

# MNO1706 Organizational Behaviour

## Lesson 10: Conflict and Organizational Change Management

### Overview

Conflict and change management are two critical managerial skills that all managers must have to manage organizations effectively.

### A. Conflict Management:

A conflict is a disagreement between 2 or more parties (individuals, groups, departments, divisions, organizations, etc.) in which the parties perceive a threat to their interests, needs, or concerns. (Textbook Chapter 10)

For example, when a company has to decide whether to put X dollars in product development (R&D) or after-sales services, a conflict between the R&D and marketing departments may arise because both departments would want the budget to boost their performance.

Because a group or an organization comprises two or more individuals and different individuals/groups have different and incompatible interests, needs, and concerns, conflicts in organizations are inevitable.

### Common Causes of Conflict:

Conflicts between 2 or more parties may arise due to diverse causes, including:

- **Task Conflict** (incompatibility in the tasks/goals to accomplish):

For example, the marketing department would want to maximize sales to chalk up more revenues for the organization; the production department would want the quantity and speed of production output to stay within a safe limit so that product defects, accidents, and machine breakdowns can be kept to the minimum.

- **Process Conflict** (incompatibility in how the tasks/goals are to be accomplished):

For example, one marketing manager prefers to increase sales by cutting the product's price whilst another prefers to increase sales by adding more product features and after-sales services.

- **Relationship Conflict** (breakdown of interpersonal relationship due to clashes of personality, aspirations, & motivation):

For example, management trainees A and B compete for the same permanent position in the organization, resulting in their inability to work harmoniously to finish a project assigned by the boss.

- **Resource Constraints** (competition for limited resources):

For example, both the production and R&D departments are short of one staff and the organization has resources to recruit only one new employee.

Both departments now are at odds over the same potential new headcount.

- **Organizational Change** (shift in the relative importance of the conflicting parties to the organization):

For example, in a market downturn, the marketing department becomes more important than the R&D department because the former can help the organization look for new markets immediately to secure more revenues to help the organization tide over the downturn whereas the latter typically would take a longer time to create new products and the new products may not be saleable in a depressed product market.

- **Differing Personal Values** (incompatibility over what is good-bad, right-wrong, important-unimportant, or desirable-undesirable):

For example, two ministers in a government are at odds with each other because one favours legalised gambling to enlarge the revenues of the government to fund social programs and the other opposes the idea because morality is at stake (for reasons such as gambling is wrong; poorer people are more susceptible to destructive & compulsive gambling due to a lack of self-control and a lack of alternatives (such as marketable skills) to earn a higher income).

- **Communication Breakdown** (incompatibility due to lack of info, misinformation, differences in interpretation/evaluation of info, etc.):

For example, member A of an investment team calls for a buy because the stock price has dropped well below the 5-year average but member B of the team disagrees and believes that there is still a lot of room for the stock price to drop further.

- **Task Interdependence** (one's performance is affected by another due to the former's dependence on the latter for inputs (e.g., finished products, info, raw materials, semi-finished items):

For example, a delivery rider is waiting in vain for the packed food ordered by an online customer to come out from a restaurant kitchen because the cooks in the kitchen are cooking for other dine-in customers.

Without the finished product (i.e., the packed food), there is nothing for the delivery rider to deliver.

- **Organizational Structure, Process, & Policy** (defective or incompatible organizational policies, procedures, & processes):

For example, some companies may have the policy of requiring all junior staff to use only economy-class airfare for all business trips.

Yet, at times, because of market competition, the price of a premium-economy class or business-class air ticket offered by one airline may be lower than an economy-class air ticket offered by another.

The junior staff affected would likely find the management policy inflexible, defective, counter-productive, and demoralizing if they are required to use the more expensive economy-class airfare instead of the cheaper premium-economy class alternative.

#### Functional Versus Dysfunctional Conflict:

A conflict can be functional (adaptive and positive) if a disagreement over an issue between 2 or more parties results in:

- a) More options being objectively considered/explored; and
- b) A deeper & more rigorous/comprehensive evaluation of the options available on hand.

