Employees Resistance towards Organizational Change

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Background

Organizations perceive change as very important for its survival and prosperity in today's most competitive environment and new business challenges. They make change initiative to keep up the pace with changing environment and new challenging competition. The success and performance superiority of organizations are very much dependent on its ability to align its internal arrangement with the demand of external world. While studying the change literature, the concept of change and its differentiation/types seem very ambiguous and it was very difficult to understand the overall picture of change from the scattered literature. As different authors have defined change, based on their differentiation, in different manners, e.g. Schien defined change as it can be *natural evolutionary*, *planned* and *unplanned change*, Leavitt expanded the technical-social (technical & social change) framework, by adding structural change (Leavitt, 1965). We will try to present somewhat clear and complete picture of organizational change based upon the literature and empirical study, which according to our point of view is very important for understanding change and its major problem i.e. employees resistance to change (the main area of this study). Our empirical study is based on a firm operating in a developing economy, which was under severe pressure from external environment and internal problems, and made it very important for its survival to introduce a major change program. Change as an important factor has been discussed by different authors as, 'change is the only constant' and very important for the firm. But managing change is very challenging & complex and great amount of care should be taken while making change. One of major problems/threats to organizational change is employees' resistance and has usually very unpleasant and negative implications for organization. The firm understudy proposed a change program but it was severely resisted by its employees and the change brought very negative results, opposite to its demands. Looking at the possible solutions discussed in the literature of change management, every measure has been applied by the experienced management of the firm to overcome resistance, but failed.

Purpose

The purpose of this study is to understand goal conflict between firm (owners) and individuals (employees) and how it contributes to employees' resistance to change as a major potential cause/antecedent. Different authors have discussed the importance of causes/antecedents of employees' resistance to change to know the right problem and develop strategies to overcome it. According to Mintzberg, the cure might actually prove to be just more of the cause (Mintzberg 1998 p. 324). After understanding the causes/antecedents of employees' resistance to change in the literature, we have got an opportunity to add another potential but major cause of resistance, that is, goal conflict between firm (owners) and individuals (employees). Different theories has been discussed which provide sound basis for understanding and also providing solutions to decrease the negative affects and intensity of the goal conflict. It will enable us to provide management with recommendations for possible solutions to employees' resistance in the firm understudy. Our empirical study helps us understand, how 'change' increases the magnitude and intensity of goal conflict and how it contributes towards employees' resistance to change. Finally, two theories will be used to suggest the best solutions to reduce the intensity and harmonize the goal conflict between firm and individuals (employees) and hence overcome employees' resistance.

The research questions are:
How goal conflict between firm (owners) and individuals (employees) contribute towards employees' resistance to change as a major cause?

How to harmonize or reduce the intensity of goal conflict between firm (owners) and individuals (employees), to overcome employees' resistance?

Theory
The theories are about organizational change and resistance, principal agent theory, goal theory and Stakeholders' theory. Other theories like, the neoclassical, neo-Keynesian and managerial theory of firm are also presented to strengthen the concept of goal conflict that exists between firm and its employees. The theory of organizational change and resistance help us understand the concept of change and resistance. Principal agent theory, neoclassical, neo-Keynesian, and managerial theory explain the conflict between firms (owners) and its employees' goals and interests. Stakeholder theory and principal agent theory has been studied and matched with the situation of the firm understudy to provide solutions/measures and suggest recommendations for reducing and harmonizing goal conflict, to overcoming resistance to change.

Analysis
First a literature study is carried out to completely understand and present change and the resulting resistance and its causes. Using this literature, the practical change program in our empirical case will be presented. Another major potential cause/antecedent of employees' resistance will be presented i.e. goal conflict between firm (owners) and individuals (employees) which has not been properly discussed in the literature and or has not been given importance. The situation of goal conflict will be discussed in our empirical case to understand practically, how 'change' increases the magnitude of goal conflict, so as it become difficult for both parties (firm and employees) to accept each other's goals, which result in employees' resistance to change. The empirical analysis is made from interviews/discussions and carried out on two levels; the individual (employees) level and firm (owners) level, also past observations during the change period are used. Initially we analyze individual's own role, interests, goals, needs, basis of satisfaction, and how the change program affected these. Secondly the firm's own interests, needs, goals, and objectives were considered, to know how much important is the change program for the firm. The factor of goal/interest conflicts were systemized and analyzed in relation to these two levels of analysis and then discussed in connection to the literature. The principal agent theory and stakeholders' theory will be used to understand the notion of goal conflict between firm and its employees, and also to provide appropriate measures to reduce the intensity of goal conflict between firm (owners) and individuals (employees) to overcome resistance. These findings were combined and matched with this empirical case to provide recommendations/solutions.

Summary
While starting our thesis, we studied lot of literature on organizational change, and found that the concept of change and its types have been discussed by different authors in a manner that is very difficult to understand. Every author/researcher discusses his/her own concept regarding organizational change and have differentiated it as per their own study (e.g. Scheins typology, technical-social framework, etc). We have tried to categorize different types of organizational change and present somewhat complete and clear picture of 'what is change' for which the existing literature has been used as a basis. After discussing the broad topic of this study, methodologies have been explained. On the basis of categorization of change, we have tried to understand and present the practical change program carried out in our empirical case. This firm has been selected for this study because of its broad business activities and major workforce, operating in a developing economy.

Employees' resistance, the basic topic of this study, is one of the major problems/threats to successful change program. In our empirical case, employees' resistance failed an important and well intended change program. The first step after discovering employee's resistance led us to the exploration of causes of resistance which have been thought by different authors as very important for overcoming it. As according to Mintzberg, the cure might actually prove to be just more of the cause (Mintzberg 1998 p. 324).

