



UNIVERSITI PUTRA MALAYSIA

MANAGEMENT EFFECTIVENESS IN FINANCIAL INSTITUTIONS

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MANAGEMENT EFFECTIVENESS IN FINANCIAL INSTITUTIONS

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of Master Of Business Administration
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DECLARATION FORM

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.....

ACKNOWLEDGEMENTS

Lovingly dedicated to my.....

Wife,

NOR HASHIMAH BASRI

Children,

SITI KARTIKA

MOHAMAD HAKIM

SITI OHARA

Sister,

BAIZURA

the very special people who taught me and with whom I share the greatest value in life.



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1.0 INTRODUCTION

Management is the process of achieving organizational goals by engaging in the 4 major functions of planning, organizing, leading and controlling. Management practices and styles is an ongoing activities and are still evolving. Changes in technology, international affairs, business practices and organizational social responsibilities are causing managers to reexamine their methods and goals as well as place increased emphasis on innovation.

In Malaysia, management practices in Malaysia are still an subject open for study and discussion. Malaysian people which consisted of heterogeneous ethnic groups has to a large extent influence the management practices in today's Malaysian organization.

1.1 Organisation of the Report

The study report is divided into four main chapters.

Chapter 1 provides an extensive and exhaustive literature review on the McKinsey 7-S Model and the eight attributes previously identified by Peter and Waterman in 1982 as associated with the successful companies in America.

Chapter 2 describes the research methodology adopted in the study which includes sample design, research instruments employed in the collection of data, pre-test, hypotheses and the statistical procedures employed in the analysis of data.

Chapter 3 presents a summary of the data collected, results and findings.

Finally, Chapter 4 contains the conclusion of the findings and recommendation.

1.2 Objective

The objective of the study are:

- a) to identify the common factors of management practices of the successful public quoted financial companies listed on the Main Board of the Kuala Lumpur Stock Exchange, Malaysia, utilizing the seven variables as defined by the McKinsey 7-S Model ;
- b) to compare the similarities and differences in management practices amongst the successful public quoted financial companies in Malaysia with respect to the three business sectors as identified by Peter and Waterman (1982) ; and
- c) to compare the similarities and differences in management practices amongst the successful public quoted financial companies

as a whole and that in America utilizing the eight attributes identified by Peters and Waterman (1982).

1.3 The importance of the study

There is no doubt that industrialization is one of the major goals of economic development of most underdeveloped and developing countries. In Malaysia, the various industrial and social-economic programs launched by the Government indicate that industrialization remains one of the country's priority objectives.

It is further accepted that a country's progress depends not only upon its physical resources, financial resources and technical know-how, but also to a considerable extent, on managerial know-how. As Harbison and Myers (1959,p.3) said : "In the march toward industrialization, capital, technology and natural resources are but passive agents. The active forces are human agents who create, control and manage the organisations and institutions which modern industrialism requires."

Typically, the underdeveloped and developing countries have turned to the more advanced countries such as America and Great Britain for assistance. Capital and, to a certain extent, technical know-how appear to be transferred readily from the advanced to the underdeveloped and developing countries. However, the transferability of management practices from one country to another with a different cultural environment is an open question. This same question has confronted managers of firms owned by nationals of other countries. However,

despite this need, very few studies in Malaysia have been made which provide data for revolving this question. In this respect, there exist two school of thoughts. One is the universalist school of thoughts which believe that management is guided by principles that are universally applicable. On the other hand, the school of comparative management argues that environment factors such as culture, weather, values, etc. affect the practices and effectiveness of management, and hence, restrict its widespread applicability. Some recent studies have presented evidence that various socio-cultural, economic and legal factors result in the effectiveness of generally accepted American management practices in some underdeveloped and developing.

1.4 Limitations and Assumptions of the Study

In order to translate the information obtained from the various hypotheses, the following limitations and assumptions have to be noted :-

- (a) The questionnaires were administered and interviews conducted only to two or three senior executives of each of the selected company. Hence, the findings and conclusions of this study are limited to the perception of those who actually completed the questionnaires;
- (b) The executives of the successful companies are knowledgeable, possess the relevant experience and had answered the questions accurately;

1982 are accurate representation of the raw data of the successful companies in America.

- (d) This study was limited to the identification of common factors of management practices of successful public quoted financial companies listed on the Main Board of Kuala Lumpur Stock Exchange, Malaysia. In order to apply the findings and conclusions of the present study for other groups of companies, other factors such as the size of the companies in terms of paid-up capital, manpower strength and years of operations need to be taken into considerations.
- (e) Limitation to the analysis on sample design - The ultimate test of a sample design will represent the characteristics of the population. It must have at least 40 representatives in order to design sampling. However, due to the time constraint, I only managed to test on 25 companies, however from the 25 only 16 responded. As such, this research is mainly for academic purpose as it does not meet the basic requirement of sampling design.

