

CHAPTER ONE

INTRODUCTION

John Adams wrote that "all great changes are irksome to the human mind especially those which are attended with great danger and uncertain effect." No organisations have ever been totally comfortable with new changes as it threatens to offset their daily routine and involves uncertainty and risks. However, change is an important phenomenon as organisations march into the globalized 21st-century economy. The unpredictable and chaotic environment has made change more important. Today, it has been accepted as an important management buzzword comparable to Just In Time (JIT) , Business Process Reengineering (BPR), Total Quality Management (TQM) Organisation Development (OD) and customer service excellence.

The responsiveness to change is particularly crucial in the service industry. In Malaysia, the service sector comprises of wholesale and retail trade, hotel, restaurant, finance, insurance, real estates, business services, transport, storage and communication, government services, electricity, gas and water subsectors¹. It has been the backbone of the nations economic progress especially the finance sector and major employment opportunities of 46.7% of the total labour force² (for further explanation please refer to chapter four). The high expectation of customers has increased the pressure on organisation to improve constantly. So it is important to identify and address proper change management.

¹ Economic Report 1993.

² Economic Report, various years.

Proper change management or planned change can be a source of vitality to the organisation. Change is the only thing that is constant and organisation that refuses to change refuses to survive. The continued existence of an organisation depends on how well it adapts to the new changes. For example the Swiss watchmakers who failed to heed the market change of potential quartz watches threat to their watches. They were very confident of their watches as they possessed 65 percent of the world market share in 1968. This complacency contributed to their downfall as the Japanese firms such as Seiko captured the watch market share with more innovative watches. This resulted in the Swiss market's share to fall to 25 percent in 1969 and further plunged to below 10 percent a year after.³ This shows that planned change is crucial for the organisation to continue operation.

Planned change also reduces resistance among the employees. Sudden change will subject the them to culture shock and enormous stress. This will result in non- participation on the new changes. Alternatively a well-communicated change plans will ensure transparency thus reducing suspicion among the employees. Building trust, motivating the workforce, providing adequate training and empowering employees in the change process are among the important task of senior management team. Alan Zimmerman stressed that senior management set the climate for smooth management of change⁴. They can either build or break the success of the organisation's change effort.

³ Victor S. L Tan, Change To Win: The Asian Imperatives For Asian Companies, How To Win In The Work Place, How To Win In The Market Place, Times Books International, Singapore, 1994, pg 15.

⁴ Alan Zimmerman, " Managing Organisational Change," Management Times, New Straits Times, November 4, 1997.

Managers role is critical in managing change. The type of leadership, the ability to be proactive, managing resistance, having good interpersonal skills and positive thinking are the necessary ingredients of a potent change leader. In short, although employees may feel that change is somewhat important to the organisation, managers are the "artillery" to ensure that the new ideas are well received by the employees. So this study will attempt to learn about the role of managers in the change process and how do they empower the employees and manage resistance. The study will also look into the relationship between employees' personal characteristic, self-achievement or complacency and their responsiveness to changes.

1.1 PROBLEM STATEMENT

Change is an important part in life. The world is changing at a very rapid pace. Just a few years ago no one would have anticipated the Berlin Wall to come down, weakening of the once formidable communist ideology, the launching of our very own satellite Measat, the outstanding economic performance for the past ten years and currently the sudden currency crisis. All these happened without much indications and any unprepared nation or organisation will be caught off guard. Tom Duening argued that changes that are driven by uncontrollable and unpredictable forces are known as "catastrophism"⁵.

⁵ Tom Duening "Our Turbulent Times?" The Case for Evolutionary Organisational Change," Business Horizon, January/February 1997 pgs2-8.

Chaotic environment contributes to catastrophism. Both internal and external surrounding of an organisation are equally chaotic. However, most external factors are beyond the organisation's control, thus in the era of borderless world and globalized economy the continued survival of an organisation depends on how effectively it adapts to its chaotic environment. Failure would mean that they are likely to suffer a similar fate as the dinosaurs, though gigantic in figure their inability to adapt to their surroundings made them extinct⁶.

Organisations are an important part of our daily life. Based on their functions they can be divided into four categories. The profit based or private sector organisations which seek to maximize the return of its shareholders fund. The non-profit or public sector organisations for example the NFPEs⁷ and NGO's that stress more on its social responsibilities to the general public.

