

STRATEGIC CHANGE MANAGEMENT: A CASE STUDY OF PT. MARGARIA GROUP

Annisa Rahma Herdyana

E-mail: annisaherdyana@gmail.com

Rizal Syarief and Setiadi Djohar

E-mail: setiadidjohar@gmail.com

ABSTRACT

Over the past five years, retailing industry in Indonesia has seen a very rapid growth. PT. Margaria Group, a medium sized goods and services retailing company has opted to undergo a change in organizational structure in January 2014. The planned change is hoped to address effectiveness and efficiency related internal issues and to improve its competitiveness in Indonesia's ever-growing retail industry. However, many organizational change failed due to the management's lack of understanding of how to properly implement changes and what consequences do these changes bring about to the organization. Therefore, an effective change management strategy, including the formulation of goals and objectives of change, change programs, and resistance management strategies needed to successfully carry out the change and ultimately aid the organization in achieving its long-term strategic goals.

Keywords: change management, transition model, force-field analysis, dice method, strategic management

JEL classification: O32

INTRODUCTION

The retailing industry in Indonesia has seen rapid growth over the past 5 years, where its market size has

grown from Rp 11.331,1 billion in 2008 to Rp 18.753,9 billion in 2012, representing an average growth of 13.7% annually. Furthermore, the industry is forecasted to worth Rp 26.845,2 billion in 2017, or a 137% increase from its current worth. This growth is spurred by a number of factors, mostly attributed to the increase in Indonesia's annual disposable income and subsequently, consumer expenditure. In all, per capita disposable income surged by 34.0% in real terms over 2008-2012, reaching Rp 16,3 million (US\$ 1.799), while per capita consumer expenditure rose by 32.0% in real terms over the same period to stand at Rp 15,8 million (US\$ 1.735). As the overall standard of living continue to improve, increasingly large number of consumers will shift towards spending on non-essentials such as fashion apparel, miscellaneous services, communications, as well as leisure and recreation.

PT. Margaria Group is a medium-sized enterprise based in Yogyakarta, DIY. Since founded in 1980, PT. Margaria Group has experienced an impressive growth, particularly over the last five years. The company has a diverse business portfolio, ranging from batik and Moslem apparel retailing, beauty services, as well as entertainment and leisure. While initially focusing on Moslem apparel and batik retail during its early years, Margaria Group now manages 13 (thirteen) brands and 30 (thirty) outlets located among several cities in DIY, DKI Jakarta, Central Java, West Java, and East Java. As a business that operates mainly in the goods and services retailing, the aforementioned economic growth in Indonesia creates a major opportu-

nity for the company. The increase evident in consumer expenditure from 2011 to 2012 on clothing and footwear (9.6%), leisure and recreation (11.7%), miscellaneous goods and services (13.5%), as well as the apparent Gross Domestic Product (GDP) growth in the company's area of operations further substantiate this opportunity.

Despite these thriving opportunities, PT. Margaria Group has been struggling with internal problems related to ineffectiveness, which are mainly attributed to an unclear organizational structure and shortage of workforce at the company's head office. The current organizational structure and hierarchy is deemed to be a hindrance to the company's effectiveness due to the setbacks that it created over the years, namely ambiguous and overlapping jobs and tasks.

Another major problem that PT. Margaria Group is facing relates to the shortage of workforce at the company's head office. Although each strategic business unit (SBU) has a certain level of autonomy in terms of daily operational activities, annual performance targets and marketing strategies, the head office is nevertheless responsible for research, monitoring and controlling activities of each SBU. Furthermore, the head office is also in charge of formulating and implementing major strategic decisions for the company. Thus, the head office inevitably plays a crucial role in ensuring the future direction of the company and consequently, its success and survival in the long term. However, the rising number of outlets owned as well as employees working under Margaria Group, coupled with trends evident in both consumers and competition, are not proportionately aligned with the company's workforce located at the head office. While the company is seeing rapid growth of outlets and employees, the number of people responsible for controlling, monitoring, evaluating and creating strategic decisions in the head office remain virtually stagnant. As a company that operates in highly potential locations and industries, which subsequently attract a growing number of investment flows that further intensify competition, Margaria Group could no longer afford to allow such structural ineffectiveness in the company deter its ability to ensure its survival and achieve success in the market.