The study of different causes/antecedents discussed by several authors has given us the opportunity to add another important potential cause of resistance, that is, goal conflict between firm (owners) and individuals (employees). It should be noted that even in normal situation, goal conflict exists between firm (owners) and its employees, but the magnitude and intensity of this conflict is very low and so it is hidden, we call this 'goal difference', and both parties (firm & employees) accept each other's goals. In a strategic and major change program, firms alter their goals (e.g. cost minimization, innovative products, etc), which result in shifting and increasing their focus towards new goals. The shift in focus and increased commitment of firm towards attaining its new goals, increase the magnitude and intensity of goal conflict and it become very difficult for both parties (firm & employees) to accept each other's goals. The firm's increased concentration and self-centered focus on its goals affects employees' personal goals, and it become very difficult for employees to achieve their own goals and satisfy their needs. In our empirical case, change in the firm altered its goals toward profit maximization which was very important for its survival in that critical situation. The firm's primary goal of survival was followed by new support goals which are quality control, productivity increase, cost minimization, and innovation & product development; to better achieve its primary goal. These firm's goals constrained employees from satisfying their own needs and achieving their own goals which is important for their own survival. It becomes very difficult for both parties (firm and employees) to accept each other's goal which resulted in intensive goal conflict between them, and caused severe employees' resistance.

While studying this goal conflict, different supporting theories has been found which explain this concept and some also provides solutions to resolve goal conflict it to a favourable degree.

According to the principal agent theory, individuals (employees) as agents strive to maximize their utility while firm (owner) as principal strives for maximizing its profitability (Rees, 1985; Selden et al, 1999). The behavior of firm as profit maximizer, and individuals (employees) as utility maximizer can also be supported by neoclassical, neo-Keynesian, and managerial theories of firm. While studying our empirical case we analyzed the behavior of the firm and its employees after introducing the change program, and found that this firm (principal) was interested in maximizing its profit which was very important for its survival. The only possible ways to achieve these goals at that time by the firm was to utilize its employees efficiently and effectively, and to pay them according to their contributions in the firm's profit, demanding more of their efforts and time. On the other hand, employees (major part of employees were poor labors) are interested in maximizing their own utility by getting more salaries, investing less efforts and time, good working environment, and better facilities. These efforts by employees were believed as very important for their own survival. The demands of firm's new goals constrained employees from achieving their own personal goals, which increased the magnitude of goal conflict between firm and its individuals followed by severe resistance from employees. Both parties (the firm and its employees) started extreme level of efforts for achieving their own conflicting goals, and their struggle has cancelled the effect of each other and both parities faced failure in achieving their goals.

The surprising and interesting thing we found here is that this goal conflict can not be resolved or harmonized with the help of different ways/solutions proposed in the literature of change and resistance which were also applied by this firm and failed. Firms are required to take some other measures to deal with resistance due to intensive goal conflict. In this regard agency theory and stakeholders' theory has been used to provide solutions/measures to decrease the intensity and harmonize this goal conflict, and make it possible for both parties (firm & employees) to accept each other goals.

Agency theory proposes different solutions to align agents' (employees) goals with the principal's (firm) goals, to allow them work on a common ground and achieve the firm (principal) goals. These solutions are; a) establishing appropriate incentives for the agents to motivate them towards the principal's goals, b) Efficiently monitoring and observing agents' behavior, c) Evaluating or monitoring the outcomes of the behavior, i.e. shifting some risk of the firm towards employees, and d) Making efficient contracting with the agent (Jensen & Meckling, 1976; Hill Charles and Jones Thomas 1992). Although these solutions are very important and effective in aligning employees' goal with the firm's goals, but we found that these solutions are more biased towards the firm's interest, and may de-motivate and increase employees' dissatisfaction, as employees are made to suffer by compromising on their personal goals and interests. According to Perrow, agency theory is unrealistically one sided because of its neglect and potential exploitation of workers i.e. agents (Perrow, 1986). The next problem in agency theory is that it assumes efficient markets and doesn't consider the external forces and its irregularities.

Stakeholders' theory provides somewhat more realistic and justified solution to resolve goal conflict between firm (owners) and individuals (employees). It considers an imperfect and real market situation, and suggest accordingly. The aim is that firm should not only exist to satisfy its own needs but also the needs of those working for it, and the needs of society. Stakeholders' theory suggests maintaining a satisfactory balance with and between all its stakeholders' divergent and conflicting goals/interests. Despite its important insights, the stakeholder theory has also some problems. The three most obvious and important are; a) its inability to provide standards for assigning relative weights to the interests of the various constituencies, b) it does not incorporate the idea of optimal contracting, and c) its failure to contain within itself some clear cut steps for the firms to follow, and we believe that it is because of its long term approach (Hill Charles and Jones Thomas 1992), (Shankman Neil 1999).

The solutions/measures suggested by agency theory and stakeholders' theory, are very important for the firm to reduce the intensity of goal conflict, but as we can see both stakeholder and agency theory has their related flaws/problems and no individual theory can solve this problem. After analyzing the literature of change management, agency theory and stakeholders' theory, with addition to the empirical case of this firm, we are able to provide better solutions (based on these theories) that will better harmonize goal conflict and will make it possible for both parties (the firm & its employees) to achieve their own goals and thus overcome employees' resistance.

Keywords: Organizational Change, Employees resistance, Goal conflict, Goal theory, Agency theory, Stakeholders theory.

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CHAPTER - 1

First of all, understanding change is very important to visualize the objective of this study. This chapter provides different classifications and categories of change to understand the overall concept, and then examines and presents the case of firm understudy in the light of these categories of change.

