

THE APPLICATION OF INSTITUTIONAL THEORY: A CASE STUDY ON TWO GOVERNMENT-LINKED COMPANIES INVOLVED IN HOUSING DEVELOPMENT (GLCHD) IN MALAYSIA

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Abstract

This paper presents the preliminary observations of an ongoing study that is looking into organisational changes that are externally imposed using the institutional theory. The study population are the government-linked companies involved in housing development (GLCHD) in Malaysia. For the purpose of this paper, only two are highlighted. From secondary sources, elements of changes that have exerted on these two GLCHD over the last six years and the internal changes that have taken place during the same time period were identified. The tentative conclusion is that external environment contributed to organisational change in the two GLCHD.

Keywords: *Organisational change, government-linked companies, housing development.*

1. Introduction

In Malaysia, GLCs were established as part of the New Economic Policy (NEP) prompted from social imbalance [1]. The priority of NEP was to develop and promote bumiputera involvement and participation in all areas of economic activities with emphasis in trade and industrial sectors [2].

1.1 Background of GLCs in Malaysia

The study defined GLCs as companies where government has a share in and direct controlling stake. Controlling stake refers to the government's ability to appoint board member, senior management, and make major decisions such as contract awards, strategy, restructuring, financing, acquisitions and divestment.

GLCs compose more than half of the benchmark Kuala Lumpur Composite Index and over a third of Bursa Malaysia's market capitalisation. Furthermore, GLCs employ about 5% of the nation's labour [3] and retain the Malaysian government's final decision in their corporate direction [4].

Organisations accept changes as typical and periods of stability as exception. Organisational change is the process and outcome of change of firms under the influence of the institutional settings surrounding it. Scholars conceptualised that organisational change as typically moving from one status to a new, desired, configuration to better match the environment. Many events in organisation are given the label change, including technology improvement, mergers and acquisitions, structural change, top management change, or cultural change [5].

Recently, many research in organisational change focus on the types of change, responses and effect of change, organisational change processes, and resistance to change since such topics provide the greatest value to the organisation [5]. The present study attempts to add the existing literature in terms of providing case studies to further evaluate the premise introduced about by the scholars.

The objectives of this paper are to:-

- 1.) To explore what changes unfolded in selected GLCHD.
- 2.) To determine who or what triggered those changes in those GLCHD.

2. Literature

2.1 Definition of Organisational Change

The paper adopts the definition of organisational change by Kennedy:

“Organisation change is a managed system, process, or behaviour response over time to a trigger event” [5]

2.2 Scope of Study

This study focuses on changes that affect the organisation’s mission, authority structure, technology or marketing, which further altered the organisational structure and routines. This study employed the institutional theory to explore the external pressures causing such changes in two selected GLCHD.

2.3 The Institutional Theory

Researchers including DiMaggio and Powell [6], Dougherty [7], Christensen and Molin [8], Greenwood and Hinings [9] have acknowledged the links between institutional theory and organisational change. Institutional theory posits that institutional environments constraint organisational change in structure, practice and processes [10]. An institutional view of the constraining process is that forces pressing communes toward accommodation with the outside world. This can be political influence, economic, market legitimacy, policies enacted by professional bodies, authority of state or parent organisation, and the environment creates symbolic uncertainty [11].

3. Factors influencing organisational change in selected GLCHD

Figure 1: Factors affecting organisational change



Researches have found that there are many factors affecting organisations seeking to change their current structure, processes or system as a result of external pressure. Institutional theory summarised external pressure as *changes which are precipitated by external events*. This paper focuses on four institutional theory factors to explain the scenario of selected GLCHD (i.e. economic, political, disaster, and institutional forces). The initial review of GLCHD annual reports also identified that the four factors were apparent in influencing the global economic conditions which affected the Malaysian economic growth.

4. Method of research

Using the institutional theory, factors influencing the change of selected GLCHD were derived. The research then focus on how the factors influence the change in five key organisational forms i.e. corporate objective [12], structure [13], strategy [13], board of director [14], and power distribution [13] in two selected GLCHD. Information on the GLCHDs was obtained from their annual reports from the year 2000 to 2005 respectively.

4.1 Measures

Economic factor refers to global economic downturn that affected the Malaysian economy, such as Asian Financial Crisis of 1997, and the oil prices rose sharply in 2005.