As a solution for this setback, PT. Margaria Group opted to undergo reorganization set to be imple-

mented in January 2014, which includes reforms such as: 1) departmental developments; 2) separation of departments; 3) appointment of a General Manager and Director of Operations; 4) development of business divisions; and 5) appointment of Area Manager(s) responsible for managing each business division. As it is mentioned earlier, however, many organizational change failed due to the management's lack of understanding of how to properly implement changes and what consequences do these changes bring about to the organization. Therefore, an effective change management strategy, including the formulation of goals and objectives of change, change programs, and resistance management strategy is needed to successfully carry out the change and ultimately aid the organization in achieving its long-term strategic goals.

Numerous efforts of organizational change often fail due to management's lack of understanding of how to properly implement changes. With the evident growth of Indonesia's retail industry and increase in consumer purchasing power, PT. Margaria Group could not afford to experience failure in implementing the planned organizational structure change, as this initiative plays a crucial role in improving and sustaining the company's competitive advantage.

Based on the research background explained previously, this research has the following purposes 1) to analyze what type of change that PT. Margaria Group intends to undergo; 2) to analyze internal and external driving forces that trigger changes in the organization; 3) to determine how significant these change drivers have affected the company over the previous year; 4) to analyze the potential impact(s) that the planned change has towards PT. Margaria Group and its employees; 5) to identify potential resistance that might arise from the planned organizational structure change; and 6) to formulate change programs for PT. Margaria Group in order to successfully carry out the planned change

MATERIALS AND METHODS

Data collection for the purpose of this research is conducted in PT. Margaria Group, a medium-sized goods and services retailing company based in Yogyakarta, DIY. The research was commenced from January to October 2013, while on-field data collection was car-

ried out during the period of June-September 2013. This research employed a case study approach, utilizing a combination of descriptive, qualitative and semi-quantitative method in obtaining research data. Case study approach was chosen because the research employs observing in detail a research object for a certain period of time to gain a deep and comprehensive insight to the problems facing the organization.

The types of data utilized in this research are primary and secondary data. Primary data was obtained by means of observational reports, face-to-face interview, e-mail, document studies and focus group discussion (FGD). Furthermore, secondary data was acquired through studies of literature as well as relevant internal documents. The sampling technique employed in this research is *purposive sampling*. This decision is made based on the consideration that the respondents involved in this research possess the required experience, expertise and competency in their respective fields. The respondents concerned in this research consist of internal respondents, where respondents must include the key persons involved in planning as well as formulating long-term strategies and policies and/or possess minimum five years of work experience in PT. Margaria Group (*head office* category), and holders of middle managerial positions in charge of a business division/business unit with minimum three years of work experience in the company (*business unit* category).

Data processing and analysis are carried out in five interconnecting stages, namely: descriptive analysis, change analysis, change goals and objectives formulation, change programs formulation, and resistance management strategy formulation. Each of these stages is further explained below: 1) descriptive analysis to gain an overall insight towards issues that are relevant to the research; 2) change analysis, which include the following steps i) determining the type of change that PT. Margaria Group is planning to undergo, Types of Change Model; ii) identification of internal and external change drivers utilizing guidelines set, Drivers of Change Model; iii) determining the significance of these change drivers' impact towards the organization and its employees over the previous year; and iv) analyze the potential effects of the planned change using Kates and Galbraith's (2007) Star Model; 3) identify potential resistance that might arise from the implementation of

change initiatives, force-field analysis; and 4) devise change management programs according to guidelines set in the Transition Model (Bridges, 2009) and assess each program's potential success utilizing the DICE scoring method (Sirkin *et al.* 2005)

RESULT AND DISCUSSION

Respondents consider the planned change in PT. Margaria Group's organizational structure as a transitional change, which is further substantiated by the following grounds: 1) the main motivation behind the planned change is to eliminate problems attributed to the original organizational structure; 2) a clear description of the desired end result of the change is available; 3) the planned change could not be implemented without a clear picture of the planned change's goals and objectives; 4) there is a minor alteration in mindset and behavior that might be necessary, but not fundamental to the company's organizational culture; and 5) no radical shift in product, service, or customers are required to meet market needs.

