**
2-49	70.12	2-49	69.53
50-249	19.85	50-249	18.07
250-9999	10.03	250-9999	12.40
Total	100.00	Total	100.00

Unfortunately, it is not possible to provide information on the distribution of companies by industry, as these data are not available in the open data bases of the EBRD and the World Bank, due to concerns over confidentiality.

3.2. Dependent variable

Firm growth. The most popular, unitary indicator of growth has been growth in sales (Hoy et al. 1992; Ardishvili et al. 1998; Weinzimmer et al. 1998; Wiklund 1999). In addition, it is possible to conclude that growth in sales volume often precedes growth in other indicators, such as assets and number of employees that, in turn, lead to increases in market share and profit (Flamholtz 1986). Delmar (1997) confirms that sales volume is one of the most popular measures of growth and is used in nearly 31% of studies analyzed. While the number of employees is pertinent to some studies, i.e. employment growth due to business development (Davidsson/Wiklund 2000), this indicator is often used because of the inaccessibility of other data. Few managers and entrepreneurs perceive growth in the number of employees as an end in itself (Gray 1990; Wiklund 1999; Robson/Bennett 2000). In addition, outsourcing is a common business practice, and so growth in number of employees does not necessarily correlate positively with sales volume (Delmar et al. 2003). Studying companies from the emerging economies, we assume the sales volume to be an appropriate measure of growth because these firms are relatively young and increasing their sales is a high priority, as sales growth is extremely important to their survival during the first stages of their development. Following the described logic, sales volume was chosen as a growth indicator in the present research.

3.3 Independent variables

The independent variables represent the types of changes which occur in the firm and might influence the firm growth. In order to divide specific types of

organizational changes into the four selected clusters, we conducted 20 interviews with the top managers of Russian firms that have experience with organizational change. On the basis of these interviews a questionnaire which included a list of organizational changes and a matrix that contained four clusters of change was made,. The questionnaire was disseminated among 50 students in the EMBA program of Russia's leading business school. The results of this survey show that there is a consensus among top managers in their perceptions of different types of organizational change. We recognize the limitations of this method in defining types of organizational changes, however, we believe that for this study, this method has proven its value, and supported our theoretical assumptions about the distribution of types of changes in clusters. The results of this analysis are shown in Figure 2, which depicts the types of change according to their position in one of the four proposed clusters.

Figure 2: Types of organizational change related to various clusters

Rapid transformation • Start of exports to another country • Developing a new product line • Discontinuing at least one product line • Outsourcing some operations • Bringing in-house some previously outsourced operations • Changing organizational structure	**Slow transformation** • Changing a key customer • Creating a joint venture with a foreign partner
Rapid realignment • Upgrading an existing product line • Acquiring new technology • Obtaining new product licensing agreement	**Slow realignment** • Changing a key supplier • Obtaining a new quality accreditation

Rapid realignment. In this study, the following types of organizational changes are classified as rapid realignment: upgrading an existing product line, obtaining a new product licensing agreement, and acquiring new technology. These changes do not involve a fundamental reappraisal of the central assumptions and

beliefs within the organization and undertaken to realign the way organization operates in fast fashion. We assume that these changes have a stronger positive impact on a firm growth in the short- and medium-term, rather than in the long-term.

Slow realignment. The following changes are classified as slow realignment: the introduction of quality management systems and changing a key supplier. These two types of change are non-paradigmatic changes implemented gradually through staged initiatives. We suppose that such change should have a stronger positive impact on firm growth in the long-term, rather than in the short and medium-term.

Rapid transformation. This study analyzes the following types of change as examples of rapid transformation: starting exports to another country, developing a new product line, discontinuing at least one product line, outsourcing some operations, and making some previously outsourced operations in house, and change in organizational structure. We suppose that all these changes involve changes in firm strategy, but should be implemented in a relatively short space of time. We assume that these changes should have a positive impact on firm growth, except for the elimination of a product line, which, obviously, will have a negative impact on growth.

Slow transformation. As examples of slow transformation, this study examines the following types of change: changing a key customer and creating a joint venture with a foreign partner. All these changes are likely to be a planned, proactive transformation, in which change is undertaken by managers in response to their anticipation of the need for future change. We propose that changes related to this cluster should have a positive impact on firm growth.