Next are the political parties and finally are the interest groups such as Consumer Associations, Wild Life Preserverance and Environmental movements. Irrespective of the types and their objectives all of them need to constantly respond to new changes though the degree of responsiveness may vary depending on their functions whether seeking to maximize profit, social role or political interest. For instance, the private sector organisations due to stiff competition need to be on their toes all the time but this is not so for political parties and public enterprises. The open competition in the private sector has ^{placed} ~~placed~~ additional pressure on them to be more responsive to changes. They cannot take for granted their position, reputation and market capitalization and ignore change or they may end up in the growing list of ailing companies or may be termed as "one time wonder" doing well once only to falter in future. For example the current economic crisis has casted an evil spell on most organisations especially those which did not emphasize on improving their operation. Organisations which merely basked under the past buoyant economic performance may find it difficult to survive in this period.

⁶ Michael Yeoh "Managing Change Through Organisational Renewal," Vision and Leadership, Values and Strategies Towards Vision 2020, Pelanduk Publication, Petaling Jaya 1995, pg 17.

⁷ Non Financial Public Enterprises are public sector agencies which are involved in the distribution of industrial and commercial goods and services in economy.

The increasing importance of proper change management can be linked to the concept of borderless world and globalized business environment. Free flow of information, high technology and, a more liberalized business opportunities are the building blocks of these concepts. Organisations cannot solely depend on government protection and trade barriers to keep them afloat. This may have been necessary at an infancy stage but they must now be able to sieve the dependency particularly the banking and finance sector. The finance industry was long under the government wrap. The government also plans to adopt a more liberalized market approach in the monetary sector allowing more foreign banks to venture locally towards the end of 1990's. Such a scenario would intensify the competition between banks and as a first step the Central Bank of Malaysia wants the domestic banks to merge in order to be able to withstand the stiff competition.

The government would also want to see more local organisations being independent in sourcing new financing sources and not depending too much on the government's aid. This will ensure organisations being more vigilant and constantly searching for new ideas to progress further. In fact the move to shift the ECR facility from the Central Bank to EXIM Bank was a first step in educating the local exporters to start being independent⁸. This is also on line with the Uruguayan Round Negotiations on service trade in 1994 which came in force in the World Trade Organisation on January 1995. The negotiations which emphasized on trade liberalization and potential foreign competition will pose serious threat to the local organisations⁹. Therefore, organisations need to identify new strategies to promote effective local participation in the economy.

⁸ The Export Credit Refinancing Scheme was started by the Central Bank (BNM) in 1977. The main aim of this facility is to provide financial assistance to exporters who utilize the local indigenous resources. The facility is divided into two, the pre-shipment and post-shipment ECR. The pre-shipment ECR facility finances the exporters prior to the shipment of their goods while post-shipment ECR is after the shipment is effected.

⁹ Economic Report 1993.

Organisations also face internal pressure to increase and sustain their profits, assets and to innovate. High expectations from shareholders, employees and customers will mount pressure, on the organisations to continue searching for new business strategies. Shareholders would want an increased profit margin and market capitalization, customers expects excellent service while employees want a rewarding career unlike in the days of scientific management where pure monetary rewards would satisfy and motivate the employees. They now want to be involved in the organisation's strategic planning. So the internal environment of most organisations are equally chaotic which could well be the main reason behind the new changes in many organisation¹⁰.

Faced with the intensified pressure most organisations tend to adopt a "quick fix" approach to bear instant results. One of the most popular buzzword is TQM. TQM places importance on quality customer service and is built on the commandment that the customer is always right¹¹. It also stresses in doing things right the first time in order to eliminate wastage of resources. Such a strategy piles additional pressure on the employees to deliver the new changes and becomes a source of resistance to the management of change in most organisations. Despite Edward Deming's advice to eliminate slogans, targets and exhortations management still prefers to stick with it thus pressuring the employees.

Among other sources of resistance are top management's unwillingness to release their grip or delegate authority to the lower management group. This is perceived as lack of trust on the workforce, so any implementation of new changes would be subjected to resistance as employees view them with a suspicious eye.

¹⁰ Tom Duening, pg 2-8.

¹¹ Rene T Domingo, "Get Rid of Anti Quality Policies," The Asian Institute of Management, February 1994, pgs 4-17.

Overheating of the change management where organisations try to implement too many changes simultaneously and sometimes treat them narrowly where new ideas are not interfaced with other departments or groups is also a source of resistance. A new idea should be shared by all but more often due to keen competition organisations implement new changes without much research, so it becomes unrealistic. Management prefers to design the changes and expect the employees to deliver them without consulting the employees.

Finally group inertia also contributes in form of negative norms by a particular group which fears insecurity and loss of power or influence. For example, frequent changes in the organisation might reveal that the environment is unstable compared to a carefully designed and well communicated change which indicates the need for new changes. Furthermore, new changes might also result in breaking the bureaucratic structure of an organisation that will lead to loss of power or influence. All these become a source of resistance to the new changes in an organisation.