1. Organizational Change

If we look at the literature on organizational change, different authors and researchers have defined and differentiated 'change' in organization differently. We can classify these diverse and different 'point of view' in four categories. This categorization is very important to clearly understand change, as, in the literature, change has been discussed by different authors in parts and according to their own study. The purpose is to describe, according to the best of our knowledge, an overall picture of 'what is change' making the existing literature as a base.

1.1 Categories of Change

- **Change on the basis of its causes:**

  - Internal and external forces: *External forces* are due to its general environment (international, economic, socio cultural, and political legal dimensions) and task environment (competition, customers, suppliers, regulators and strategic allies) which make change, called exogenous change. The *internal forces* are proceeding from within and derived internally (culture, organizational strategy) and are sometimes reflection of external environment. Internal forces create change which is called endogenous change.

  - As measurement/solution to complex problems in organization e.g. change for controlling high operating losses, theft, corruption, and safety threats in the working environment of organization.

  (Macri et al, 2002; Burnes, 2004; Kanter et al, 1992 p.211; Woodward Nancy, 2007; Trader, 2002),

- **Change on the basis of its implementation or adaptation**

  - Adaptive & proactive: *Adaptive change* is more directed towards changes and management on day to day organizational transactions. When an organization changes some of its core attributes to fit environmental contingency. On the other hand in *proactive change* the organization changes to secure from future threats and potential problems.

  - Planned & Unplanned: In *planned change*, the direction of change is controllable. It is mostly group based, consensual, and relatively slow in nature. In this change we believe we can stabilize some ways of working. Lewin's three steps model (unfreeze, Move, Refreeze) is a good example of planned change. *Unplanned* changes are those which occur independently of the system's intentions, but to which it has to respond (e.g. an unexpected change in demand, a machine breakdown or faulty supply) (Correa and Slack 1996).

(Schein, 2002; Fernandez, 2007; Burnes, 2004),

- **Change on the basis of its extent, and speed i.e. time it takes to be done**

  - Incremental & Radical: *Incremental* change is hardly noticed and slow in nature, but can lead to transformation over a long period of time (long march approach) (Kanter, Stein and Jick 1992), it is also called first order change. Incremental change is geared to achieving changes in culture and behavior (Burnes 2004). *Radical* change is also called second order and transformation change. It is sometime the result of mergers, acquisitions and disposals. Different authors discuss it as bold stroke approach towards change (Rosabeth Moss et al. 1993).

  - Continuous & Episodic: *Continuous* changes are those changes, which are ongoing, evolving, and cumulative in nature (Orlikowski, 1996). *Episodic changes* tend to be infrequent, discontinuous and. It occurs as organization moves away from equilibrium stage, or change as a result of misalignment or environmental encroachment (Miller, 1994).

  (Woodward Nancy, 2007; Weick and Quinn 1999, Perkins et al. 2007),

- **Change on the basis of its effect on different functions, units/divisions, & tasks**

  - Technological: Change in actions measurement, introduction of advance computer systems, machinery & tools, and improved communication system. Technology is concerned with design and layout of production facilities, type and mix of machines and equipments, product mix, flow of data and sharing of information, inventing new materials, automation, using computer software and hardware, monitoring and control of production processes, maintenance and simulation of operations and facilities and others. Technology change has been derived as a two-stage process. In the first stage, the firm is found to make a decision to adopt a new advanced manufacturing technology. This is followed by adjustment of the labor force in the second stage. Much technical advancement has been found as labor-saving innovations enabling companies to eliminate less-skilled positions. This has also led to a shift in labor composition in favor of more highly educated workers (Garg and Singh 2006).

  - Structural: There are six elements of structures: work specialization, chain of command, span of control, authority and responsibility, centralization and decentralization, and departmentalization. Changing structure in a company includes alteration in any authority relationships, coordination mechanisms, degree of centralization, job design, or similar other structural variables. Process reengineering, restructuring, downsizing and empowering have resulted in more decentralization, wider spans of control, reduced work specialization, and cross functional teams. These structural components have given employees the authoritative flexibility and ease to implement process improvements (Robbins, 2001). Drucker (1990) has stated, “Structure is a means for attaining the objectives and goals of an organization. Any change in structure must start with objectives and strategy”.

- Cultural change: Many companies describe structure and system change under the label of ‘culture’ (Kanter et al. 1992). Organizational culture denotes a system of shared meaning within an organization that determines to a large degree, how employees behave. New systems or patterns of values, symbols, rituals, myths, belief, norms, social forms, and practices have evolved over time in the industry. Organizations around the world are experiencing changes in the culture, and the trend is towards even more changes as countries continue to undergo changes in the cultural composition of their general populations (Erez and Somech, 1996; Hambrick, et al, 1998; Wenting and Palma, 2000).

- Infrastructural: Change in the physical infrastructure of organization, e.g. relocation of departments or expansion of building,

- Strategic: Change that is driven by “strategy” and “environmental forces” and is tied closely to the organization ability to achieve its goal. For example, Merger, acquisition, downsizing, joint venture and to an extent the impact of environmental forces like governmental, societal, technological or political changes are decisive which an organization has to bear and incorporate in its strategic output. Also firms often change goals and tactics, sometimes these plans are a variation on a common theme that is specified in the organizational mission statement.

- Identity change: Change in identity of firm, e.g. change in institution from college to university college. Kanter define it as change because of firm’s relationship with its environment (Kanter et al. 1992).

(Leavitt, 1965; Van de Ven and Poole, 2004; Fossum, Lynn. 1989 p.3; Sims, 2002 p. 334)

Organizational change is such a complex phenomenon that it is very difficult to define and differentiate collectively. For this study, Change can be defined as modification and up-gradation of organization’s activities (functions, strategy, policies, and culture) (Goldstein, 1984 p.v; Leavitt, 1965; Van de Ven and Poole, 2004) and resources (technology, human skills, knowledge, learning etc) (Spicer, 2006) as per its internal and external requirements (or forces) (Macri Diego, Tagliaventi Maria, & Bertolotti, 2002; Trader-Leigh Karyn, 2002).