CHAPTER 1

REVIEW OF LITERATURE

Selected literature relevant to the current research are reviewed in this chapter.

The review is divided into two major sections. The first section presents the research to the McKinsey 7-S Model and the second section describes the eight attributes of successful American companies identified by Peters and Waterman in 1982.

Management Research Related to the McKinsey 7-S Model

The major emphasis of the McKinsey 7-S Model is that organizational change is not just a matter of structure, or of the simple interaction of strategy and structure but rather the interrelationship and interaction amongst seven variables (Waterman, et al, 1980) :-

- 1) structure;
- 2) strategy;
- 3) systems;
- 4) staff
- 5) style;
- 6) skills;

7) shared value;

Originally, the model was developed as a way of thinking more broadly about the problems of organizing effectively. The framework proved to be an excellent tool for judging the “doability” of strategies (Waterman 1982, pp 67 - 73)

Pascale and Athos (1981) regarded the McKinsey 7-S Model as crucially important to managers attempting to influence complex organizations. Pascale and Athos found that managers tend to focus their attention on those variables which respond readily to change, primarily strategy, structure and systems.

Most managers are either unwilling, or too impatient to sustain a meaningful effort to consider fully the factors inherent in each of the seven variable.

Structure

Chandler (1962) observed a common pattern of corporate development that evolved from an initial owner-manager structure to a large and complex divisional organizational structure. He also focused on the awareness of the opportunities and needs, created by changes in population, income, technology and environmental conditions, that resulted in changes in strategy. His findings indicate a high level of responsiveness to such factors as demographic changes, expanding technology and other opportunities for growth. The sensitivity to changing conditions in the environment results in the modifications of corporate strategy and ultimately to the changes in the basic organizational structure which is required to support the evolving strategy.

As defined by Chandler (1962), structure is the design of an organizational through which the enterprise is administered. This design has two aspects :-

- 1) the line of authority and communication amongst the different administrative offices and officers; and
- 2) the information and data that flow through these lines of communication and authority.

Chandler further stated that the most complex type of structure is the result of the concentration of several basic strategies. The growth of structural adjustment could lead only to economic inefficiency. He believed that new structures should be developed to meet new administrative needs which result from the expansion of a firm's activities into new functions (strategy of vertical integration), or new product lines (strategy of diversification).

He also pointed out that when the operations of the enterprise became too complex, problems of coordination, appraisal and policy formulation could be too intricate for a small number of top officers to handle. To solve these problems the company must build a multidivisional structure with a general office and executives who concentrate on entrepreneurial activities while autonomous, fairly self contained operating division managers handle operational activities. In conclusion, Chandler saw structure as the design for integrating the enterprise's existing resources to current demand and strategy as the plan for the allocation of resources to anticipated demand.

Lawrence and Lorsch (1967) conducted a study of ten American companies to identify the effective organizational characteristics under different market and technology conditions. Three industries with different degrees of uncertainty posed by environments selected for the study were plastics, food and container. The uncertainty was high in the plastic industry, medium in the food industry and low in the container industry. The degree of uncertainty was measured in terms of clarity of information, time span of definite feedback and uncertainty of cause-effect relationship. An interviewing technique was employed to measure the degree of uncertainty.

Lawrence and Lorsch (1967) concluded that industrial environments characterized by uncertainty and rapid rate of change require a different organizational structure than do stable industrial environments. The conclusion supported the findings that successful companies in the most dynamic and uncertain environments were characterized by departments with high differentiation. While the successful companies in a medium environment had departments with differentiation which fell between two industries. The implication was that managers should analyze environmental demands and align their organizational structure to those demands.

There have been, however, controversies regarding the effects of environment or technology upon organizational structure. "Technological imperative" has been the most controversial issue. Likert (1977, pp 23- 240) stated that the higher performing organizations were relation oriented regardless of type of technology and kind of industry. Reiman (1980, pp 61 - 67) studied "technology imperative" and concluded that technology determined structure. On the contrary, Hickson and others (1969, pp 378 - 397) surveyed 46 diverse organizations to test the

hypothesis that technology determines organizational structure. Their findings suggested that structure related to technology only at the work floor level. Mohr (1971) found no relationship between technology and structure in the work groups of 13 local health departments.

These studies were associated with the contingency theory of management. Lawrence and Lorsch (1967) stated that managers should analyze environmental demands and align their organizational structure to it. It clearly indicated that managers could no longer be concerned with one best way to organize.

The common argument made by these theorist was that environmental and technological demands, the nature of market and industry the size of the organization affect organizational structure.