Political factor refers to the collapse of World Trade Centre (9/11), Iraq War in 2004, changed the Prime Minister, and the 11th Malaysia General Election in 2004.

Disaster factor refers to the events that happen unexpected in the environment, such as the Severe Acute Respiratory Syndrome (SARS) in 2003, and Tsunami in 2004.

Institutional forces refer to the regulatory element especially government policies such as Zero Squatter Policy 2005, and the Eighth Malaysia Plan (8MP).

The study applied the institutional theory to explore what changes unfolded in selected GLCHD and how they respond to the institutional factors (ie. economic, political, disaster, and institutional forces). The theory claims that for organisations to survive, they must interact with their environment in ways that comply to the institutional environment.

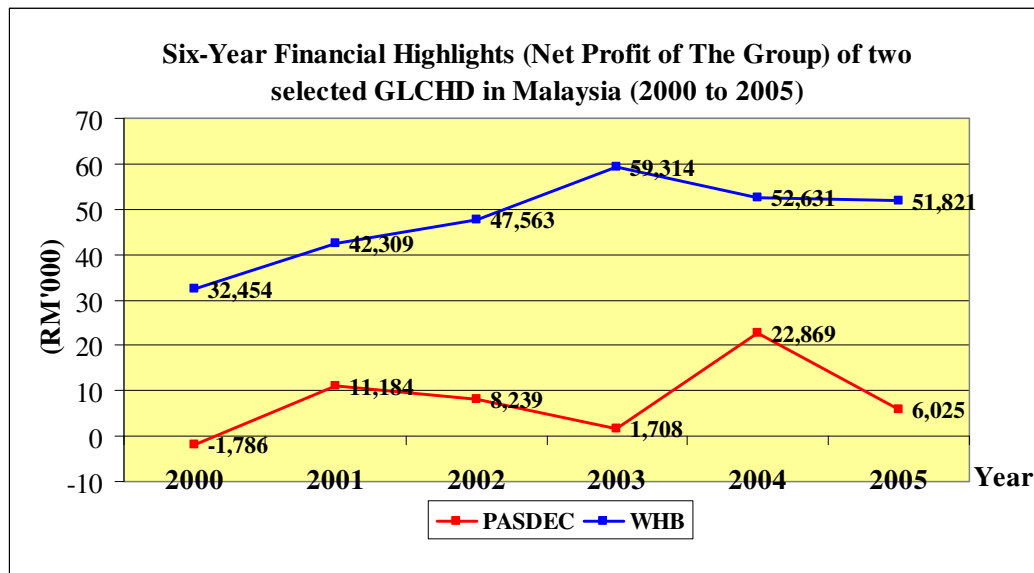
4.2 Sample

The case study was conducted in a two selected GLCHD in Malaysia from different states of Peninsular Malaysian - Worldwide Holdings Berhad (WHB), and PASDEC Holdings Berhad (PASDEC). Both companies are subsidiaries of their respective State Economic Development Corporation (SEDCs).

The GLCHD were chosen to provide contrast - the former belongs to Perbadanan Kemajuan Negeri Selangor (PKNS) which is the most successful SEDC in Malaysia (in 2005 Selangor was officially declared the first developed state in Malaysia) whereas the latter belongs to Perbadanan Kemajuan Negeri Pahang (PKNP) which is one of the less performing SEDCs in Malaysia.

Figure 2 contrasts the financial performance of two selected GLCHD. While WHB performed according to expectations, except slightly in 2004 and 2005, PASDEC generated much lower profit throughout the duration.

Figure 2: Six-Year Financial Highlights



SEDCs as a public corporation (or statutory bodies) which were established between 1965 and 1973 with the objective of implementing certain duties and responsibilities in line with the national objective. The objective for the incorporation of SEDCs is to develop the economy of the state in accordance with the objective of the New Economic Policy and the subsequent National Development Policy [2].

