

Organizational Behaviour

Chapter 9 - Managing Organizational Change

Kogan Page © 2013

Case study and discussion questions

Case Study—Jordan Cement Factories

It is widely evident that the period since the mid-1980s has been marked by changes in the world economy that have led to profound developments in the international operations, strategies and structures of MNCs and many other organizations worldwide. Among other things, such changes consisted of the liberalization of financial markets, deregulation and privatization of state enterprises, globalization and intensification of international competition. In the face of these changes MNCs have adopted fast track expansionary strategies, such as cross-border mergers and acquisitions, and a variety of non-equity arrangements such as management contracts and licensing agreements. They have also increasingly expanded their growth into developing countries of which many were embarking on economic structural adjustment reforms and privatization programmes under the directive of the World Bank (WB) and International Monetary Fund (IMF), which led to the sale of their state-owned enterprises, and in many cases, to MNCs.

The Hashemite Kingdom of Jordan was one of the countries in the Arab world in the Middle East region that had to undertake structural adjustment programmes under the auspices of the WB and the IMF and, as a result, a number of state enterprises were privatized and sold to Western MNCs to improve their efficiency and competitiveness. The first state enterprise that was privatized was Jordan Cement Factories that was acquired by a French MNC through the purchase of equity shares. Jordan Cement Factories is a public shareholding company that was incorporated in Jordan in 1951. The main activities of the company are the manufacturing, production and trading of cement and its by-products and until 2002 it had a monopoly over the supply of cement in Jordan. The Jordanian government and its institutions had long owned around 58 per cent of the company's share capital. In November 1998, it sold 33 per cent of these shares to Lafarge, a French MNC, that subsequently increased its stake to 50.27 per cent controlling share.

The process of change

Jordan Cement became the subsidiary of Lafarge that had strategic importance to the MNC because, according to the General Manager of Jordan Cement, it was 'the first operation in the Middle East and therefore could be the basis for market access and further operations and developments in the area'. The parent company has adopted a management style known as the 'Lafarge way'. Under this the organization seeks to encourage personal initiatives and involvement of everyone in the implementation of group strategy. At the same time, the MNC was moving towards operating along global lines and as a result was attaching great importance to the issue of integration. In terms of HR, this is reflected in the implementation of company-wide HR policies in respect of a number of issues. Thus, in relations to this, the Middle East director for HR-related issues noted that:

'We apply the same HR policies on everything - on all HR related issues and on all other activities such as training and development, etc. There are company-wide policies that will apply as much as the local culture and the law allow us... we apply the same policies because the parent company has its own internal culture and we aim to achieve integration. This means doing the same everywhere in the world. It is part of our culture. Each function should have the same methods of doing things, same understanding, and same efficiency.'

Accordingly, after the acquisition, the French MNC adopted a gradual approach to change whereby it was envisaged that the change process would occur over a period of between two and three years. In this process, a 'methodological guide' is used to integrate new subsidiaries, under which teams from different functional areas are sent to the subsidiary to identify priority actions that have to be undertaken within the first 100 days. This action programme is, in turn, accompanied by the development of a longer-term, two- to three-year, programme of actions aimed at making the changes needed to integrate the new subsidiary fully. The MNC adopted a gradual approach to change due to three main considerations. First, there was a desire only to introduce the changes after an appropriate management infrastructure had been developed. Secondly, there was a recognition that cultural change is a slow process, and thirdly, there was a felt need to prepare employees adequately for change.

In addition, the company used participative change processes that encompassed the use of task groups and working parties, and a bottom-up orientation to problem solving. Consequently, and following the change project known as the JCF Horizon 2001 that was created and the HR audit that was conducted by staff at the parent company, a range of new HR policies and procedures were proposed. These policies included the establishment of a new system for career management and succession planning, the implementation of revised job descriptions and a new job evaluation scheme, and the development of improved policies in relation to performance appraisal, recruitment and selection, and training and development. This was in parallel with the implementation of a new organizational structure under which a new HR division was created. Under this new structure, the HR function gained greater strategic importance, became part of the company's overall strategic planning process and was directly linked with the operating committee that was in charge of the daily operations of the company, while previously the role of the personnel function was mainly administrative, HR had no representation at board level and its participation in planning was very weak.

