

CHAPTER X

THE NEED FOR CHANGE IN THE ORGANIZATION

10.1 INTRODUCTION

This chapter provides more background to the organization where the research was conducted and explains the unfolding of another one of the change stages as discussed in Chapter VI. The initial need for change by means of restructuring within the organization is discussed. The recommendations of the Rural Financial Services Commission are discussed, as well as a perspective on the organization before transformation, which highlights the need for change.

10.2 RESTRUCTURING THE ORGANIZATION

Senior management initiated a major investigation that started in 1996 and was aimed at the transformation of the organizational structure and work processes.

An external consultant was employed to do a comprehensive and incisive analysis of the present organizational configuration and the compelling need for the radical adaptation of the organization. Specifically, the analysis focused on the consequences of continuing with the present system, based as it is on personal rank, (with only a tangential and incidental relationship to work), the absence of adequate and effective management structures, the cloistered existence fostered by more than eight decades of inbreeding and insulation, and the overemphasis of efficiency criteria, at the expense of effectiveness and results (Unpublished restructuring report dated 1996-10-13). The aim of the change initiative was to:

- Effect a radical transformation of the organization's present rank structure (based on status and patronage) to an organizational and management structure based on results and work performance; and
- Create a market-related supportive remuneration structure.

As a first step in the restructuring process, orientation sessions were conducted at each Branch Office and at Head Office. At these sessions, which were conducted by the external consultant and one of the senior managers of the organization, all personnel were informed about the decision of senior management. In addition, the goals of the programme, the proposed practical implementation and implications of the programme were explained in detail. An undertaking was also given that the proposed changes would not lead to the elimination of jobs and that present salary levels would not be reduced as a result of the exercise. Ample opportunity was given to everybody to pose questions and these were dealt

with in detail. These sessions were generally well received. The orientation sessions were followed by a comprehensive Key Performance Area analysis (KPA) exercise in the whole organization. This involved the identification of each separate job within the organization and the determination of the specific, measurable and unique results that the incumbent would be required to achieve. On the basis of this analysis, a specification was drawn up for each job, detailing:

- The Key Performance Areas;
- The criteria to be used for their measurement;
- The reporting structure in terms of which these results are to be evaluated; and
- The frequency of reports.

This analysis provided the basis for the formulation of a new organizational and management structure for each branch and for each departmental unit at Head Office. The results for the organization as a whole were cross-correlated and integrated horizontally in order to establish comparable job levels and corresponding job grades. To accomplish this, a combination of job ranking and factor analytic methodologies was employed and the results correlated with those of a job evaluation exercise conducted by FSA-Contact Consulting during 1994.

Comprehensive remuneration surveys were conducted within a relevant remuneration market, which included ABSA Bank, Government Service, Telkom and the Reserve Bank. This information was cross-correlated with data obtained from a professional survey undertaken by Old Mutual Remuneration Services. Specific information was also obtained about specialist positions. Based on this information an appropriate remuneration structure for the organization was constructed and proposed.

10.2.1 THE PROPOSED NEW STRUCTURE

The following comments are related to the proposed structure:

- The structure is empirically grounded and is based on a direct, first-hand analysis of the actual work done in each position. It was generated inductively from grassroots up and was not imposed upon the situation as a preconfigured, theoretical package;
- The structure is based on the actual work performed, i.e. on the results or outputs achieved in each position. In this regard, it represents a radical departure from the existing rank system where organizational distinctions are made in terms of status, seniority, and title. In the proposed (new) structure, seniority inheres in the nature and complexity of the job one holds, not in the organizational title arbitrarily

bestowed upon the incumbent. The results inevitably mean that the present status hierarchy is radically reordered;

- The new structure represents a comprehensive management structure; and
- The proposed structure represents an explicit ranking of jobs in terms of increasing job complexity. In this sense, the spectrum of jobs represents an evaluated system that has been correlated horizontally for the organization as a whole, for the express purpose of achieving internal equitableness. It needs to be emphasized that this evaluation was primarily based on the detailed and exhaustive KPA analysis which formed the basis of the study, although the results of the previous job evaluation exercise which was undertaken some three years ago by FSA-Contact, was also taken into account (Unpublished restructuring report dated 1996-10-13).