Strategy

Chadler (1962) studied business strategies and organizational structures of large American companies including Dupont, General Motors, Standard Oil, and Sears and Roebuck. He traced phases of strategy growth a review of each company's history to identified the cause of the structural configuration of the companies. He further emphasized the critical nature of the requirement for establishing comprehensive channels for communication and authority. He also emphasized the responsibility of management for maintaining and expanding the organization's market share and the extreme importance of linking the expansion of the enterprise to the changing nature of the market.

Chandler (1962, pp. 15-16) stated his view in the following manner :

A new strategy required a new or at least refashioned structure if the enlarged enterprise was to be operated efficiently. The failure to develop a new international structure like the failure to new external opportunities and needs, was a consequence of over concentration on operational activities by the executives responsibilities for the destiny of the enterprise.

He concluded that structure follows strategy. As environment factors such as markets and technologies change, an enterprise would adopt new strategies and reorganize its organizational structure to support the new strategies.

System

Chester Barnard (1938) was the first to mention management in the context of systems. He perceived an organization as a cooperative social system that encompassed physical (material and machinery), biological (people as discrete beings who breathe air and need space), and social (group interactions, attitudes, and beliefs) elements. These systems might be found both within and outside the organization where managers operate. Barnard's notion of executive function was to create and maintain a cooperative climate amongst people in the organization.

Selznick (1957) stated that the term organization suggested a certain bareness : a lean, no-nonsense system of consciously coordinated activities. He classified the nature of administration of enterprise into two categories, organization and institution. An organization is concerned with allocation of tasks, delegation of authority, channels of communication and ways of coordinating organizational units.

To Selznick, organization is a formal system of rules and objectives, that is governed by the related ideals of rationality and discipline. Institution on the hand, is a responsive, adaptive organism of social needs and pressures not designed but responsive. Enterprises are neither organizations nor institutions. They are complex mixtures of both designed and responsive ones.

Traditional organization theories have tended to view the human organization as a close system. This tendency has led to the disregard of differing organizational environments and the nature of organizational dependency on environment. It has also led to an over concentration on the principles of internal organizational functioning, with consequent failure to develop and understand the processes of feedback which were essential to survival (Katz and Kahn, 1978)

The system approach to management is an approach which encourages the manager to view the environment, psychological, physical and informational facets of the manager's job as linking together to form an integrated whole (Rue and Byars, 1977). Management theorists tried to use a "system approach" to integrate the various management schools, and other human related and mathematical approaches into the appropriate functional areas. Thus, mathematical forecasting techniques might be discussed and applied while studying planning.

The systems approach is viewed as :

... a way of thinking about job of managing... which provides a framework for visualizing internal and external environmental factors as an integrated whole (Johnson, p. 3, 1963).

Communication systems in traditional organizations are dominated by downward communication. These systems take place in the form of orders and directives from superiors to subordinates. There is very little direct feedback. Downward communication systems are highly subject to misinterpretation because they are essentially one way processes. Maier (1961) conducted a study by asking both the supervisor and the subordinate to describe the subordinate's job. The result indicated a problem of inefficiency in downward communication systems.

Ideally, the organizational structure should provide a basis for an upward communication system. Luthan (1973) suggested some methods that encourage upward communication systems such as the grievance procedure, open-door policy, counseling, attitude, attitude questionnaires, exit interviews, participative techniques and ombudsman.

Wiener (1948) stated that all types of systems control themselves by information feedback which disclosed error in accomplishing goals initiated corrective action. In other words, systems use some of their energies to feedback information that compare performance with standards. Managerial control is essentially the same basic process as is found in physical, biological and social systems (Koontz, et al, 1984)

As modern organisations exists in turbulence, Smart and Vertinsky (1984) mentioned that to maximize long term effectiveness organisations need to develop the capability to cope with both day-to-day events and the environment.

Complex environments place greater demands on an information system. With the increasing use of the computer, information systems have significantly been developed and utilized.

Style

A review of the literature on managerial styles reveal that all the theoretical classifications of the concept could be grouped into two broad categories, traditional managerial style (classical approach) and participative managerial style (modern approach).

Mc Gregor (1960) identified two extreme managerial styles, Theory X (autocratic, traditional) and Theory Y (Participative, human relations). McGregor's Theory X is based on the traditional view of management, with highly specialized jobs, close supervision by inflexible rules and procedures and centralized decision making. Theory Y implies the close supervision with standardized rules and procedures. It suggests the use of intrinsic rewards such as achievement, autonomy and self-respect as motivators, while Theory X suggests extrinsic rewards such as money, promotion and praise.

Theory X and Theory Y are only assumptions. These assumptions are intuitive deductions and are not based on research. However, there is little doubt that each set of assumptions will affect the style in which managers carry out their managerial functions and activities (Koontz, et al, 1984).

Theodore Levitt (1974, p. 73) expressed the modern concept of management in this manner :