By contrast, a conflict can be dysfunctional (destructive and negative) if the disagreement leads to a focus on the emotions and differences in opinions between the conflicting parties instead of an objective evaluation of the issues in question and the options available.

#### Fairness in Conflict Resolution:

Even though there should be unequal distribution of power/authority between job positions in an organization (**Lesson 8**) and decision makers higher up the organizational hierarchy may simply issue an order to expediently decide how a conflict should be resolved, it is necessary for managers to ensure that the final resolution is fair and acceptable to all the conflicting parties involved.

This is because, as pointed out in **Lesson 2**, individuals in organizations form justice perceptions on a continuous basis when they encounter a cue from their work environment.

Employees will be more satisfied with the workplace and become more motivated to stay and work for the organization if a conflict is resolved fairly (**see Lesson 2**) in terms of:

- **Distributive justice** (the final substantive decision is fair and based on objective reasons);
- **Procedural justice** (proper steps including the appeal process have been taken to make & implement the decision);
- **Informational justice** (the affected parties are kept informed); and
- **Interpersonal justice** (the affected parties are treated with respect).

Otherwise, employees may feel betrayed/short-changed and become less satisfied and less motivated to stay and work for the organization.

#### Effective Conflict Management Skills:

A conflict that is not managed well may degenerate quickly from an objective/perceiving conflict into an emotional/feeling conflict.

Managers must always try to keep a conflict objective and prevent it from sliding into an emotional one.

An emotional conflict may end in violence (**Textbook Chapter 10, Table 10.2**).

Several tips are available to help keep a conflict objective:

- Be an empathetic listener
- Focus on the target person
- Delay to diffuse emotions (wait for the emotional counterpart to simmer down)
- Relax body and maintain eye contact
- Remind both parties to seek win-win
- Stay focused on issues, not emotions
- Don't raise voice
- Don't use hostile body language
- Don't reject requests from the start
- Don't blame either party
- Don't minimize/trivialise the situation/conflict

### Integrative Versus Distributive Conflict Resolution:

To create a win-win situation for the conflicting parties, managers must always try to engage in integrative negotiation (instead of distributive negotiation).

- In an **integrative negotiation**, we focus on the interests/needs/concerns that are at stake to the conflicting parties and ask “Why is the opponent making the specific demands?” and “Are there other ways to address the opponent’s interests/needs/concerns?” (v) (Go for this)
- In a **distributive negotiation**, we focus on the demands made by the conflicting parties and get stuck in asking “What are the conflicting parties looking for and how to meet their demands?” (x) (Avoid this)

### Conflict Management Training:

It is useful if managers and employees have a good understanding of their own conflict management style because once they know their behavioural tendency, they may consciously make an effort to adjust their behaviour to suit a particular conflict situation.

In a typical conflict management training program, trainees are taught to identify and evaluate the merits of 5 conflict management styles based on two dimensions: High-Medium-Low on Concern-for-Others versus High-Medium-Low on Concern-for-Self (v = go for this; x = avoid this):

- **Collaborating Style (High-High):** A desire to give both parties what they want (vv)
- **Compromising Style (Medium-Medium):** Each side sacrifices something in order to end the conflict (v)
- **Competing Style (Low-High):** Pursuing one’s own interests at the expense of the other party (x)
- **Accommodating Style (High-Low):** Give in to the opponent at your own expense (x)
- **Avoiding Style (Low-Low):** Ignoring the conflict or denying that it exists (xx)

Typically, if both conflicting parties adopt the collaborating style, most conflicts can be resolved productively and amicably (they engage in integrative negotiation).

The second best is the compromising style, where both parties use the give-and-take approach that would enable both sides to at least strike an immediate, temporary agreement.

### **B. Change Management:**

In today's business environment, management must constantly adapt its internal operations to match the changes incessantly taking place in the external environment in order to maintain the desired organization-environment fit.

