

EMPLOYEE READINESS FOR ORGANIZATIONAL
CHANGE: CASE STUDY IN A LOCAL PLASTIC
PACKAGING MANUFACTURING COMPANY
IN JAVA, INDONESIA

NIXON ALBERTH SIMAMORA

ASIA e UNIVERSITY
2015

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NIXON ALBERTH SIMAMORA

**A Dissertation Submitted to the School of Management
Asia e University in Fulfillment of the
Requirements for Degree of
Doctor of Business Administration**

August 2015

ABSTRACT

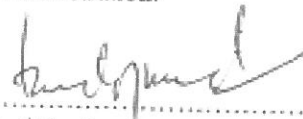
The current high competition, globalization and free trade agreement among nations affect every business establishments today. Organizations are faced with these challenges, but to maintain their competitiveness organizations are forced to continually make necessary adjustments or change their current business strategies, operations, policies, organizational structure, and culture. However, managing these changes is as well challenging because the change process involves human mind set and behavior. To be successful, managers and other change agents desire to understand how to encourage and effectively prepare employees for change situation. The purpose of this study was to examine the determinant of employee readiness for organizational change in a local manufacturing company in Indonesia. The main research objectives were to examine the condition of employee readiness for change in this local manufacturing company, to identify significant factors affecting their readiness for change and to test whether remuneration, employee relationship with management, employee trust in management, employee receptivity to change and employee commitment to organization factors could predict employee readiness for organizational change in this local manufacturing where changes have been introduced. This empirical study proceeded by a systematic review of literature that led to development of a conceptual model. The data was collected from a sample of employees by using a survey questionnaire. Data was analyzed using descriptive statistics, exploratory factor analysis, and multiple regression analysis run on statistical package for social sciences. Results showed that independent variables (employee relationship with management, employee trust in management, employee receptivity to change and employee commitment to organization) were positively and significantly correlated to the dependent variable (employee readiness for

organizational change). However, one variable (remuneration) was not found positive and significant to employee readiness for organizational change. This study provides empirical evidence for employee readiness predictor variables for organizational change. It is hoped that this study will contribute to the current literature on change management, especially for Indonesia, and may help the management, change agents and practitioners of human resources management and development, and organizational behavior in assessing, designing and evaluating new or existing programs for organizational change.

KEYWORDS: organizational change, employee readiness for organizational change, remuneration, employee relationship with management, employee trust in management, employee receptivity to change, employee commitment to organization.

APPROVAL PAGE

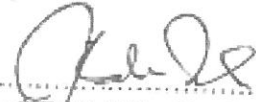
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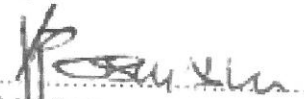
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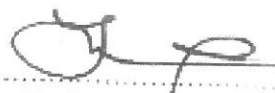
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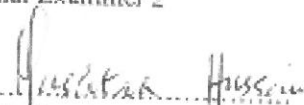
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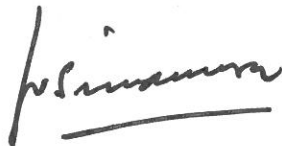


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DECLARATION PAGE

I hereby declare that the thesis is submitted in fulfilment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the program and/or exclusion from the award of the degree.

Nixon A. Simamora

A handwritten signature in black ink, appearing to read 'N. Simamora', with a horizontal line underneath.

10 August 2015

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Completing this doctoral study was a huge challenge for me. I would like to express my gratitude to all those who in different ways have contributed and inspired me in finishing this work.

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I would like to dedicate this dissertation to both my parents for giving me the inspirations to pursue this doctoral study before they passed away. I miss them so much.

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CHAPTER 1

INTRODUCTION

1.1. Background of the Study

Change occurs rapidly in today's business world. As noted by Jensen (2003), Kotter (1998), McLagan (2002), all organizations in the present business environment have to accept change and embrace it. Change does not exclude small organizations; neither does it exclude private organizations. In fact, change in organizations has occurred massively in the last decade, especially after the advancement of technology particularly the availability of internet. The speed of change will continue to increase even faster in the future (Kotter, 1996).