In order to ensure smooth process of change a facilitative leadership is required. As a link between top management and employees, managers play a pivotal role in starting the process, communicating the change to the employees, sustaining the drive throughout the program and ensuring that it stays on the right path. Top management envisions the overall new ideas while managers design the "rolling plans" to implement them. Managers must be able to garner support from both management and employees to effectively execute their task. They must be seen as a role model and facilitator. Besides that managers should also possess adequate technical skills, positive thinking and the ability to tackle resistance against changes in a subtle way. Empowering people in the change process will also ensure that the change would not be too mechanistic. This is also the best method in dealing with resistance because resistance is a by-product of suspicion on management's internal motive, norms and politics.

1.2 OBJECTIVE OF THE STUDY

The main objective of this research is :-

- 1 To identify the orientation of change leadership that best suits the organisation whether they are planners, initiators or resisters.
- 2 To study the manager's roles in the change management and how they determine the responsiveness towards change programs in the organisation.
- 3 What are the other factors that should management emphasize in order to ensure smooth change process.
- 4 To study the relationship between individual self-achievement or complacency and the responsiveness to changes and how do personal particulars and organisation culture determine their self-achievement or complacency.

1.3 SIGNIFICANCE OF THE STUDY

The banking sector is the backbone of the nation's progress. The function performed by the banking industry helps to stimulate foreign and local trade. The Thirty Four commercial banks and a few government controlled banks such as Bank Pertanian Malaysia, Bank Kerjasama Rakyat and Bank Industri have played a major role in lending to the various sectors in the economy. This will contribute to the overall growth and expansion of the economy. So it is important for banks to constantly upgrade and search for new ideas to serve the nation better. Banks also have to positively respond to the changes in the business cycle.

The study is also timely considering that the government is preparing to open the market to more foreign banks, as such local banks must respond positively to new changes in order to compete with their foreign counterparts. As a first step the government has reduced the number of finance companies via mergers or take overs to withstand the foreign competition in future.

The interest in this line of study is also relatively low as there have not been many studies conducted locally. The results from the foreign organisations study might not be compatible locally. So it is hoped that this study will play a small role in contributing to more research done locally. The results should pave way for more organisations to be aware of proper change management.

1.4 SCOPE OF STUDY

The study was conducted in Phileo Allied Bank Berhad and Bank Pertanian Malaysia. These samples were chosen as they highlight several new change program. The study was mainly focused on the departments that are directly involved in the change programs. In the case of Phileo Allied Bank it invested heavily in electronic banking and branchless banking via its new product the "Pal Direct Scheme" and various other innovative services. While Bank Pertanian Malaysia has progressed from the active era (1970-1980) to the passive era of (1981-1990) and currently into the aggressive era. Further discussion on this topic is highlighted in chapter four. Table 1.1 shows the questionnaires distribution and responds collected from the two banks. This study covers both managers and employees.

Phileo Allied Bank's overall response rate is 75 percent while Bank Pertanian Malaysia recorded 39 percent return. A total of 130 questionnaires were distributed in Bank Pertanian Malaysia but only 51 were returned.

Table 1.1 : Questionnaires Distribution

BANK	TOTAL QUESTIONNAIRES DISTRIBUTED	TOTAL QUESTIONNAIRES RETURNED	PERCENTAGE (%)
Phileo Allied Bank Berhad	80	60	75
Bank Pertanian Malaysia	130	51	39