The top five internal driving factors that encourage change in the organization, according to the questionnaire results, are as follows: 1) continuous growth of business portfolio and ventures into new industries; 2) unsuccessful regeneration; 3) work overload caused by imbalance between head office and business unit; 4) flow of communication and coordination provided by the previous organizational structure that hindered effectiveness; and 5) a hands-on management approach taken by the executive director that extends to operational and technical aspects of daily business activities. Meanwhile, the top five external driving factors that encourage change in the organization, according to questionnaire results, are as follows: 1) dynamic and ever-changing industry; 2) the need to successfully differentiate among competitors; 3) rapid developments in technology; 4) insignificant consumer switching cost; and 4) increase in disposable income and per capita consumer expenditure from 2008-2012. An analysis of opinions expressed by respondents in regard to each strategic change driver's impact is then carried out. Results showed that the perceived impact of each strategic factor, in respondents' point of view, ranges from *high impact* (represented by the number '3'; includes growth of business portfolio, troubles in

regeneration, work overload, hands-on management, rapid developments in technology, insignificant customer switching cost, and rise in purchasing power) to *very high impact* (represented by the number '4'; includes ineffective communication due to current organizational structure, dynamic and ever-changing nature of industry, and the need to successfully differentiate). This proves that the respondents felt that over the previous year, these forces have had a significant impact towards the organization and its activities.

An analysis of how the planned change will affect the organization utilizing Kates and Galbraith's (2007) Star Model revealed that in all of the five aspects (strategy, structure, process, reward, and people), respondents generally express high confidence and faith in the upcoming change. A strong belief among respondents, both at the head office and business units, is conveyed that the planned change will be able

to help PT. Margaria Group in better achieving its strategic goals and objectives, sustaining its competitive advantage, create an overall enhanced work mechanism, as well as improving employees' welfare. However, respondents consider that the change in organizational structure will not be able to lessen involvement from executive director in daily technical business activities, provide a more effective control and evaluation from FAT division, and create equal career opportunities based on competency and not seniority. Identifying resistance and formulating an effective resistance management strategy in a company's action plan is inevitably important, as although classical management theory viewed resistance as the enemy of change, resistance may indeed be useful and is not to be simply discounted (Schmidt, 2010). Force-field analysis of PT. Margaria Group's organizational structure change initiatives is further elaborated in Table 1.

Table 1
Force Field Analysis of PT Margaria Group's Change Initiatives

Change Initiative	Driving Forces	Restraining Forces
Independent head office and business unit structure	The need to establish a standardized operation, desire to achieve efficiency fulfilling stockholders' expectations, fulfilling customer expectation	Fear of job security, fear of loss of power and authority, unwillingness to accept change, unwillingness to accept shifts in positions and responsibilities
Introduction of new SOP	The need to establish a standardized operation, desire to achieve efficiency fulfilling stockholders' expectations, fulfilling customer expectation	Unwillingness to learn new policies and practices, laziness, fear of increasing workload, concerns on cost
Area Managers stationed in the head office	Ease of coordination and communication with head office personnel, complaints and problems from business unit can quickly be communicated	Loss of comfort zone, different reporting duties, internal conflicts, fear of loss of power and authority
Appointment of Director of Operations	Ease of coordination and communication with executive director and shareholders, handle strategic decision making	Fear of losing comfort zone, concerns on ability of a field-inexperienced newcomer to manage effectively

Table 1 (Continued)

Change Initiative	Driving Forces	Restraining Forces
Appointment of General Manager	Bridge communication between the two structures	Executive director is still very likely to bypass the structure's hierarchy, reluctance to be involved in decision making and intervention of the executive director
Appointment of Finance Accounting and Tax (FAT) Senior Manager	To establish an independent division that caters to the company's growing business and financial needs	The effective control and evaluation from this department can be improved with personnel addition and leadership, not only with a new senior manager
Appointment of Area Managers	Lessen executive director's direct involvement in day-to-day operational activities	Unwillingness to accept shifts in positions and responsibilities, internal conflicts and jealousy, different reporting duties, hands-on management habit
Development of Tax Department	Necessary addition to FAT division	Concerns on personnel's competence, lack of knowledge and necessary training
Development of specific business divisions (Batik, Muslim, Pembelian, Salon, Produksi)	Increased autonomy, area managers can focus on developing and improving each business division	Different reporting duties, unwillingness to accept shifts in positions and responsibilities