5. The case study - What changes unfolded in the selected GLCs?

Figure 3: Timeline of Change Events and Intra-Organisational Change in GLCs

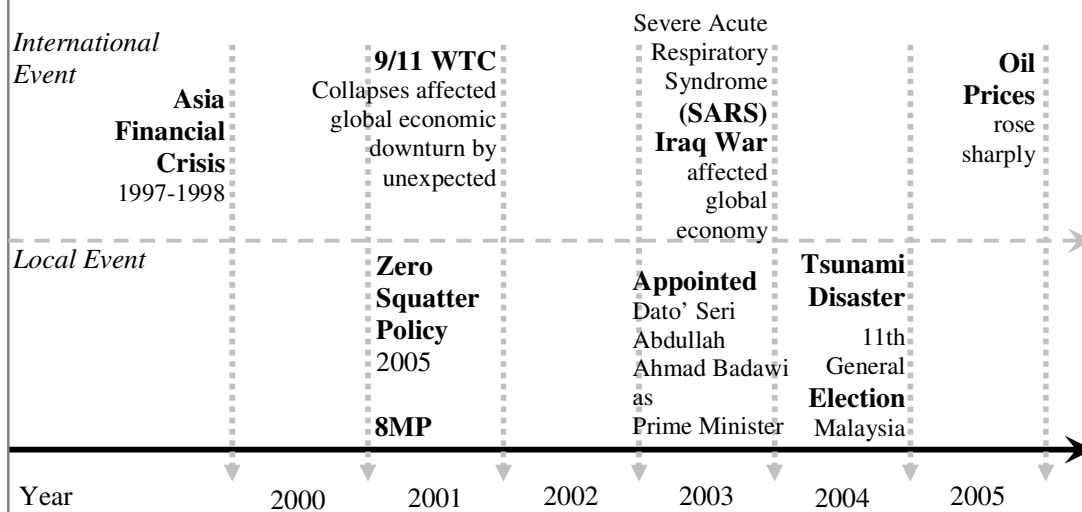


Table 1: Review of intra-organisational Change in Worldwide Holdings Berhad (WHB), 2000 to 2005.

Objective						
Strategy				√	√	√
Structure			√		√	√
Power distribution						
Board of director	√		√			

Table 2: Review of intra-organisational Change in PASDEC Holdings Berhad (PASDEC), 2000 to 2005.

Objective						
Strategy				√		√
Structure				√	√	√
Power distribution					√	√
Board of director			√			

5.1 Findings of the Study

WHB was incorporated on 29 December 1965 and listed on the Main Board of the Bursa Malaysia Securities Berhad on 1 April 1968. Property development is one of the core business activities of WHB. The objectives of WHB are to enhance the shareholders values by improving their financial position and increasing the group's social responsibility. **PASDEC** was listed on the Main Board since 27 October 1997. PASDEC is an investment holding company that coordinates Pahang's vast resources to create new opportunities for growth and prosperity. PASDEC also endeavours to develop and provide homes to different layers of society to fulfil their social obligations as a responsible developer.

From annual reports from selected GLCHD in Malaysia, the writers have made assumptions about the intra-organisational change that took place in the two GLCHD. The writers assume that the appointment of new Chairman and director of GLCHD were to ensure a balance of power and authority within the company's board after the Asian Financial Crisis of 1997 and the global economic downturn in 2001. Other than that, it is assumed that the appointment was also due to political influences that could not be identified from secondary resources. The writers also assume the disposal of subsidiaries companies was in line with the 8MP, i.e. to mobilise domestic sources of growth. External events (e.g. the outbreak of the war in Iraq, SARS, tsunami, and upswing of oil prices) that took place between 2003 to 2005 threatened Malaysia's economic growth. Due to this, the two GLCHD diversified their own market to attract investors and enhance the shareholders values. From literature review, the writers expect that an organisation experiences a high turnover of senior executives when organisational goal are ambiguous. The organisation also changes when a country changes its system of governing. For example, a change of governance in Malaysia in year 2004 has influenced the corporate strategy of GLCHD.

6. Limitations of the Study

How the external events actually affected the organisational changes are assumed at this particular moment as the research is still at the preliminary stage. Confirmations whether the factors in fact influenced the changes are subjected to empirical evidence that will be obtained from the secondary resources through annual reports in order to concluding that the changes are cause from external events and related to organisational change.

7. Conclusions

In conclusion, writers would like to state that an organisation will only face changes if one or more of the following factors occur:-

1. The leadership sees opportunities to improve the business; and
2. Being forced by outside entities

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