Furthermore, decision-making style, which was very centralized before privatization, had to be changed after privatization. Decentralization and delegation were seen as important changes that needed to be introduced in order to create a management style that was in line with the parent company's best practice. Thus many positions were merged to reduce the number of layers of management and senior managers were encouraged to devolve greater authority to line managers. Line managers were also given more HR responsibilities in such areas as communication with employees; pay rises and promotion of subordinates; the use of performance appraisal to determine the level of bonus pay and the objectives of subordinates; recruitment and selection; training of subordinates; planning manpower requirements; communication with subordinates; paying attention to the budget and control of costs; and the dismissal and discipline of subordinates. Overall, line managers participated in making such decisions contrary to the situation in the period before the acquisition where decisions were made centrally.

Changes were also introduced in a number of other areas such as performance management, rewards, training and development. Working parties were also created to carry out the JCF Horizon 2001 project and the HR changes. These working parties or task groups comprised staff from different functions including members of the trade union. A key objective of the new management was to involve the trade union in the changes being made. Jordan Cement had a well-established and powerful union and the company's employees were members of The General Trade Union of Construction Workers. This involvement of the trade union reflected the parent company's participative culture. For example, the Middle East director for HR-related issues observed that:

The parent company's culture is very humanistic and works with the individuals. It is a consensus seeking culture rather than a confrontation culture... and that employees are at the heart of the organization... you cannot force change... change must come indigenously. I mean people should be willing and should be participating in change... otherwise, for example, you can make the perfect organization on the table but you cannot implement it because the unions are going to resist it and because the individuals are going to resist. So you must have ownership and participation to change and I think the parent company is trying to do this and is trying to create participation to change... you cannot change the culture overnight. You need to convince the people that what you are bringing them is going to serve them better.

It must be noted that the union gained power during the privatization process due to the delicate political situation in the country and its power continued to grow after the privatization. The power of the union grew not only at the company level but also at the national level and it obtained further support from the public and the press, and from the several actions it took that threatened the stability of the company and the country. It also had international support as it was a member of other international unions such as the Union of Arab Workers. Thus, according to the union's president, during the period when the company was considering a restructuring based on the Jordanian Labour Law No. 31 article 33, which gave the firm's owner the right to terminate the services of the employees without compensating them, the union 'declared war on the company' and announced strikes and sit-ins that were widely supported in Jordanian society, and by national figures and political parties. At the same time, for the government this was a very sensitive situation since many of the company's employees came from high unemployment and low income regions and the company was considered to serve the national interest by employing these people. As a result of the growing influence of the union, it succeeded in obtaining several gains such as the distribution of 4 per cent of the company's annual profits to all company staff, pay increase on the basic salaries of all employees, and among other things, it changed the terms of the early retirement scheme and gained more favourable terms and incentives for employees. The way that the MNC dealt with the changes and the resistance if faced is illustrated in the area of remuneration below.

Remuneration

Prior to privatization, pay was determined according to the qualifications and experience of the individual and was made up of a number of elements: basic salary, various allowances, a production bonus and annual performance-based increases of between £3.00 and £4.00. Shortly after privatization, it was agreed to raise the basic salary by an average of £6.00 for every employee. In addition, the existing production bonus was doubled, and 4 per cent of the company's annual

profits were distributed equally to all the company's employees as a bonus. These changes were made in response to forceful union claims and against the background of an increase in union influence stemming from the delicate political nature of the privatization and a desire on the part of both the government and the company to avoid any bad publicity during the early days of privatization. In addition, a new company-wide performance-related bonus scheme was proposed under which payments would be distributed on the basis of individual performance. Initially, the new bonus arrangements were only applied to the cadre people because of union opposition to the revised bonus arrangements. In the face of this opposition, the company therefore later decided to link only half of the bonus to individual performance. Accordingly, a decision was made to distribute 2 per cent of annual net profit equally among the 1,800 non-cadre employees, while the other 2 per cent was to be distributed according to their personal performance. In a similar vein, the union was also able, against the background of its enhanced negotiating power, to secure an increase from 75 per cent to 86 per cent in the average annual appraisal mark, as the following quote from the company's career manager illustrates: 'The main obstacle is the union. The annual appraisal is linked to the annual increase and the bonus. Thus, the unions argued that this affected the employees' incomes and demanded an increase in the average mark from 75 per cent to 86 per cent. At the end, the company had to make concessions and we reached an agreement to have an average mark of 84 per cent'.

Discussion Questions

- Explain the MNC's approach to change. To what extent do you agree with it and why?
 - Discuss the different factors that need to be taken into consideration to implement change successfully, particularly when operating across borders.
 - What are the sources of resistance to change? To what extent do you think that the MNC was successful in dealing with resistance to change, and why?
 - What are the limitations of the planned perspective on change?
 - Discuss the factors that may support the argument that change is shaped by the interplay of action and context.
-