Menkhoff and Chay (2008) asserted that during change implementation, obstacles are always present, usually in non-executive level. However, obstacles can also be present in middle, even senior, level of management. The most dominant resistance typically stems from factors such as fear, cost, mindset, inability to adapt to new technology, perceptual differences in management, and ineffective communication. Meanwhile, according to Salaheldin (2003), resistance to change is often attributable to lack of training, lack of commitment from management, limited resources, insufficient infrastructure, and reluctance of employees to be involved in decision-making. Based on the aforemen-

tioned explanation, the majority of potential resistance identified in this research is identical/similar to the ones stated in Menkhoff and Chay's (2008) and Salaheldin's (2003) work, with the exception of employees' inability to adapt to new technology, lack of commitment from management and insufficient infrastructure. Change programs are formulated by taking into account results obtained from previous research stages, utilizing Bridges (2009) Transition Model as a primary guideline. Subsequently, these change programs and their respective DICE scores are discussed during FGD. Table 2 lists the proposed change management programs for PT. Margaria Group.

Table 2
Change Management Programs for PT. Margaria Group

No	Program	Major Change Management Strategy Category	DICE Score
Ending Phase			
1	Assemble a 'change agent' team responsible for planning and overseeing implementation of change programs	Purposeful planning	15
2	Hire an external business consultant responsible of planning and overseeing implementation of change programs	Purposeful planning	22
3	Preliminary meeting involving all top middle, and operational managers where the Corporate Secretary deliver a presentation regarding the upcoming organizational structure change and utilize this discussion as a media to receive feedbacks and inputs on the upcoming change from various perspective	Purposeful planning, management support, effective communication	10
4	Reassess company's capabilities in successfully implementing the change (e.g. necessary people, leadership, and resources)	Purposeful planning, motivating people	15
5	Update standard operational procedure (SOP) to reflect the changes in organizational structure (e.g. new command lines, reporting responsibilities, etc)	Purposeful planning, management support	14
6	Create official booklets explaining main points of the upcoming organizational structure change (includes a description of the planned organizational chart, goals and objectives that are hoped to be achieved through the change, updated SOP) and distribute booklets to all employees	Effective communication, management support, motivating people	10
7	Create official booklets and presentation elaborating how the planned structure will create a clear career advancement options, and how model behaviors that contribute to the change's success will be rewarded accordingly	Effective communication, management support, motivating people	11
8	Monthly scheduled visits by the 'change' team to each business unit to socialize employees working in the operational level regarding the upcoming change	Management support, effective communication	22
9	Weekly unit/department meeting to discuss the change and gain feedback on how people feel about the change	Effective communication, motivating people	12
Neutral Phase			
10	Break down company's change goals and objectives into smaller department/unit-specific goals and objectives and encourage them to build strategy based on these goals and objectives	Vision and clear goals	13
11	Distribution of questionnaire to obtain inputs and feedbacks on how the change has affected (both positively and negatively) employees and their respective department/business unit, and what improvements could be made. The questionnaire will be distributed to senior managers, middle managers and business unit representatives every three months	Control and feedback on progress	14
12	Conduct customer satisfaction survey once in every month	Control and feedback on progress	10
New Beginning Phase			
13	Conduct annual joint leadership training for middle and operational level managers	Training	12
14	Conduct tax-related training and workshop	Training	12

Source: Research data.

After the DICE scores are calculated, each change programs are then plotted in the DICE chart to see which programs fall within the 'win', 'worry', and 'woe' zone (Figure 1). The DICE chart plotting result give PT. Margaria Group a comprehensible picture as to the potential success of each change management program to avoid further waste of company's time and resources.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The planned change in PT. Margaria Group's organizational structure is classified as a transitional change. The need to successfully differentiate among intensified competitors and the evident rise in consumer purchasing power serve as external driving forces for change. Other external driving forces include dynamic and ever-changing industry, rapid developments in technology, and insignificant customer switching cost. Furthermore, ineffective communication caused by unclear organizational structure and work overload due to personnel imbalance between head office and business units act as internal driving forces for change in PT. Margaria Group. Other internal forces that influence change in PT. Margaria Group are comprised of continuous growth of business portfolio and ventures into new industries, unsuccessful regeneration, and a

hands-on management approach taken by the executive director that extends to operational and technical aspects of daily business activities.