3.4. Control variables

Firm size. According to the resource-based perspective, organizational size can influence the organizational change process through rigidities and organizational inertia (Leonard-Barton 1992). This relationship between organizational size and firm growth may be even stronger in emerging economies (Liuto 2001; Judge et al. 2009). For example, Gerber (2002) claims that the average size for Russian firms was steadily decreasing, due to the inability of large organizations to change effectively due to the transition from a centrally planned to a market-based economy. Head (2005) found that organizational size moderated the change-performance relationship for Chinese firms.

Firm age. Structural inertia theorists such Hannan and Freeman (1984) propose, organizational change is very difficult because the institutionalized routine activities create strong resistance to change. Granovetter (1985) similarly suggests that organizational change is difficult because organizations are deeply embed-

ded in the institutional and technical structures of their environment. This embeddedness becomes even stronger when firm becomes older.

3.5. Model

The hypotheses on the effect of change on firm growth were tested using econometric models, in particular ordered logit models. The construction of models and the selection of variables were based on the clusters used to classify changes. Both short- and medium-term models and long-term models were used to test these hypotheses.

In the short- and medium-term models, the influence of independent variables describing changes in sales volume over the same time period in which the given changes were carried out, i.e., 0-3 years, were tested. In the long-term models, the effect of organizational changes conducted in one period on the dynamics of sales volume in the following period were examined, i.e., the effect of each variable on change in sales volume was evaluated 4-6 years after the change was introduced.

The first stage of econometric analysis was based on a regression model (1), designed according to results from companies sampled in both 2002 and 2005, and characterizing short- and medium-term changes:

$$P(salchg = m \mid X) = \Lambda(\widetilde{\beta}_0 + \sum_{i=1}^{15} \widetilde{\beta}_i x_{ik}), m = 0,1,2. \quad (1)$$

The ordered alternatives were related to 2002 and 2005, and ordered logit models characterizing the influence of changes in the short- and medium-term period were built.

With the ordinal variable salchg, tendencies in company growth were characterized, where

$$salchg = \begin{cases} 0, & \text{if volume of sales decreases,} \\ 1, & \text{if volume of sales is unchanged,} \\ 2, & \text{if volume of sales increases.} \end{cases}$$

In this equation we use notation □ to indicate the logistic cumulative distribution, X = (1, x_1…, x_{15}) the vector of independent variables. The independent variables x_ii = 1,…, 15 characterize the following changes (see Table 2).

Table 2: Description of the variables

Variable	Type of change
x_1= Supchge	Changing a key supplier
x_2= Cuschge	Changing a key customer
x_3 = Startexp	Starting exports to another country
x_4= Devprodline	Developing a new product line
x_5 = Upgrprodline	Upgrading an existing product line
x_6= Techacq	Acquiring new technology
x_7= Discontprodline	Discontinuing at least one product line
x_8 = Jointvent	Creating a joint venture with a foreign partner
x_9=Licensagr	Obtaining a new product licensing agreement
x_{10} = Outsource	Outsourcing some operations
x_{11} = Insource	Making some previously outsourced operations in house
x_{12} = Qualaccred	Obtaining a new quality accreditation
x_{13} = Struct	Change in organizational structure (OS)
x_{14} = Age	Company age
x_{15} = Size	Number of full-time employees

Variables x_i i =1,…,12 are binary variables that take a value of 0 if the change indicated does not occur, and a value of 1 if the change indicated occurs. Variables x_{13} and x_{15} are ordinal variables. Variable x_{13} characterizes the tendency of structural change

$$Struct = \begin{cases} 1, & if \quad the\ OS\ did\ not\ change, \\ 2, & if \quad the\ OS\ changed \quad insignificantly, \\ 3, & for\ difficult\ to\ answer, \\ 4, & if \quad the\ OS\ changed \quad significantly, \\ 5, & if \quad the\ OS\ changed\ entirely. \end{cases}$$

While variable x_{15} characterizes tendencies of growth in company size:

$$Size = \begin{cases} 1, & \text{if the number of employees changes in the interval [2; 49],} \\ 2, & \text{if the number of employees changes in the interval [50; 249],} \\ 3, & \text{, if the number of employees changes in the interval [250; 9999].} \end{cases}$$

Variable x_{14} is a quantitative variable. For this study, variables of x_{14} and x_{15} are control variables. In the equation (1) $\tilde{\beta}_i$ are unknown parameters.

Table 3 represents how the companies' sales volume of companies changed in 2002 and 2005.