1.2. Methodology

After introducing the major topic of this study, i.e. organizational change, we want to discuss the methods we used, to further conduct this study. This study focuses on the important causes of employees' resistance to change, and present 'goal conflict' between firm (owners) and individuals (employees) as another important potential cause.

Secondary data has been collected from books, journals, and articles, which enabled us to understand our problem area from different author's point of view. One of the important ways we used for collecting secondary information was to study the references of important articles to understand the broad ideas and background of that study. This thorough search enabled us to discuss and explore another important area (goal conflict between firm and its employees) in the literature of change and employees' resistance. While studying the concept/area of goal conflict we found different theories which support and explain it, as well as provide possible solutions/measures to harmonize goal conflict. Also the study of literature enabled us to know what empirical and secondary source information should be collected to proceed.

Primary data has been collected from the firm understudy via interviews/discussions and also past observations. Being personally involved in mentioned change program, I (one of the authors) become able to use and discuss my past observations, and take interviews of those who played an important role in this change. Past observations have been discussed more thoroughly and confirmed in interviews and with connection to the literature. Telephonic interviews and detailed discussion has been done, based on the division of change implementers and change followers as two different parties. In our empirical case, the top managers and owners of the firm are change implementers while all the middle managers, supervisors, and labor are change followers. The study of our empirical case has been done to understand practical case of change and employees resistance. Looking at the situation of the firm and the available time, interviews have been conducted with one of the owners and two top managers (change implementers), also some of the senior employees and most supervisors and middle managers who played an important role have been interviewed.

Information regarding the goals and interests of employees (change followers) and firm (change implementers, that are top managers and owners) has been collected, to know how much the change program is important for the firm to achieve its goals, and how it affected employees' personal goals. The different goals of both parties have been found as very important for their survival .The causes/antecedents of employees' resistance in this firm, has been studied to identify and explain how goal conflict acted as an important cause of this resistance. The solutions/measures provided in the literature of change management has been discussed with change implementers (management & owners of the firm) to know how they applied these solutions in their change program and couldn't overcome resistance. Looking at the behaviour of the firm and its employees, on the basis of past observations and interviews, we found agency theory and stakeholders' theory which best discuss the same situation. These two theories help us to also consider and understand the internal and external environment of the firm understudy. The solutions/measures provided by agency theory, stakeholders' theory and also our personal recommendations are discussed with the firm and employees, which enabled us to better utilize these theories and provide justified and applicable solutions to the firm understudy.

1.3. Case of change in the firm understudy

1.3.1 Introduction to the firm

The firm under study is a partnership firm operating in a developing economy. It has approximately 300 full time employees with more than 250 working as labor. This firm has been chosen because of its broad activities, which is representing it in services, products, and also research industry. The firm is making mechanical parts for special kinds of machinery for its customers. Also it is providing processing services (drilling, molding, machining & forging, & designing) on different steel materials in mechanical engineering sector. Some research and development programs are also going on mostly in mechanical engineering for new products/services development and production process improvement. It is also providing training and sponsors small research projects to associate engineers' mostly fresh students. The firm is operating in a market having few competitors but strong competition. The structure of the firm is autocratic, and decision making & authority is centralized. Most of the employees who are labors, are working under supervisors who are responsible to senior managers and owners. Department's managers & senior managers are working directly under the owners.

The firm understudy has gone through a major strategic change program in response to external forces and internal problems. The external forces include, increase in prices of steel, energy, and fuel inputs from suppliers and imposition of extra duties by the government on imported material. Customers demand for improved, innovative, and efficient products. The firm has pre-established contracts with different set of customers and it was bound to provide its customers with the finished and final products till the pre-determined time and prices. The internal problems include increased wastage of material/inventory, degrading quality, decreased productivity, and high operating cost. The external pressures and internal problems were getting out of the firm's scope which made the firm under deep trouble and it was very difficult for the firm to survive. The operating losses amounted to a $45,000 for the period July–December in 2006, which were very high for this firm.

Before the situation go from bad to worse, the owners and top managers (who will be studied as principals) of the firm decided to implement a major strategic change program. Severe efforts have been done by the experience management of the firm to act according to book (the formal and specified way to deal with this problem), and work that best suits its situation. Based on the firm's severe need for change, a situation of 'sense of urgency' has been created to provide a compelling reason to change and make employees support it. The implementation of this change program was done step by step, based on a period of six months, to make it easy for the employees to absorb change. The main focus of the firm was to survive in its competitive market (its primary goal), for which it was very important to maximize its profit. Supporting goals has been designed towards quality control, product development, increased productivity, and cost minimization, to help achieve its primary goal. Functional teams have been made which served on two basis, one is to increase the productivity of employees (which is one of the supporting goals of the firm), and second is to guide employees towards the change. The firm's primary goal (which is its survival) and supporting goals (which are cost minimization, quality control, production development & innovation, and productivity increase) has been set clearly & shortly, to communicate a clear vision which according to kotter is very important for a successful change program. Also the specification of primary and support goals are important to make employees understand firm's priorities and also to make the firm gain small victories which create momentum for bigger change. Moreover structural and cultural change has been introduced to empower and change the behavior of employees. Changing the behavior of the employees help the firm to make the change stick and durable. Subsequently, this change program included changes in firm policies regarding employees work and salaries, technology, structure, and culture of the firm.

1.3.2 Change in Policies of the firm

Policies of the firm regarding employees work and their salaries, benefits, etc were amended to better proceed with new goals.