Companies will have to continue to find ways to improve their competitiveness through implementation of reengineering, total quality management, six sigma initiatives, cultural renewal, mergers, and available advanced technology. To deal with competitive forces, managers have to regularly find innovative ways to assist their individual organizations embrace new changes in the business. Accordingly, companies have to reduce their operation costs, enhance whatever they offer and search for new business opportunities as a way of increasing productivity and achieving growth. Employees in their organizations make adjustments to the shifting business environment whether caused by external or internal factors. The external driving forces for changing include government regulations, market competition, technological advancement, demographic changes, economic crisis and globalization or free trade agreements.

Government Laws: Many laws issued by the government could affect organizations. In the case of Indonesia, regulations related to minimum wage, environmental protection, high tariff for mineral export to force the mining companies to build smelters locally and others have proved to become the driving force for companies to make changes. As an example, minimum wage set by the government and increases every year without linking it to productivity would give pressures to the top management of the company to improve their operations with less number of people and more skilled workers. The people in the company would have to change the way they do things which might mean more works borne by each employee and relocation to people from different division.

Competition: Competition in business intensifies now days. It means that competition is happening more quickly and more aggressively than ever before. The tearing down of barriers gives the opportunity for new comers to enter the traditional markets and change the old rules of the game. Competitors are also playing harder than ever. New players are entering the market and taking over larger share of markets. Many of these new players are driving out the unresponsive old players. But, others who are responsive to the changing business environments will do anything to keep what they have and try to leave behind their competitors. The most visible example of competition within the Indonesian context is the airline industry. Since the birth of Air Asia in Indonesia, the competition within the airline industry has changed dramatically. Air Asia low fare strategy has given the opportunity for lots of people to be able to fly where they could not afford it previously. As a result, the other airline companies have decreased their fares in order to survive the competition. This example shows that the new comer to the industry set the rules of the game.

Technological Advancement: It has been noted that nearly all organization are currently using some of technology to improve their competitiveness in order to become more competitive. Information technology, especially internet and electronic business (e-business), is having an enormous effect on all organizations today. It allows service to be provided and business transactions to be executed anywhere at any time. In many ways, organizations are expected to be everywhere all the time. A supplier can be in business to consumer e-business relationship or a business to business relationship. Technology is opening up a wider and more extensive range of opportunities and expectations. Some companies sell more its products to direct customers over the internet. Doing business in the internet is faster and cheaper than the traditional transactions and customers like it better because it is more convenient. It allows the customers to reach globally without having to be there all the time.

Many organizations have implemented enterprise system in their operations for activities such as customer relationship management and supply chain management with the objective of cutting costs while improving the level of customer service they offer. In addition, the enterprise system is meant to increase efficiency in operations and enhance the customer and supplier relationship with the organization. It has been noted that an effective customer relationship system creates better customer services, which leads to long lasting customer relationship. In the case of Air Asia in Indonesia, customers could make flight booking until web check in through its portal with ease. It even provides the ability for the customers to choose the seat and the meals that they want to have during the flight. Without internet and CRM program, these processes would probably involve some third party (travel agents) or directly to the Air Asia customer service for checking flight seat availability and therefore would take more time to response to its customers.

Demographic Changes: Demographic changes highlight the trends and changes that occur within the population. This includes changes in age groups, gender, which changes from time to time. The change in demographics could trigger changes in organizations. In the case of Indonesia, the number of workers with income of around three thousand dollar a year is increasing. This is due to the regulation on minimum wage set by the government. The minimum wage is increasing every year and now it almost reaches the three thousand dollars a year. The increase of the income of these workers would provide these workers more buying power and more money to spend. It is then important for companies to understand what these workers' needs and be able to provide products or services to fulfill these needs.

Economic Crisis: The economic crisis affects firms too. It could lead to layoffs and closures of the companies. During the period of the crisis, the attitudes and morale of the employees suffer that could hurt companies performance. To face the economic crisis, companies must also make adjustments to their operations that might lead to the reduction of the number of employees significantly in order to stay competitive and to survive the crisis. This situation would force the companies to implement organizational change.