10.2.2 THE REMUNERATION STRUCTURE

The organization rewarded employees on the basis of irrelevant criteria and, more particularly, on the basis of rank, status and prestige, with little or no regard for the work they performed, (or more appropriately phrased, the results they achieved). Indeed, many instances were identified during the course of the project where employees had been “promoted” (in some instances repeatedly) to a rank of some pre-eminence, while the work they were doing had not changed in any appreciable way! This is the result of the inescapable consequence of the rank (different for men and women) and merit system that was in operation. This system operated as a massive disincentive to employees to aspire to the assumption of greater responsibility and actively and positively inhibited employees from doing so: they were actually being rewarded (in terms of regular merit and notch increases, coupled with periodic promotions) to remain where they were, i.e. to continue doing the same work. Again, in many instances employees were identified who had remained in the same, relatively junior position for long periods, in some cases up to as many as ten and more years! These practices have engendered and caused inbreeding within the organization. The following major considerations influenced the creation of a rational remuneration structure:

- The only realistic and rational basis in terms of which remuneration can be measured is on the basis of the total remuneration package that the job incumbent receives, i.e. pensionable salary together with fringe benefits and other cash and non-cash rewards. Anything less than this provides a warped and distorted picture of the individual's true earnings and does not reflect the real “cost of employment” from the organization's point of view. In addition, it is the only valid basis in terms of which

remuneration comparisons (internally and externally) can be made and in terms of which remuneration can be managed rationally;

- The relationship between major job levels should represent a constant and systematic progression (i.e. the relationship between contiguous job levels throughout the structure remains the same). Graphically, this could be portrayed as a straight line on a logarithmic scale. In specific terms, this is generally referred to as the principle of internal equity, as it ensures remuneration equitableness and fairness throughout the structure;
- Men and women were on different remuneration structures;
- Remuneration should be based on credible job evaluation practices; and
- The existing remuneration structure has many anomalies, i.e. overpaid and underpaid employees (Unpublished restructuring report dated 1996-10-13).

10.2.3 POSSIBLE REASONS WHY THE RESTRUCTURING INTERVENTION FAILED

The roles and responsibilities of the change leader, the change team, the change sponsors and employees were not clear nor communicated to everyone. The focus of this intervention was restructuring, changing the rank-based structure to a management structure based on job content and results and changing the remuneration policies and structures. In the analysis the focus was on individual jobs only, and not on work processes, which have a major influence on the relationships between jobs and the work performed. The analysis did not focus on the impact of technology and systems used that influences work processes, relationships, and organizational effectiveness. The change initiative did not have a strategic intent of focusing on the holistic factors that might influence organizational effectiveness (recommendations of the Rural Financial Services Commission). Although the recommendations made about the organizational structure and remuneration practices were explicit and applicable, the organization needed an integrated approach of structural, technical, and behavioural strategies, and specific change stages to improve long-term effectiveness of the total organizational system. From an organization development perspective the following conditions for optimal success (French and Bell, 1990:197-207) were absent:

- Continuous top-level involvement, commitment, support, and a long-term perspective to improve organizational effectiveness;
- Perceptions of organizational problems by key people (Executives, line management and HR);
- Participation and empowerment (HR and line management);
- Operationalizing of the action research model and early successes; and

- Effective and collaborative diagnosis and management of the organizational culture.

The proposals of the restructuring intervention were not approved as the Rural Financial Services Commission made recommendations to Government, several of these directly or indirectly relevant to the organization. These recommendations lead to a new mandate for restructuring of the Land Bank, a new Board of Land Bank Directors and a new Managing Director.

10.3 THE RECOMMENDATIONS OF THE RURAL FINANCIAL SERVICES COMMISSION

The Rural Financial Services Commission published its final report in September 1996 after twenty-one months of deliberation. During this period the commissioners and appointed consultants heard submissions, researched international best practice, gathered and analyzed data on South African institutions. It made sixty-five recommendations to Government, several of these directly or indirectly pertaining to the organization. A summary of these recommendations is given below.

10.3.1 GENERAL RECOMMENDATIONS RELEVANT TO THE ORGANIZATION

“The following general recommendations were made that are relevant to the organization:

- A statutory co-ordinating council to guide the activities of urban and rural Development Finance Institutions (DFIs);
- The harmonization of legislation governing the rural economy especially regarding banking, land subdivision, post offices, usury, cooperatives and the status of women;
- Legislation to establish the legal equality of women;
- 'Sunrise' subsidies to support land-reform beneficiaries requiring finance;
- A risk-sharing agreement to encourage a greater number of financial retailers to venture into this new market;
- Subsidies to offset higher transaction costs for financial delivery in low volume rural areas;
- Gender-awareness training for the staff of financial institutions;
- Employment and training of staff able to respond to the language and cultural needs of previously “unbanked” rural clients; and
- Communications and products geared to the needs of women and lower-income rural clients” (Land Bank Prospectus, 1998:14).