Respondents felt that over the previous year, all of the strategic change drivers have had a significant impact towards the organization and its activities. Thus, the company's need to change is thoroughly justified and considering the significant impact of the change drivers to the organization, PT. Margaria Group should change accordingly. Respondents also generally expressed high confidence and faith in the upcoming change. A strong belief among respondents, both at the head office and business units, is conveyed that the planned change will be able to help PT. Margaria Group in better achieving its strategic goals and objectives, sustaining its competitive advantage, create an overall enhanced work mechanism, as well as improving employees' welfare. However, respondents consider that the change in organizational structure will not be able to lessen involvement from executive director in daily technical business activities, provide a more effective control and evaluation from FAT division, and create equal career opportunities based on competency and not seniority.

Forms of potential resistance that PT. Margaria Group might encounter in implementing change involves fear, cost, mindset, perception differences in management, and ineffective communication, lack of training, limited resources, and reluctance of employ-

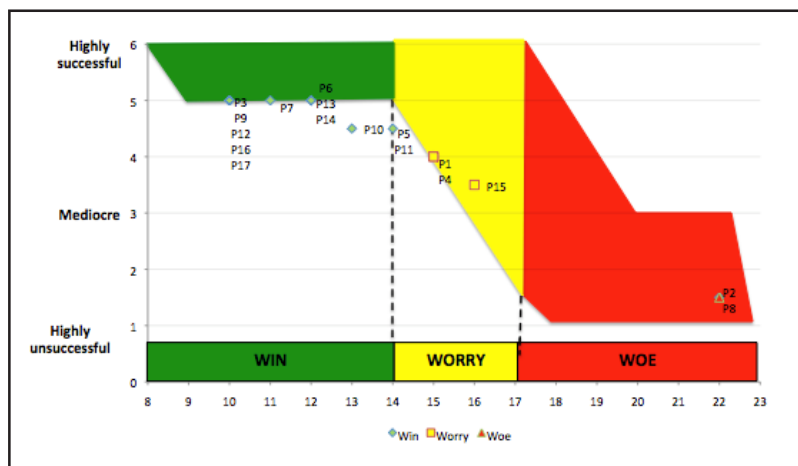


Figure 1
DICE Chart Plotting Result

ees to be involved in decision-making. The proposed major change management strategy involves purposeful planning, management support, effective communication, motivating people, vision and clear goals, control and feedback on progress, training, as well as supporting environment. Out of the 17 change management programs proposed during FGD, respondents agreed on the feasibility and potential success of 15 programs which fall within the 'win' and 'worry' zone (program 1, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, and 17).

Recommendations

Many organizations fail in implementing change because of lack of planning and a general misunderstanding of how the change could potentially affect its members, how to implement change effectively, and how to handle resistance properly. Therefore, in future efforts of implementing other changes to the organization, PT. Margaria Group should always carefully plan its change initiative to avoid failure that may lead to a waste in company's time and resources. It is also crucial for PT. Margaria Group and other organizations undergoing a change to maintain constant, open communication with its members and continuously obtain feedbacks and input as a form of evaluation so that corrective actions could be taken in the hope of achieving a successful change process.

Furthermore, in devising a strategic change management action plan, PT. Margaria Group should utilize the proposed programs that fall within the 'win' and 'worry' zone of the DICE chart. PT. Margaria Group can implement programs that fall within these two zones, by emphasizing the 'win' zone programs and employing corrective steps to leverage the 'worry' zone programs, in order to create a readily applicable and scientifically sound action plan.

REFERENCES

- Bridges, William. 2009. *Managing Transitions: Making the Most of Change*. 3rd ed. London: Nicholas Brealey Publishing.
- Kates, Amy., Jay R. Galbraith. 2007. *Designing Your Organization: Using the Star Model to Solve 5 Critical Design Challenge*. San Fransisco: Jossey-Bass.
- Menkhoff, Thomas., Chay Yue Wah. 2008. "Technological Change Management Strategies in Asian Small-scale Businesses: Trends in Singapore, research notes." *International Asian Forum*. 39:305-324.
- Salaheldin, Ismail. 2003. "The Implementation of TQM Strategy in Egypt: A Field-force Analysis." *The TQM Magazine*. 15:266-274.
- Schmidt, Alan. 2010. "Managing Change and Challenges of Change Management in a Multi-Cultural eEnvironment". *Tesis*. Faculty of Business Administration and Engineering, Baden Querttemberg Cooperative State University. Stuttgart.
- Sirkin, Harold., Perry Keenan, and Andrew Jackson. 2005. "Hard Side of Change Management." *Harvard Business Review*. 83:108-18.