Globalization and Free Trade Agreements: Globalization continues to create a competitive, dynamic and rapidly changing business environment that is creating challenges to the organizations. The changes in business environment has changed the way employees work in their organizations. Continuing changes being witnessed have certainly become integrated in organizational system. Globalization and free trade agreements are impacting organizational life. The new changes taking place not only create challenges to the employees and the management, but they also create tensions

among these two groups as they undergo these changes. The tensions created if not well managed could create bigger problems for the organization and affect their performance.

As stated before, organizations are operating in global arena where markets are open, resulting into high competition across all markets and increasing economic interdependence among different countries. Organizations are reporting increased sales in their overseas markets as companies standardized and adapt their products to meet the consumer tastes and likings in their different markets. Nonetheless, adaptation requires that multinational companies have to formulate new business concepts, marketing strategies, and operations in local and foreign markets. This requires enormous resources and to cope, companies telecommuting and are outsourcing some of their operations to countries like Indonesia where labor cost is low and the population is huge as a market place.

Companies that produce services and products on behalf of other global companies must follow certain ways of doing things when producing the products according to the requirements. This arrangement would cause the order recipient to make adjustments to their operations, hire suitable people, buy new machineries and other things required to produce goods and services based on the global company's demands.

Free trade agreement among nations usually involves in the reduction of import tariffs that are applied previously to some imported goods and services. The reduction of these tariffs could reach to a certain level even reaching up to zero tariffs. This arrangement will enable the movement of goods and services almost freely among the member countries. As a result, this gives the opportunity for companies to import their required materials from partnering countries if they feel that the supply of

the goods locally is not according to their requirements in term of quality, delivery promises, and price. The availability of source of materials from different countries will force companies to make adjustments to their strategies and internal operations in order to compete with the free flow of imported goods and services. Indonesia had a very bad experience in the beginning of Asean and China free trade agreement implementation that commenced in January 2010. Lots of companies stopped their operations because their inability to compete with inexpensive products from China. Because of this, lots of workers got laid off and out of work. Therefore, it is important that companies prepare themselves to compete in the globalization and free trade era.

The internal issues that can create changes within an organization could include change in leadership, quality and productivity issues, and employees' issues.

Change in Leadership: The change in leadership of an organization could also result in changes within that organization. New leadership has his/her own vision about the company's future while under his/her command. The new leaders might change the structure of the organization and the key decision makers to support him in order to achieve his objectives. The change in company organization structure means that the chain of command and reporting would be different from the previous one. This could also generate uneasiness for some employees who were accustomed to work under certain people that they had good relationship with already.

Quality and Productivity Issues: Quality and productivity issues within the existing operations in the firm could also trigger the employees to change. Quality issues could generate complaints from customers. These complaints from customers must be addressed by the organizational members of the firm if the firm feels that it still wants to have revenue from those customers. Otherwise, those customers would leave the firm and seek other companies in order to fulfill their needs. Issues in

productivity such as increased waste of materials, products being rejected for not conforming to the requirements, frequent machine breakdowns, and the overuse of materials for production could also create the needs to organizational change. Otherwise, the cost of good sale would increase and the company could lose its competitiveness in the market.

Employees Issues: Some symptoms of people problems within the company are poor performance level of the employees, high absenteeism of the organizational members of the firm, high turnover of the workers, poor relationship between management and employees, and low level of staff morale and job satisfaction. All these factors provide a signal to firm leaders that organizational change is necessary.

A number of studies carried out in the past on employee readiness in regard to organizational change. As noted by Self (2007), the concept of readiness can be traced to Lewin's (1947) model of unfreezing, where employees have to be left to release their psychologically approach of working at the organization. This implies that managers have to provide enough proof that the current system being used needs to be changed for the company to remain competitive. Coch and French (1948) were among the first researchers to carryout studies on creating readiness. In their study, the management of a company making pajamas showed its employees that they need to the change their pajamas by comparing them with those from their competitor. Though they were identical in quality, the pajamas produced by the competitor cost half as much compared to the cost of the firm. This study was considered as the preparation of the firm for a change (Jacobson, 1957, Gardner, 1977, Bartlem & Locke, 1981).