Table 3: Distribution of the dynamics of changes in sales of companies in 2002 and 2005

	2002 Number of companies	**2005 Number of companies**	**2002 Percentage of companies**	**2005 Percentage of companies**
Companies in which sales volume decreased (sal-chg=0).	327	307	22,60	21,22
Companies in which sales volume didn't change (sal-chg=1).	281	347	19,42	23,98
Companies in which sales volume increased (sal-chg=2).	839	793	57,98	54,80
Total	1447	1447	100,00	100,00

The regression model (1) was estimated separately with survey data from 2002 and 2005. In other words, the values of variable x_i, i = 1, …, 15, and *y* were used initially according to the results of the 2002 survey, and then according to the results of the 2005 survey.

In addition, it should be mentioned that the idea behind the independent and dependent variables remains the same as earlier, except that the superscript of the variables in the model equations indicates the time period in which they were measured.

Analysis of the impact of change on long-term firm growth was done through the following model:

$$P(salchg^{2005} = m \mid X) = \Lambda(\widetilde{\lambda}_0 + \sum_{i=1}^{15} \widetilde{\lambda}_i x_{ik}^{2002}). \quad (2)$$

$m = 0, 1, 2$; $X = (1, x_1, \ldots x_{15})$

The values of the dependent variable for 2005 were used for $salchg^{2005}$, while the values of the independent variables for 2002 were applied for x_{ik}^{2002}. In the equation (2), $\widetilde{\lambda}_i$ designates unknown parameters.

To test the hypotheses on the effect of change on company growth, three econometric models were used.

4. Results

Table 4 presents parameter estimates and levels of significance.

Table 4: Results of order logit model estimations

Variables	**Model 12005**	**Model 1 2002**	**Model 2**
Supchge	-0.0997	0.0492	-0.0072
Cuschge	-0.3484**	0.2293	-0.0147
Startexp	0.4429**	0.3295*	0.2332
Devprodline	0.3253**	0.3191**	0.0731
Upgrprodline	0.3917***	0.5471***	0.3058**
Techacq	0.4572***	0.4412***	-0.0725
Prodlinediscont	-0.5073***	-0.2073	-0.1601
Jointvent	-0.2970	0.3616	0.1702*
Licensagr	0.4494**	0.0624	-0.0057
Outsource	0.2218	-0.1207	0.3659
Insource	0.6492***	-0.2535	-0.0905
Qualaccred	-0.0403	0.3617*	-0.0252
Struct	0.0452	0.1280***	0.1214***
Age	-0.0065**	-0.0115***	-0.0052*
Size	0.4946***	0.4058***	0.3411***
LR chi2	159.93***	162.10***	53.01***
Pseudo R^2	0.0554	0.0673	0.0213
N	1432	1218	1226

* – p<0.1,** – p<0.05, *** – p<0.01

The general conclusion is that all econometric models were significant at the 1% level.

Table 5 summarizes the results of the econometric analysis for every cluster of changes.

Hypothesis H1 claims that rapid realignment has a stronger effect on short- and medium-term growth than on long-term growth. The sign for the variables classified under this cluster, in all cases where they were statistically significant, was positive, which supports the hypothesis on the relationship between these variables and a change in sales volume in the short- and medium-term. Thus, the results of the econometric analysis allow us to accept hypothesis H1.

Hypothesis H2 proposes that slow realignment will have a weaker effect on firm growth in the short- and medium-term, but will be stronger over the long-term. The results of the econometric analysis do not allow us to accept hypothesis H2, as the variables were statistically insignificant in the long-term model.

According to hypothesis H3 the rapid transformation should have a stronger impact on the firm growth in the short- and medium-term than in the long-term. The results obtained in the econometric analysis on the effect of such variables on the probability of the firm experiencing growth in sales allow us to accept hypothesis H3 on the stronger effect of a quick transformation in the short- and medium-term, and its weaker effect in the longer-term. The variable 'change in organizational structure' is an ordinal variable, describing the dynamics of tendencies in such changes, can include both incremental and radical structural changes. The positive sign for the 'change in organizational structure' suggests that the more serious the structural change, the higher the growth rate of sales volume, i.e., the more radical the organizational change, the greater the tempo of growth in sales volume. However, the fact that this single variable includes both radical changes, which follow change in organizational structure, and less meaningful changes, explains the significance of the results both for the long-term and for the short- and medium-term.