Examples of external changes currently taking place around the world include (Textbook Chapter 16):

- **People changes** (e.g., global labour supplies/migration, workforce diversity in terms of age, gender, education, nationality, generation-based beliefs/values, etc.);
- **Technological changes** (World Wide Web, cloud computing, artificial intelligence, etc.);
- **Information processing and communication changes** (e.g., online social networking, flexi-work stations, mobile connection, etc.); and
- **Competitive changes** (e.g., proliferation of global e-commerce, global movements of goods and services, competitors from emerging economies, etc.)

Oftentimes, however, resistance to change may emerge at the individual, group, and organizational levels to undermine management's efforts to initiate and implement changes.

#### Causes of Resistance to Change:

Some of the causes of resistance to change are:

##### **Individual Factors:**

- **Habit** (old habits are hard to kick; learning a new way requires hard work).
- **Loss of sense of security** in the old setup if a change takes place.
- **Economic losses** arising from the change (income, promotional prospect).
- **Fear of the unknown** after the change (unfamiliar things in the new setup).
- **Lack of awareness** of the change (no information about what change will take place or has taken place).
- **Social factors** (not sure what others will think about the change).

##### **Group/Organizational Factors:**

- **Structural inertia** (selected rules and procedures may be relished/retained by management to ensure stability and reliability).

- **Narrow focus of change** (some individuals or parts of the organization may be unintentionally left out of the change efforts due to management oversight).
- **Threatened expertise** (certain expertise may become irrelevant or less relevant in the new setup, so managers/employees may wish to avoid the loss of relevance).
- **Threatened power** (managers/employees may reckon a potential loss of favourable power relationships when a change takes place, so they wish to avoid the loss of power).
- **Resource allocation** (the equilibrium in resource allocation across groups/departments may be disrupted when a change takes place and some managers/employees may see themselves as losers if they are allocated less resources than before the change, so they may resist the change to preserve the current equilibrium).

#### Resistance to Change as a Type of Conflict:

When resistance to change arises in an organization, it is essentially a conflict between the organization or its change agent (an individual appointed to implement the change) on the one hand, and the target of change (the manager/employee concerned or affected by the change) who resists the change on the other.

As a form of conflict, resistance to change should be effectively and swiftly dealt with in the same way as how other organizational conflicts are managed and resolved as described above, i.e., employees must see fairness in how the unwanted change is managed in terms of distributive justice, procedure justice, informational justice, and interpersonal justice.

#### Effective Change Management: How to Overcome Resistance to Change?

Based on Kurt Lewin's "Unfreeze-Change-Refreeze" change management model, managers have a wide variety of tactical/policy options available to effectively manage, overcome, and prevent resistance to change, such as:

##### **Unfreezing (Galvanize the Buy-In For Change and Move Away from the Old State):**

- Urge all organizational members to consider the relevant global/external issues facing the organization.
- Paint a holistic view of the organization in the turbulent external environment.

##### **Change (Facilitate the Change):**

- Start small (make small changes at the beginning of the change).
- Secure top management support for the change.

- Encourage participation by all members who are directly and indirectly affected by the change.
- Use open communication to keep everyone informed of the change - before, during, and after the change.

#### **Refreezing (Fortify & Reinforce the New State):**

- Reward employees for their contributions to the change (intrinsically and extrinsically).

#### **Change as Part of an Organization's DNA:**

As mentioned in **Lesson 8**, some organizations are organic in their design and their organizational structures can be altered quickly to maintain a fit between the organization and its environment.

To facilitate timely structural transformations continuously, management invariably needs to use several organizational development (OD) techniques to help ensure that their employees are able to deliver the outputs expected of them, including:

- **Large-scale and prolonged job skills training**
- **Management development**
- **Teambuilding**
- **Survey feedback exercises**

OD refers to a system-wide application of behavioural science knowledge to the planned development and reinforcement of organizational strategies, structures, and processes for improving organizational effectiveness.

If used consistently over time, OD has the potential of making the entire organization “permanently organic”, akin to inserting “change” in the organization’s “DNA”.