Armenakis, Harris and Mossholder (1993) observed that readiness is shown through the norms, value, beliefs and attitudes concerning the level to which the

organization requires to adapt the changes, and its capacity to carry out the intended changes. Armenakis *et al*, (1993) in their paper on creating readiness for organizational change, proposed the approach on how to prepare employees for change in the organization. They argued that readiness for change comes from the message given by managers to their employees. Introducing changes within an organization at times results in uncertainty and worries among employees regarding their future. Therefore, change message has to get rid of these uncertainties and worriers among the employees. In addition, the change message from the management has to address five questions. This includes, whether change is needed, whether the proposed change is suitable, if the main members within the organization agree to the change, whether the employees have the capacity to successfully carry out the proposed change and lastly, how change will affect the employees as individuals.

The first message, called discrepancy by the authors, answers the first question. Accordingly, discrepancy refers to the existing disparity or variation between present situation and the desired situation. Employees have to understand that the present situation is no longer acceptable, and what is required is the different situation. If this message is not passed on to the employees, it will be hard for them to understand the need for change. Therefore, when an organization starts change program it has to make the employees to understand the importance the proposed change. In addition, the management has to make the employees understand that the proposed change is appropriate. The Management must demonstrate that the change is needed. Furthermore, management must also offer correct facts about the proposed change. This is because though the employees may agree to the need of change, they may feel that the proposed change is not suitable. The third message is called principle support. For Armenakis *et al*, (1999) principle support was necessary to

convince the employees that management is in fact committed to carry out the proposed change initiative. When an organization initiates change, employees examine the seriousness of the management regarding the proposed change. The fourth message is called efficacy. This message is intended to address the capability of the employees to make the change. The importance of this message is to increase or assure the confidence of employees to carry out the change program. It is the responsibility of the management to provide employees with the tools, education and trainings needed to implement the change. The last message is called valence. Armenakis *et al.* (1993, 1999) noted that if an employee, who was affected by a variation from the existing policies and procedures, viewed that he or she had no benefits from the change program then that employee would resist the change.

Following this, many studies have been conducted by different researchers covering factors such as commitment, resilience, trust, job stress, job satisfaction, communication, training, attitudes, and others to show their relationships with employee readiness for organizational change.

Despite of the fact that changes in organization either triggered by external or internal driving forces are unavoidable there are still people who are reluctant or resist these changes. Resistant to change is an important issue that may hinder the success of the organizational change. Some employees consider the changes as a burden and extra works for them to do without any increase in salary or other type of incentives or loss of monies arising from salary cuts or through added expenses owing to the changes require the employees to move to other locations that are far from their home.

There are members of the organizations who might consider that they do not have a good relationship with their supervisors and managers. This might be due to their experience that their supervisors and managers are not helping the employees in

the work place whenever the employees have difficulties in doing their jobs. When employees do not have a good relationship with their supervisors and managers, respect or hold negative feeling towards the manager in charge of proposed change, there arises a strong feeling to resist the proposed change due to the above negative changes that result in subjectivity instead of objectivity.

Change resistance might also occur when employees distrust their supervisors and managers leading the organizational change. The degree of employees' trust in their management in different organizations varies. When the change is proposed during the low trust condition employees tend to resist the change effort. However, when the change is proposed during the high trust situation the organizational members are more likely to accept the change and support it. Furthermore, under conditions of distrust employees often resist change even when the changes are understood and the employees can benefit from the change efforts.

Not all employees have the same receptivity or openness to change. Because of that when introducing a change program into an organization it is important to consider employee receptivity or openness to change as one of the critical factor for successful change program implementation. Low level of receptivity or openness to change could trigger change resistance among organizational members. If the employees feel that the change program has no benefits to them they might not be willing to be involved in the change initiative.

Employees bring to their organization certain skills, competencies, expectation as well as needs and expect to get a work environment that gives them an opportunity to use these skills and at the same time satisfy their individual needs. Organization that provide good work environment develops higher commitment from employees. This becomes the glue that attaches the employee and the organization. Level of