- **Work policies:** Work policies were amended towards target based work, and new predefined work timings were advised, to improve the efficiency of labor and thus increase productivity. Keeping in view the high cost of input material, all employees in the production department were trained and advised to consume a standardized amount of resources (raw material, time, & energy) for getting a specified amount of output, to control inventory wastage/misuse and leakage. Furthermore, employees were made aware of the importance of efficient and careful use of costly machinery and tools, for decreasing the firm's high operating cost and control machinery increased wear & tear. This has introduced new challenges for employees. To meet with new demands of customers, measures regarding good quality control were imposed; also the research and development staff was equipped with more knowledge and new apparatus to improve its progress in product development and innovation.

- **Payment (salaries) policies:** Policies regarding pay structure (salaries), benefits, overtime, gratuity, and means of payment were also amended. The aim of which according to senior managers & owners of the firm, is to pay justified amount to all employees based on their contribution in the activities/business of the firm. But employees hold it more biased towards the owners and top managers of the firm. Salaries of employees have been made dependent upon the automatic calculation of their work timings through advanced computer system, to ensure every employee's participation. New and better formula has been introduced for calculating employees' overtime. Evaluation of employees' performance has been revised and based upon written previous working record, previous output, and attitudes, to help the top managers in deciding, which employees to be considered for the pay increase and promotion.

1.3.3 Change in Technology of the firm

- **Advanced monitoring and attendance system**: As the firm is operating in a mechanical engineering sector, that is why, technology played an important role in the firm change program. Advance computer systems were introduced for automatically recording employees' work timings, in-out timings based on attendance, and specified lunch break to save time. For evaluating the amount of efforts and time each employee invest in the firm, and to ensure fair & better treatment of hardworking and loyal employees, payroll of all employees' has been revised to be based upon these automatic calculations of employees' work timings, attendance, and in-out timings. For watching the behavior/action of employees, ensuring better evaluation of employees, and controlling production process, CCTV Cameras were installed in all workplaces. One of the purposes was also to increase security and inventory control, and take proper measures to solve inventory problems, as some of the less skilled employees were involved in wastage/misuse and leakage. The major purpose of this change is to build a performance management system that reward those who contribute more and act as to adapt the new way of doing business.

- **Change in Machinery and tools:** For improving efficiency, quality, and productivity of the firm, some new and improved machinery and tools were imported. New machines include replacement of existing manual machines, to improve quality and save time, also new processing/drilling machines were introduced for research and development purposes. The new tools and machines were although very complicated in use for employees, but were very important for the firm to make advancement towards achieving its goals. These new machines and tools changed the work procedures for employees, that is, approaches were changed for carrying out the same tasks. After introduction of new machines and tools, the firm provided sufficient training and facilitation to the concerned employees to avoid any potential problem and utilize the workforce more efficiently.

1.3.4 Change in structure and culture of the firm

The structural change was included in the program by providing clear definitions regarding who is responsible to whom, with parallel accountability. Authorities were more centralized by limiting the power and legitimacy of managers and supervisors, and decision making power has been more centralized towards the owners and two top managers. To increase the managers and supervisors' span of control, they were made responsible to report to the top managers and owners, regarding the performance of individual employees. New functional teams have been made to decrease work specialization by providing on the job training to all unskilled and less skilled employees, and targets were defined to these teams to encourage team work and to get more output. These changes were very important and helpful for the firm to get the vision right, communicate with the employees in a simple manner.

Culture is an important driver of all activities and processes of firm. Change in firm can be better managed by altering its culture towards more favorable situation, which is also more compatible with the new system and structure of the firm. The important factors of the firm culture are its employee's behavior, norms, values, and knowledge, which play an important role in making a durable change that stick. Change in structure, technology, and system of the firm, made it important for its employees to adopt new behavior, more knowledge, and also to improve their norms and values to make employees compatible with new changes and arouse their trust on the firm.

CHAPTER - 2

The basic topic of this study is employees' resistance to change. The purpose of this chapter is to understand employees' resistance and all of its major causes and subsequent solutions / measures discussed in the literature. The study of these causes and solution/measures has provided us an opportunity to add another major potential cause of resistance to change i.e. goal conflict between employees and firm. This potential antecedent of employees' resistance to change has also been discussed in our empirical case.

2. Resistance to Change

2.1. What is Resistance?

Resistance is the resultant employee's reaction of opposition to organizational change (Keen, 1981; Folger & Skarlicki 1999). It has been studied as a prime reason why most change does not succeed or get implemented (Egan & Fjermestad, 2005). As employee's resistance has certain implications for management, also employees play an important role in the success of firm's change that is why; it is a very important factor to be considered during organizational change program. In a study of 288 companies who shared lessons and best practices in change management, Tim Creasey found that the top obstacle to change was employee resistance at all levels (Haslam et al, 2004). Two types of resistance may stem when in an organizational change, the attitudinal and behavioral resistance (Sandy Kristin, 2000). The extent of employee's resistance range from lack of interest, negative perception & attitude, and strong opposing views, to; overt blocking behavior, violent strikes, and boycotts (Coetsee, 1999).

2.2. Early research on Employees' Resistance

The notion of resistance to change is credited to Kurt Lewin who discussed it first in 1940's. His early work focused on the aspects of individual behavior that must be addressed in order to bring about effective organizational change (Kurt 1945). The first research regarding resistance to change titled "Overcoming Resistance to Change" is based on a study conducted by Lester Coach and John R. P. French in 1948 at Harwood Manufacturing Co. in Virginia. Their research was generally on the importance of employee participation in decision making. They claim that their "preliminary theory was that resistance to change is a combination of an individual reaction to frustration with strong group-induced forces" (p.521). Coch and French argued that participation was the primary method to overcome resistance to change (Coch and French, 1948).