1.5 ANALYTICAL FRAMEWORK

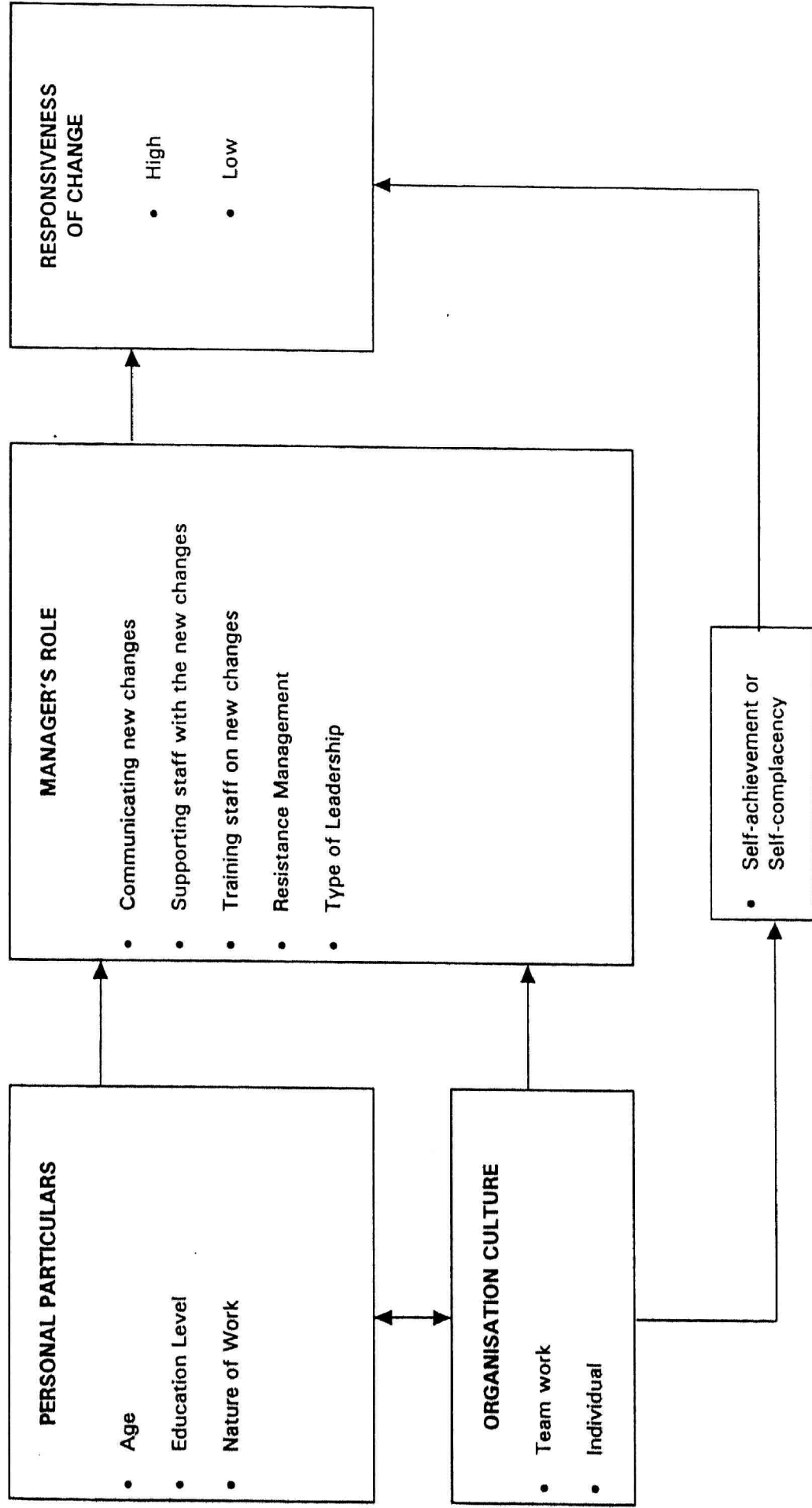
The model is partially extracted from Victor S L Tan's four mindset model of managing change in an organisation¹². The model explains the role of managers in the management of change is dependent on several variables such as employees personal particulars, organisation culture and individual self-achievement. In his original model Victor S L Tan categorised employees into four sets, the "middle aged clerk" and the "young Lincolns" where the former is high on self-complacency and low on self-achievement while the latter is low on both factors. The next two are the "continuous achievers" and "enlightened professors". Continuous achievers are high in self-achievement and low in self-complacency while enlightened professors are both high in self-achievement and complacency. He further explained that organisation requires more "young Lincolns" and "continuous achievers" to be successful in managing change.

Managers role in communicating the new changes, sustaining the drive throughout the process or support in the process of change and training the employees is directly associated with employees personal particulars and the organisation culture. The type of leadership and the positive handling of resistance will also indirectly contribute to the acceptance of change programs by the employees. The overall role of managers will determine the workforce responsiveness on the new change programs.

The model further explains that individual self-achievement or complacency also indirectly determines their responsiveness towards the changes. This is shown by the dotted line in figure 1.1. Both their personal particulars and the organisation work culture shapes their mindset of accepting or rejecting the changes.

¹² Victor S.L Tan, pgs15-30

Figure 1.1 Manager's Role In The Management of Change



1.6 HYPHOTHESES

The below hyphotheses were tested in this study :-

- 1 There is a significant association between employees personal particulars and the managers role in communicating the new changes.

The hyphothesis includes the following sub-hyphotheses :

- a) There is a significant association between age and the manager's role in communicating the new changes.
- b) There is a significant association between nature of work and the manager's role in communicating the new changes.
- c) There is a significant association between education level and the manager's role in communicating the new changes.

- 2 There is a significant association between employees personal particulars and the manager's role in training for the new changes.