Hypothesis H4 claims that a slow transformation will have a weaker impact on the firm growth in the short- and medium-term and a stronger effect in the long-term. The results obtained in this study do not support hypothesis H4. It should be mentioned that the variable 'changing a key customer' was statistically significant in the ordered logit model for 2005. The effect of this variable on the probability of growth in sales was negative. In the long-term model, this variable was statistically insignificant. Thus, the results from evaluating this variable contradict hypothesis H4.

Table 5: Summary of the results of order logit model estimations

Cluster	Characteristics	Short-medium term model 2002	Short-medium term model 2005	Long-term model 2005
Rapid Realignment	Cluster variables (expected sign according to Hypothesis)	Upgrprodline (+), Licensagr (+), Techacq (+)	Upgrprodline (+), Licensagr (+), Techacq (+)	
	Significant variables (estimated sign according to the Model)	Upgrprodline (+), Licensagr (+), Techacq (+)	Upgrprodline (+), Techacq (+)	Upgrprodline (+)
Rapid Transfor-mation	Cluster variables (expected sign according to Hypothesis)	Startexp (+) Devprodline (+) Discontprodline (-) Outsource (+) Insource (+) Struct (+)	Startexp (+) Devprodline (+) Discontprodline (-) Outsource (+) Insource (+) Struct (+)	
	Significant variables (estimated sign according to the Model)	Startexp (+) Devprodline (+) Struct (+)	Startexp (+) Devprodline (+) Discontprodline (-) Outsource (+)	Struct (+)
Slow Realignment	Cluster variables (expected sign according to Hypothesis)			Qualaccred (+) Supchge (+)
	Significant variables (estimated sign according to the Model)	Qualaccred (+)		
Slow Transfor-mation	Cluster variables (expected sign according to Hypothesis)			Cuschge (+) Jointvent (+)
	Significant variables (estimated sign according to the Model)		Cuschge (-)	

It should be noted that, just as with changing suppliers, the data do not allow the authors to analyze the reasons for changing a key customer. It is possible that the influence of this variable differs for different scenarios caused by the reason for changing a key customer, but, unfortunately, it could not be tested using the available data.

Table 6 summarizes the results of the analysis.

Table 6: Impact of the various types of organizational change on the firm growth

Types of organizational change/ types of impact	**Short and medium term**	**Long term**
Rapid realignment **Hypothesis supported**	Stronger impact on the firm growth	Weaker impact on the firm growth
Rapid transformation **Hypothesis supported**	Stronger impact on the firm growth	Weaker impact on the firm growth
Slow realignment **Hypothesis not supported**	Weaker impact on the firm growth	Stronger impact on the firm growth
Slow transformation **Hypothesis not supported**	Weaker impact on the firm growth	Stronger impact on the firm growth

5. Discussion

Change is an ongoing and never-ending process of organizational life. Although we would like to explain, predict, and control the process, organizational change often does not unfold in expected ways (Van de Ven/Sun 2011). Studies attempting to predict or explain change in emerging economies have been done already in the different emerging market context (Newman, 2000; Muhlbacher et al. 2011; Grancelli 2012). The existing literature on organizational change that deals with the relationships between organizational change and firm growth suggests that the majority of organizational change projects end as failures and rarely lead to an increase in firm performance (Burnes/Jackson 2011).

We try to contribute to existing literature on organizational change by proposing that different types of organizational change will influence differently on the firm growth in the short/medium term and in the long-term in emerging econo-

mies. The results of our analysis suggest that rapid realignment and rapid transformation is more likely to have stronger impact on the firm growth in the short/medium-term, but a weaker impact in the long-term for emerging market firms. Significant evidence on the impact of slow realignment and slow transformation on a firm growth could not be obtained.

Two main explanations of this finding can be offered. Firstly, that the institutional environment in countries with emerging economies is changing very quickly, reducing the effectiveness of organizational change in the long term and making new organizational change necessary. This confirms the theses set forth in the description of the characteristics of firms from countries with emerging economies, pointing to the need for capacity for organizational change in response to frequent changes in the environment. Thus, the availability of an innovative component in the activities of companies related to organic growth (expressed in the development of new product lines or improvement of existing product lines), market expansion (exporting to new markets), the development of products and services (outsourcing operations), have an impact on the firm growth in emerging economies in the short- and medium term.