2.3. Causes / Antecedents of Employees' Resistance

The study of causes/antecedents in the literature of employees' resistance is very important as it plays significant role in proposing solutions and implementation of different measures to overcome resistance and its resulting problems. As discussed by Mintzberg, "the cure might actually prove to be just more of the cause" (Mintzberg 1998 p. 324). In addition, to make successful organizational change, lots of work has been done by different authors and researchers to find the major causes of employee's resistance and to perfectly deal with the symptoms of resistance. This will lead organizations to solve the right problem which is causing resistance to change.

One or some of the below causes can lead the change to severe resistance from employees. The consequences of employees' resistance are very important to be mentioned here, to reveal the miseries of resistance for organization and the change program. The consequences of employee's resistance to change range from; slow down of the change (and thus increase in cost) (Bryant, 2006), less productivity (outcome), employees corruption, high employees' turnover, disturbance & trouble in change program, failure of change program, and in extreme situation it can even lead the organization to destabilization & breakdown (Coetsee, 1999; Coch and French, 1948). Organizations may face the above problems in change due to employees' resistance. It should not be denied that resistance to change might be a valuable employees' passion that can be channeled more constructively (Dent Eric and Goldberg Susan 1999). It may help in improving the change plan by utilizing rather than just overcoming (Waddell and Sohal Amrik 1998). However the contention of this study is that, beyond a certain initial level, the employees' resistance results more destructively as mentioned above.

The first step after discovering employee's resistance lead us to the exploration of causes of employee's resistance to change which has been thought by different authors as very important for overcoming it.

After studying the different causes of employees' resistance to change, as, discussed by different authors. We have been able to divide these causes in different categories, based on the nature of resistance causes.

The four categories of different causes of resistance are;

- **Psychological:-** Employees negative perception, frustration, anxiety, preference towards status quo, cognitive comfort, fear, past failure, Cynicism or mistrust in top management/owner (Kreitner, 1992; Dubrin & Ireland, 1993) (Val and Fuentes 2003)
- **Materialistic:-** Loss of pay, comfort, status, and threat to job security (Dent & Goldberg 1999),
- **Employees' constant capabilities:** - Employee's skills (existing), knowledge, & expertise getting obsolete i.e. capabilities gap, embedded routines (Lawrence, 1986) (Val and Fuentes 2003).
- **Employees concern for firm: -** Faults & weaknesses in change program i.e. change is not good for the firm or employees and management have difference/conflict of perceptions about change program and its effects (Dubrin & Ireland, 1993).

Here we add and or highlight another important antecedent of employees resistance to change, i.e. goal conflict between firm (owner) and employees, where the goals of the firms are materialistic and individual's (employees) goals are based on the function of their utility maximization which is more concerned with their self satisfaction.

2.3.1 Potential causes of Employees' Resistance to change

While studying different causes of employees' resistance to change discussed in the literature, we felt the need to discuss another important potential causes/antecedents which seems very important, that is, goal conflict between individuals and firm (owner). Conflict between employees and firm can be said as, of two types, procedural conflict and goal conflict. Where procedural conflict is the conflict of approaches i.e. work procedures for performing the same task, and goal conflict is the conflict between the goals of firm and employees as separate entities. The causes of resistance from literature and this potential cause (i.e. goal conflict) will be analyzed and explained in reference to causes of resistance in the firm understudy.

In a strategic and major change program, firms alter their goals (e.g. cost minimization, innovative products, etc), which result in shifting and increasing their focus towards new goals. Where we define these goals as the targets of the firm to achieve, and the procedures/ways to achieve these goals are called means. Goals can be divided into primary and support/secondary goals, which almost depends upon the firm's priority and needs towards that goal e.g. cost minimization can be said as primary goal if it is the top most goal of the firm, rather it will be called support goals if it is to achieve another major goal. The increased commitment of firm towards attaining its new goals leads the differences of firm goals and employees' goals towards conflict. Also, in some change programs, firms may not change its goals but increase its activities and focus/concentration on achieving these goals. The firm's increased concentration and one sided focus on its goals affects employees' personal goals, and it become very difficult for employees to achieve their own goals and satisfy their own needs. This creates a situation of goal conflict between firm (owner) and individuals (employees). In literature, goal conflict is defined as the degree to which individuals feel that firm's goals are incompatible and conflicting with their own goals and needs, and make it difficult to achieve them (Locke *et al*., 1994; Slocum *et al*., 2002). Where, individuals (employees) personal goals are immediate regulator of their actions. The resultant employees' resistance can thus inhibit the achievement of both goals.

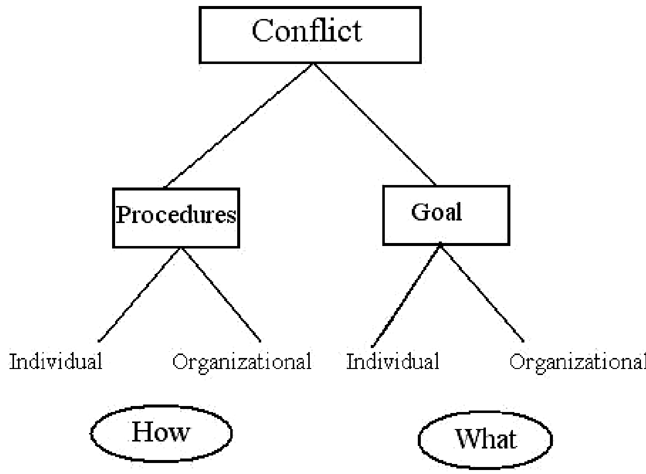
Change may also modify/amend the procedures for attaining the goals of the firm (its activities, approaches, style, and working procedures), to make it more beneficial and compatible with its needs. The new work procedures imposed by the firm may not be preferred by employees, and they may favor their own style of working, which creates a situation we called 'procedural conflict'.