With the help of social networking and information sharing platforms, major corporations around the world are now actively pursuing the concept of learning organization, a state of organization where everyone shares new information, takes part in, and facilitate learning to continuously transform the organization.

Organizations that do not move in this direction will likely face tremendous competitive pressures.

#### **Applications and Practical Considerations**



The general guidelines described above for managing conflict and change are useful in the real world of work.

### Large-Scale Government Policy Change:

The Singapore Government, for example, is highly adept at implementing major changes effectively.

To fund its ballooning social expenditures on healthcare, infrastructure, education, and security in the long run, the government first explained the need for increasing taxes in 2017.

Subsequently, in 2018, it officially announced that the Goods and Services Tax (GST) rate would be increased from 7% to 9%.

But to give people time to be psychologically prepared for the change, the government announced that the planned 2% GST increase would take place between 2021-2025, essentially giving all affected individuals an advance notice of 3-7 years. (Class Reading #46).

The 2% GST increase finally crystalized in 2022 when the government announced that 1 percentage point increase would take place in January 2023 and the other 1 percentage point, January 2024.

Accompanying this change, as has been the case for similar changes in the past, a slew of measures was implemented.

In particular, the permanent GST Voucher Scheme (put in place in 2012) helps Singaporeans living in lower- and middle-income households offset the average GST they pay annually via 4 types of rebates:

- Regular cash rebates for lower-income Singaporean households to meet their immediate needs (paid out in August each year).

Smaller one-off cash rebates are also made to all Singaporeans aged 21 and above regardless of household types as a gesture of inclusiveness when major GST-related changes take place.

- Regular CPF MediSave top-ups for elderly Singaporeans aged 65 and above to help them meet their medical needs (paid out in August each year).
- Quarterly U-Save rebates for lower- and middle-income HDB households to offset their utilities bills (paid out in January, April, July, and October each year).
- Quarterly S&CC (Service and Conservancy Charges) rebates for lower- and middle-income HDB households to offset their S&CC bills (paid out in January, April, July, and October each year). (Class Reading #47).

Overall, the average amount of GST paid annually by households in the low- & middle-income groups is more than offset by the amount they receive annually under the permanent GST Voucher Scheme.

By openly discussing the need for higher taxes, giving people affected by the tax changes ample advance notice, and doling out cash to “reward” or cushion the negative effects of GST on selected groups of people, the government is able to reduce the resistance to an unpleasant change to the minimum.

#### Retrenchment Due to Restructuring & Redundancy:

In a turbulent business environment fraught with changes on the technological and market competition dimensions, organizations must constantly adjust the size of their workforce to ensure that only the right number and type of people (with the right skills) are employed to do the production work.

To keep the production cost low, management must always trim its excess manpower and let go workers who do not have the right skills to do the production work.

This means two types of retrenchment or layoff may happen from time to time:

- **Retrenchment due to restructuring:** This happens when an organization restructures its operations (such as buying new machines, redesigning the work processes, etc.) and employees without the requisite skills or trainability may become unemployable.
- **Retrenchment due to redundancy:** This happens when a business downturn occurs or when the company loses a major customer, both resulting in no production work for certain workers.

A retrenchment may affect the livelihood of an employee critically (life-and-death issue) because the employee may depend solely on the job to pay for daily living expenses.

Hence, retrenchment is a highly volatile issue over which intense employee resistance is expected.

Fortunately, the Singapore Government has laid down a framework in which retrenchment can be handled expeditiously, fairly, and in a manner acceptable to both the employer and the affected employee.

- An employee with two or more years of service with an employer may bargain for retrenchment benefits when a retrenchment happens.

The normal range of retrenchment compensation as suggested by the Ministry of Manpower is between 2 weeks to 1 month of pay per year of service (but this is not compulsory unless it is stated in the individual employment contract or in a collective agreement signed by a labour union and the employer).