10.3.2 RECOMMENDATIONS SPECIFIC TO THE ORGANIZATION

“The following specific recommendations were made by the Rural Financial Services Commission:

- Maintaining existing clients while providing support to new clients including land reform beneficiaries;
- Political support for the new mandate;
- Transformation including human resource development, structural reorganization and enabling legislation within two years;
- Reconsider the branch network and relationships with selected provincial development corporations;
- Development of lending criteria not based on unencumbered freehold tenure;
- Focus of wholesale financial activities on retailers serving individual and small-group needs of people in deep rural areas;
- The development of capacity in new retail intermediaries with the assistance of state grants;
- State grants for development activities. These grants must be administered separately from commercial finance activities;
- Adoption of good practice ethics to encourage clients to comply with legal health, safety and employment standards;
- Consideration of a name change;
- Closing the Agricultural Credit Board and transferring its loan portfolio to the organization;
- Transferring agricultural credit provision from the Development Bank of South Africa to the organization;
- Department of Agriculture to stop current wholesale finance activities; and
- Department of Agriculture to nominate the organization as its agent for state funds earmarked to enhance rural financial service delivery” (Land Bank Prospectus, 1998:14).

10.4 A PERSPECTIVE ON THE ORGANIZATION BEFORE TRANSFORMATION

“The organization was established 86 years ago to assist in implementing government agricultural policy to support emerging white farmers. Over the years it has gained a reputation as a sound, conservatively managed, financial institution with solid professional and technical standards in the specialized field of agricultural finance. While its policies were not explicitly racist, the organization avoided lending money to black farmers. It did not

support black farming either in freehold areas or in the Bantustans defining this as the role of the state Department of Agriculture” (Land Bank Prospectus, 1998:5).

“Later the Development Bank of South Africa was created to cater to the needs of middle class farmers in the Bantustans” (Land Bank Prospectus, 1998:5).

10.4.1 **SUPPORTING COMMERCIAL AGRICULTURE**

The organization has played an important role in developing commercial agriculture. In the 1960s, the South African farming economy joined the international move towards greater mechanisation and increased farm size. “This organization played a part in policies that supported this move. These policies resulted in the displacement of labour tenants and farm workers. At the same time the organization supported the growth of agricultural co-operatives and marketing boards that contributed to achieving the apartheid government's policy objectives of basic food self-sufficiency at the cost of higher consumer prices” (Land Bank Prospectus, 1998:5).

This prospectus continues, stating that during “the final days of apartheid the organization acted as agent for the state's R3,2 billion drought relief programme. The programme saved many farmers, who were direct or indirect (through co-operatives) clients of the organization, from bankruptcy. This reduced the potential bad debt portfolio and helped to maintain land prices. In this way it affected the conditions by which the democratic post-apartheid government launched its market based land reform programme” (Land Bank Prospectus, 1998:5).

10.4.2 **THE ORGANIZATION ITSELF**

The prospectus further states that “internally the organization had a hierarchical structure with people at each level supervised by those at the level above. Until very recently, management was exclusively in the hands of white males, with white women in administrative positions and black men in most service positions. Very few black women were employed” (Land Bank Prospectus, 1998:5).

“The organization had a conservative and bureaucratic work ethic. An external evaluation found that although it was financially sound it was not efficient, being geared to repetitive paper processing rather than modern financial practices. An inward focus allowed the organization to avoid comparison with other institutions in the sector. Although it is a

specialized agricultural financier, the organization does not hold the major share of its market and its client base is shrinking relative to the overall size of the agricultural market” (Land Bank Prospectus, 1998:5).

In the past the organization waited for clients to approach it. There was no attempt to market products and no assessment of the nature of the product it provided and its relevance to changing client needs. As a result the organization is poorly equipped to respond to the challenges of a rapidly changing agricultural environment and the differing needs of a broader client base.

10.4.3 MODERN FINANCING

On the economic front the organization faces more intense competition in its specialized field of operations in an increasingly deregulated financial sector. Globalization means that competition is likely to come from local and international institutions. “Specialist institutions have not done well in the modern financial environment. Those that have survived have done so by rapidly broadening their product base” (Land Bank Prospectus, 1998:6).

“Without transformation the organization would have had to face these economic challenges with outdated systems, a declining client base, static reserves in real terms and limited capacity to develop new products and markets” (Land Bank Prospectus, 1998:6).

10.4.4 GROWTH, RECONSTRUCTION AND DEVELOPMENT

Political change has brought South Africa's people a democratically elected government committed to redressing the injustices of apartheid through sustainable development that benefits all. The prospectus states that “in the agricultural sector land dispossession was one of the most deeply felt injustices. The development of white commercial agriculture underpinned the power of the apartheid government. To redress the balance, the democratic government has to address land holding and agricultural production and promote the development of black commercial agriculture and agri-business”(Land Bank Prospectus, 1998:5). In the interests of reconciliation and giving South Africa a place in the international economy, government should approach this issue through the market, rather than through another round of dispossession.

10.5 CONCLUSION

In this chapter the organization's initial need for change and the recommendations of the Rural Financial Services Commission were discussed. Specific emphasis was placed on the possible reasons why the restructuring intervention failed. A perspective on the organization before transformation highlighted the need for change.

The organization needs an integrated approach to change that includes effective and collaborative diagnosis and management of the corporate culture in relation to the organizational strategy.