Boonstra has stated about change and conflict as "When changes of some sort need to be made, conflicts are already pre-programmed, as firm needs and wants to change but employees have different priorities". There can never be change without conflict (Boonstra, 2004). Kanter provide a clue on goal conflict and define resistance to change as it occurs because recipients bring their own interests, goals and group membership to the change table (Kanter et al. 1992).

We can express the causes of employees' resistance to change as:

$$Y = X_1 + X_2 + e$$

Where Y is employee's resistance to change, X_1 is goal conflict, X_2 is procedural conflict, and 'e' as above stated categories of causes.



Procedural conflict is because of the employees and firm's conflicting approaches towards achieving the same goals (or performing a task) i.e. the way the firm want its employees to achieve the goals, is different and in conflict with the way employees want to achieve the same goal (Korsgaard *et al.*, 1995).

Goal conflict result in a situation where the achievement of firm's goal is perceived by individuals as interfering with the achievement of their personal goal; also the variations and incompatibility in individuals & organizational goals have various effects on each others which create a situation of goal conflict. In the case of this firm, the achievement of firm's goals which was although very important for the firm, but it was constraining individuals (employees) from attaining their personal goals and fulfillment of their needs.

In the literature of change management & resistance, the proposed ways by different authors for overcoming resistance to change are collectively expressed in different words like *Participation, Communication, Job security, Sense of urgency, Empowerment, Crafting an implementation plan, & Training* (Kotter & Schlesinger 1979; Mabin & Forgeson 2001; Coch and French, 1948; Chawla & Kelloway, 2004; (Kanter et al. 1992). Also *coercion* and *compulsion* are suggested by some authors as a hard approach, but mostly not practical in today's firms (Kotter & Schlesinger 1979). These solutions/measures are very helpful in overcoming resistance to change caused by above four categories of resistance causes (Lines, 2004, Mabin & Forgeson 2001). Also these solutions/measures are very helpful in resolving the *procedural conflict* between individuals and firm, e.g. training can make individuals to learn and follow the right procedures and practices proposed by the firm.

While studying these solutions/measures for overcoming resistance to change, the important thing we found is that, the focus of these solutions are more on the *process of change implementation* and it seems that the authors/researchers are over emphasizing the importance of implementation process of change for the success of change program. Also, surprisingly and interesting for us is that these solutions proposed by different authors in the literature of change and resistance can not resolve or harmonize goal conflict between individuals (employees) and firm (owner).

While the importance of change implementation process can not be ignored, as it plays a significant role in the success of change program, but it has been severely studied and researched in the existing literature of change, and the solution provided in this literature can better solve this problem. So the contention of this study is that, an individual's reaction to a proposed change is more dependent on the relationship between their own personal goals and the firm’s goals after change, than, on the processes used for formulating and implementing change (Guth and MacMillan, 1986; Gaertner, 1989). The firm understudy will be provided with solutions to harmonize conflicting goals in a change program, rather than rectifying approaches adopted to implement change program.

Here in this study we will discuss goal conflict as a major potential cause of employee’s resistance to change, as according to the best of our knowledge, to this problem the existing literature in employee’s resistance to change provide no solutions or measures for resolving or harmonizing goal conflict. For example, participation, communication, job security, sense of urgency, empowerment, training etc can not solve a conflict based on the individuals and firm’s increased and self-centered efforts for maximizing their utility and profit respectively (firm’s utility lies in earning more profit while individual’s utility does not lies in working more for firm to make it earn more profits). Additionally, this study will provide the management of the firm understudy, with solutions to resolve, harmonize or decrease the intensity of goal conflict to make it possible for both parties (firm & employees) to accept each other’s goals.

While analyzing the behavior of this firm (owners) and its employees after introducing the change program in our empirical study, we found that principal agent theory can best explain the same case. Here the firm (owners) and employees are truly representing themselves as principal and agent respectively, based on principal agent theory. According to the principal agent theory, individuals strive to maximize their utility while firms strive for maximizing its profitability (Rees, 1985; Selden et al, 1999); The firm as principal is interested in earning more profit which was important for its survival, through decreasing its cost by paying less to its employees and demanding more of their efforts. On the other hand, employees are interested in maximizing their own utility by getting more salaries, investing less efforts and working in a good environment which is deem important for their survival. The basis of firm’s satisfaction lies in something which is in conflict with, in which employees’ satisfaction lies in. For example, the firm is satisfied when it is making better and quality products, working processes are more efficient, utilizing its employees to their most extent, and thus earning high profits. All of these factors which add satisfaction to the firm require employees to work hard, put in more time and efforts, work efficiently by consuming less resource, demand less pay, and work in pressure and directly monitored environment to increase productivity, pursue difficult goals to increase performance (based on goal theory). Employees, if work on the notion of firm satisfaction, will of course loose their own satisfaction and may not fulfill their own needs and goals. The firm’s increased concentration and its self-centered focus has created difficulties for employees to achieve their personal goals which resulted in increasing the intensity of goal conflict and which can not be resolved or decreased with the help of above stated solution proposed in the literature of employee's resistance to change. Beside these solutions, firms need to take some other measures to deal with resistance due to goal conflict.