Employers with at least 10 workers who intend to retrench at least 1 worker must notify the Ministry of Manpower within 5 working days after the notice of retrenchment is served to the affected employee. (Class Reading #48)

- Under Section 18 and 18A of the Employment Act, when a change of management/ownership occurs (typically arising from a merger or acquisition of businesses), the affected employee's contractual terms and conditions are safeguarded and if there is an existing collective agreement (involving a labour union), then the terms and conditions of the collective agreement will remain effective for 18 months or until the existing collective agreement expires, whichever is later. (Class Reading #49).
- Under Section 18 of the Industrial Relations Act, employers enjoy the managerial prerogative of retrenching specific employees based on restructuring or redundancy. (Class Reading #50).

In other words, the employer has the right to choose who to retrench when there is a need for retrenchment due to restructuring/redundancy and the labour union cannot demand who to keep and who to retrench - unless issues such as employment discrimination as forbidden by the government have arisen.

#### Questions of Fairness in Retrenchment Exercises: Some Guidelines & Cases

**1. TAFEP Guidelines on Retrenchment: You mentioned that in a restructuring and redundancy situation, management has the right to decide who to stay and who to retrench. Does it mean that management is allowed to do whatever it wants? Where is the check and balance?**

It is true that retrenchment due to restructuring and redundancy is a managerial prerogative that labour unions cannot challenge (under Industrial Relations Act Section 18).

However, the Ministry of Manpower (MOM) and the Tripartite Alliance for Fair and Progressive Employment Practices (TAFEP) have issued guidelines on how a retrenchment should be handled.

Both the MOM & TAFEP expect employers to do these in a retrenchment:

- Use retrenchment as the last resort.
- Consider alternatives such as these before retrenching employees:
  - Send employees for training, which is heavily subsidized via Workforce Singapore.
  - Redeploy employees to other areas of work.
  - Flexible work arrangements, shorter-workweek, or temporary layoff.

- No-pay leave.
  - Treat employees with respect and dignity.
  - Use objective criteria like ability to contribute to the company's future business needs.
  - Do not use discriminatory criteria like age, race, gender, religion, marital status, family responsibilities, or disabilities.
  - Do not discriminate against members of labour unions. Under Section 80 of the Industrial Relations Act, discrimination against labour union members is illegal (including in a retrenchment situation).
- Note that employee performance is not mentioned in the list of prohibited criteria above.

Hence, work performance can be used as a criterion for deciding who to retrench but managers should keep it private between themselves and the affected employees.

- Note also that nationality is not included in the list above.

However, the Singapore government has recently adopted the policy that it does want to see that organizations in Singapore "take a long-term view of your manpower needs, including the need to maintain a strong Singaporean core." (Class Reading #48 as cited above).

Given this new Singaporean-first public policy, it would definitely be unacceptable if an employer retrenches Singaporeans first.

In a recent case at Eagle Services Asia, the management's failure to abide by the TAFEP guideline (in retrenching more Singaporeans than foreigners) nearly caused the 3 labour unions in the company to go on strike.

- Note further that seniority (how long an employee has worked for the company) is not included in the list above.

However, if seniority is used as a retrenchment criterion, then the government may object to it because it would come very close to discrimination based on age, which is explicitly rejected as a criterion for deciding who to retrench in the TAFEP guideline.

- 2. Case Study 1: Several years ago, Singapore Press Holdings (SPH) (now a non-profit news media outfit called SPH Media Trust) had to right-size its core media business (newsrooms and sales department) due to technological disruptions by reducing its total headcount by 10% (or 230 workers) through retrenchments, retirements, and contract terminations. About 20 employees who were retrenched were locked out of**

***their computers when they turned up for work one day --- even before they were told of the news. If you were one of the 20 employees, how would you feel? Why did SPH do that? If you were the management of SPH, what should you do next? (Class Reading #51)***

A retrenchment results in a loss of livelihood for a typical employee.

Hence, it is a highly emotional and volatile event for the affected employee.

There is a real chance that the affected employee may sabotage the employer's property.

For example, a retrenched employee may abuse a company computer account to order 10,000 ball-point pens (without the knowledge of the management) to be delivered to the company after the retrenched employee is gone.