Secondly, that a large number of companies (most of the firms from the sample which was studied) from the countries with emerging economies are still quite young. The age of these companies rarely exceeds 20 years and most of them are on their first stages of organizational life-cycle (Adizes 2004). The main strategic goal for such companies is to grow, increase the revenues which they generate to continue market expansion. For most of the companies in the first stages of the life-cycle, the strategic planning horizon is quite often no longer than 3 years, and the focus is on sales growth, while the operational effectiveness and professional management systems development are less crucial for the management (Flamholtz 1986). Taking into consideration both the institutional environment in the countries and the strategic goals for the most of the companies according to their stage of the organizational life-cycle, it might be concluded that most of the implemented changes are targeted towards achieving the results in short- and medium term period, making rapid realignment and rapid transformation most important for the management of such companies.

At the same time, support was found for the idea that changes in organizational structure have a positive effect in the short- and medium-term, as well as in the long-term. This result deserves special attention from both the theoretical and practical perspectives, as it demonstrates the positive effect of such radical reforms as change in organizational structure, which is often accompanied by employee resistance, and leads to unpredictable outcomes. It is supposed that this type of change needs to be studied more carefully as a factor in firm growth in emerging economies. Furthermore, according to the results of the econometric analysis, one more type of organizational change, i.e. upgrading the existing product lines, affects firm growth in both the short/medium-term and the long-

term. The results confirm that these two types of organizational change might be united in the separate cluster of changes that positively influence firm growth in the short- and medium-term, as well as in the long-term, in emerging economies.

At the same time, the results of this research show that change in an organizational structure, which, from our point of view, belongs to the cluster called 'rapid transformation,' affects firm growth both in the short- and the long-term in transition economies. This means that this kind of change might be a good starting point for all change projects for companies operating in emerging economies that lead to paradigmatic changes, or do not change the basic assumptions of the company, i.e. its values and beliefs. Testing the long-term influence of several variables on firm growth did not provide conclusive results. Support could not be found for slow realignment and slow transformation having a long-term effect on firm growth. The change aimed at producing an effect on firm performance in the long-term, associated with fundamental reforms both in the structure (starting a joint venture), and in the culture of the organization (getting quality accreditation and the introduction of TQM), or imply a revision of the bases of the company activities (changes in key customer or supplier). This requires knowledge of the principles and management of the firm, which is relatively atypical for the management of many SMEs from countries with emerging economies. These results indicate that the clusters considered to be 'slow transformation' and 'slow realignment' change have no impact on the probability of sales growth in both the short/medium and long-term. The only exception is obtaining a new quality accreditation. Getting a new accreditation for quality has a positive impact on the firm growth in the short/medium term. This is due to the fact that, in countries with emerging economies, obtaining certificates of ISO or confirming the introduction of total quality management, are often formal in nature and related to the company's participation in government tenders or to interaction with international partners. This is a result of having a positive impact on current orders and increased sales, but it has no effect on the company in the long-term due to the lack of a real system of quality management within the organization.

6. Conclusion

The main findings of our study might be useful for company management in emerging economies as an instrument for forecasting the impact of different types of organizational change on the firm's growth. The interrelations between the organizational change under investigation and firm growth identified here allow management to estimate the time period when the results from of a given improvement or transformation should be expected. For example, the implementation of several types of organizational change affects firm growth more strongly in the long-term, while the other change influence firm growth in the short/medium-term. This information provides the company's management with

an accurate understanding of when they should expect the results of organizational change, considering that several types of changes are not able to provide results in the short- and medium-term, while those changes that cannot affect firm growth in the long-term should be repeated regularly in order to achieve sustained growth.

Limitations of this study, most of them involving the dearth of necessary data utilized for the study, should be noted. First, this research was limited by the information available through the ERBD and the World Bank; as a result, only those effects produced by the types of organizational change in question that were reflected in questionnaires from their research could be estimated. Second, significant results on slow realignment could not be obtained, due to the fact that only two types of change were examined. This was also caused by a deficiency in necessary information in the database that was used. Slow realignment, it is believed, is one of the most complex types of organizational change, but its long-term impact on the growth must be quite profound. Third, the database does not contain information on industries, so the effect of particular industries on change and the firm growth could not be estimated.

It is clear that further research on the impact of organizational change on the firm growth and performance is needed. One possible avenue for research might be developing the classification of clusters of change and testing the proposed hypotheses with other data that would contain information, which would make it possible to study various types of organizational change. Further, it seems that a more attentive examination of the impact of separate types of change on the firm growth is needed, especially slow realignment, which can require the use of longitudinal data with a time horizon of more than five years.

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