The hyphothesis includes the following sub-hyphotheses :

- a) There is a significant association between age and the manager's role in training for the new changes.
- b) There is a significant association between nature of work and the manager's role in training for the new changes.
- c) There is a significant association between education level and the manager's role in training for the new changes.

- 3 There is a significant association between employees personal particulars and the manager's role in supporting in the new changes.

The hypothesis constitutes the following sub-hypotheses:

- a) There is a significant association between age and the manager's role in supporting in the new changes.
- b) There is a significant association between nature of work and the manager's role in supporting in the new changes.
- c) There is a significant association between education level and the manager's role in supporting in the new changes.

- 4 There is a significant association between the manager's role and the responsiveness on the new changes.

The hypothesis constitutes the following sub-hypotheses :

- a) There is a significant association between communication of the new changes and the responsiveness on the new changes.
- b) There is a significant association between training and the responsiveness on the new changes.
- c) There is a significant association between manager's support and the responsiveness on the new changes.

- 5 There is a significant association between manager's role of resistance management and the employees responsiveness to the new changes.

- 6 There is a significant association between individual self achievement and their responsiveness on the new changes.

1.7 RESEARCH METHODOLOGY

The methodology used in this study are as follows :-

1 Questionnaires method. The questionnaire is divided into 5 sections :-

- A Personal particulars of respondents
- B Organisation culture which measures the type of culture in the organisation.
- C Change leaders. Questions in this section were adopted from Carol A O'Connor's training series which determine the orientation of leadership which suits the environment of change. Only managers who are involved in supervising the changes will answer this section. A grading of 3 for greatest preferred and 1 for least preferred will be totaled from the 42 questions. This will determine the type of leadership whether more of initiators, planners or resisters. The highest score indicates the managers strong biasness towards change.

Questions 15 to 24 in this section further analyze how managers deal with resistance in the process of change and what are the important sources of the resistance. It will also gather their opinion on how management can be more vigilant and supportive to ensure smooth management of change.

- D This part will assess the type of people in the organisation whether with high degree of self-complacency or self-achievement. Questions in this section is partly extracted from Victor S L Tan's research on change programs applying the 4 mindset model.

- E The final part deals on the perception and acceptance of employees on the change programs. How do employees feel about the prospect of change, communication by the managers, training on new changes and rewards.

- 2 Library research for compilation of secondary data from local and foreign publications is used in the literature reviewed chapter three's change leader. Annual reports and circulars on the respective banks are also included in chapter four. Besides that other sources of secondary data includes local newspaper clippings, especially the Management Times in New Straits Times, journals such as Business Horizon and magazines such as Corporate World, Management Digest and Times. Several other training manuals obtained from the banks are also part of the secondary data.

Interviews on selected managers and employees are carried out as part of data collection. However, due to time constrain and classified information most employees are quite reluctant to participate in the interview. Nevertheless, the few answers did provide more information on the perception of change program. This type of data collection does not ties the respondents to the questions in the questionnaires and they are more flexible in voicing their opinion.

1.8 LIMITATION OF THE STUDY

The study only covers two banks, The Phileo Allied Bank and Bank Pertanian Malaysia while the attempts to include more commercial banks were unsuccessful as the management view this study as a sensitive topic. The participation of both Phileo Allied Bank and Bank Pertanian Malaysia were also quite low as shown in table 1.1. Most managers were extremely cautious in the interview process and most of their answers seem to be in support of the management plan. Some of the questionnaires also were not completed. Despite the assurance that this study is purely of academic interest most respondents were quite reluctant to participate. So the researcher has to conduct several visits to the respective banks to gather more information from the managers and workforce on the change management.

1.9 ORGANISATION OF CHAPTER

The study is divided into seven chapters as follows :-

- 1 Chapter 2 focuses on the management of change with an emphasis on the evolution of change management from 1960's to the current 1990's. This chapter will also address the catalysts for change especially the business cycle factor, change in the management thinking and organisation pressure. The chapter further discusses the types of change and several representative change models. Finally it also elaborates the determinants of a successful management of change.
- 2 Chapter 3 elaborates the role of change leaders or managers, the type of leadership which nurtures the culture of change and the characteristic of a successful change leader.
- 3 Chapter 4 elaborates the banking industry in Malaysia which is divided into the banking and non bank intermediary system. A brief introduction on Phileo Allied Bank and Bank Pertanian Malaysia will also be highlighted in this chapter.
- 4 Chapter 5 and 6 analyses the profile of the respondents and testing of hypotheses.
- 5 Chapter 7 concludes the study by presentation of summary, findings and recommendations.