What should the employer do with the stationary if the company has only 20 employees who need only 60 ball-point pens a year?

Some employers thus may take precautionary measures by shutting the retrenched employees out of their computer systems before telling them the news.

Some may even have security personnel escort the retrenched employees out of the company premises immediately after the employees are told of the news.

- The affected employees have good reasons to be upset because the employers they have worked for all these years appear to have no trust in them (interpersonal justice).
- The steps taken by the management may also fail to meet the procedural justice expectations of the affected employees because these employees may expect the management to first tell them of the retrenchment decisions as employees, then lock them out of their computer accounts.
- The lack of any prior warnings for the affected employees also suggests that there is a lack of information given by the management to the affected employees (a lack of informational justice).

In the case of SPH as described in the scenario above, the CEO apologized for the negative feelings caused in the retrenched staff, even though the management had genuine concerns over possible acts of sabotage by disgruntled employees.

Nevertheless, a better approach would be to assemble the 20 affected employees in a hall, tell them about the retrenchment decisions and why they are selected for retrenchment, and then terminate their computer access while they are still in the hall.

***3. Case Study 2: A few years ago, Surbana Jurong, a Singapore-based international infrastructure consulting firm, retrenched 54 workers (out of its 13,000 workforce***

***worldwide) but publicly stated that the retrenched workers were poor performers. The workers were given a choice to either resign on their own accord or have their contracts terminated by the company. Do you think management has the right to do this? (Class Reading #52)***

Although management has the right to decide who to retrench when there is a restructuring or redundancy situation and work performance may be a legitimate basis on which management decides who to let go, it is not fair or appropriate that the employer makes it public.

- First, an employment contract between the employer and the employee is private in nature.

The associated performance data and the reasons that a particular employee is selected for retrenchment should also be handled in private. (Common law of privacy).

- Second, performance standards vary across organizations. An employee who fails to meet the performance standards in one company may be a good performer in another.
- Third, by publicly announcing that the retrenched employees are poor performers, the company may jeopardize the employment prospects of the retrenched employees and under common law (duty of care), the action taken by management may constitute an infraction.

Thus, the company may be liable for damages suffered by the retrenched employees, such as a loss of reputation (defamation) and difficulties in securing their next jobs.

The then Minister of Manpower, Mr Lim Swee Say actually weighed in on this episode and reprimanded the company's management.

The company issued a public apology for its actions. This was a right thing to do.

Nevertheless, a better approach is to keep the retrenchment criteria private and not to disguise a retrenchment as a termination based on poor performance.

Sometimes, to avoid having to pay retrenchment compensation - 2 weeks to 1 month of pay per year of service - to the retrenched employees, some companies are motivated to get rid of redundant employees following a restructuring or business downturn by labelling the employees as poor performers and terminating their employment contracts based on poor performance.

- 4. Case Study3: You mentioned that conflicts (including resistance to change) have to be managed fairly so that both the parties can see justice in the conflict resolution process (distributive justice, procedural justice, informational justice, and interpersonal***

***justice), does it mean that management must always try to please the disputing parties?***

Not necessarily.

Years ago, a company closed its Pasir Ris plant (retrenched about 80% of the staff) due to a downturn and transferred the remaining 20% staff to its Jurong plant.

Two older employees with 25 years of service each at the Pasir Ris plant were not selected for retrenchment because the management reckoned that the retrenchment compensation for them would be too high.

If their pay were \$2,000 per month each, the retrenchment compensation would be  $\$2,000 \times 25 = \$50,000$  per head (or \$100,000 for both to be retrenched) based on a retrenchment compensation formula of 1 month of pay per year of service.

The two staff demanded that they be retrenched but the management refused.

Subsequently, both disgruntled employees turned up for work late purposely and after two warnings, the management dismissed both of them based on employee misconduct (tardiness).

The two employees lost their jobs. They didn't receive any retrenchment compensation.

A reasonable person would not accuse the management of being unfair in this case.