2.4. Causes/Antecedents of employee's resistance in the firm understudy

As the firm started implementing the above stated change program, it was severely resisted by most of its employees including supervisors and managers. The new frameworks (changes) that were imposed following the upheavals, has redefined the pre-existing relationship between the firm (owners & top managers) and employees. As the change was followed by the firm's severe need for change therefore it created a sense of urgency for everyone to change, moreover, proper training & facilitation was provided to employees and also the implementation process has been based on a period of six months to easily allow employees to adjust to the changes. We believe that the implementation process of change is not important, as the solutions provided in the literature of change, are very helpful in solving the problems of change implementation process. Change in this firm has shifted its goals and made its focus very self-centered to achieve these new goals, and created a disequilibrium situation of firm and employees goals. The new goals of the firm were not compatible with employees' personal goals and it very difficult for them to achieve them, which resulted in increasing the intensity of goal conflict between the firm and employees and thus causing employees' resistance to change. Also the revised policies, responsibilities and accountability, demand for new behavior, more knowledge & skills, new machinery & tools, introduction of new functional teams has created difficulties for employees. While escaping these difficulties, employee's resisted change by increasing absenteeism and high turnover, less motivation to work fairly and affecting the quality of firm's output, intentionally increasing firm's cost by misuse of resources, inventory shrinkage, decreased productivity, intentional destruction, and wasting material. The employees felt that they were the only victims of this change which made them highly negative and in emotionally charged state. In response, the firm perceived the employees' resistance as employees intentional made problem to overcome, and could not deeply analyze the causes of resistance.

2.4.1 Procedural conflict in the firm

The change program included amendments in some of the work procedures to better achieve the same tasks. The firm has introduced new work procedures and new machinery & tools that have change the procedures and approaches toward achieving the same task assigned to employees, to increase the efficiency and quality. But employees preferred old procedures which they thought were better than existing new procedures for optimum performance, but, were not in favor of the firm. This created a situation of *procedural conflict*. The procedural conflict has not being given importance in this study as the solutions provided in the literature of change/resistance can better resolve procedural conflict. For example, proper communication, training and facilitation can better make the employees to learn new and better work procedures and thus resolve what we call procedural conflict.

2.4.2 Goal conflict in the firm

Change in the firm altered its goals toward profit maximization which was very important for its survival, followed by new supporting/secondary goals to better support its primary goal of survival in its competitive market. The new supporting goals which were cost minimization, quality control, productivity increase, innovation & product development. This increased the firm's concentration and has made its focus very self-centered, which made it very difficult for employees to achieve their own personal goals and to focus on their social life, and satisfy their personal needs. These new goals of the firm has demanded more efforts and time of employees with the same and somewhat decreased pay structure, which has constrained them to achieve their own goals. This increased the intensity of *goal conflict* between the firm and employees, more specifically between owners (and top managers) and rest of the employees.

2.4.3 Solution proposed by the firm to deal with employees' resistance

In response to severe criticism and employee's resistance during the implementation period of change, the firm decided to study the problem and solve it. Regarding the problem of change in; machinery and tools, responsibilities & accountability, work procedures, behavior and teams, and demand for more knowledge & skills. The firm has found solution for these problems, by providing; more training and facilitation, some flexibility in new responsibilities and accountability for a period of time to allow employees to adjust themselves. These measures have helped the firm to train its employees on the new machinery and tools, to make them learn new behavior, adjust them in new teams, make them learn new skills and get more knowledge. The firm was quite successful in resolving the *procedural conflict,* also the *change implementation process* was not much problematic for the firm.

Even after solving most of the issues regarding change implementation process, and the procedural conflict, through following good practices and theories (e.g. Kotter 8 steps, and Schlesinger strategies) as described in chapter 1, the firm could not overcome the employee's resistance and we contend that there were some other problems associated i.e. the increased intensity of goal conflict between firm (owners) and its employees.

CHAPTER – 3

Goal conflict between firm (owner) and individuals (employees), which is argued to be a major potential cause of employees' resistance to change, has been discussed in this chapter. The purpose of this chapter is to explain the problem area and answer the first question i.e. how goal conflict acts as an important cause of employees' resistance, and discuss this in change program and causes of resistance in the firm understudy.

3. Goal Conflict

3.1. Goal

Goal can be defined as the primary mission or purpose as central element, or a desired/future state of affairs which the organizations and individuals attempts to realize and trying to bring about (Mohr, 1973; Grusky, 1959). Goals can provide structure, meaning, identity, and a sense of purpose, and, progress toward goals results in positive affective states such as hope, enthusiasm, and pride (Segerstrom & Nes, 2006). These include long term goals, and short term goals. Short term goals are characterized and made to achieve the long term goals and are under much influence from long term goals (Grossman & Hart, 1983). Firms are guided by goals and policies set by the top management. Goals should be defined by firm as to make a fair profit while providing high quality goods and customer service and meeting social responsibilities (Bolman and Deal 1991).

3.2. Change in goals

Firms are viewed as coalitions altering their goals and purposes, and domains to accommodate new interests, sloughing off part of them to avoid some interests (James 1962). As stated by Gross, goals may and do change over time (Edward 1969). Goldstein defined change as it occurs as a consequence of inner modifications of purpose, motivation, value, goals, and the like (Goldstein, 1984 p.v). The goals of the firm can be seen as primary and secondary, where secondary goals are also call support goals. In a strategic and major change program, firms alter their goals as per its new requirements/needs, demand of change, and also as per its market requirements. In literature, there are two basic forms of goal change are (1) goal succession, where the goals are achieved and are followed by new ones (2) goal change, in which the avowed goals are not achieved but are replaced by new ones, this type of goal change takes two forms (a) goal diversion, where the original objectives are supplanted by alternative ones (b) goal displacement, or means ends inversion, the neglect of the claimed goals in favor of the means as end in themselves (Warner and Havens 1968). A suitable example can be of a University merger with a research body which results in shifting university goals from 'providing quality education' to 'research', this result in shifting University focus from education to research, and affect/constrain students & some staff from achieving their personal goals.

3.3 Change in Goals of the firm understudy

The situation of upheaval which is followed by change in this firm has made its primary goal as its survival. We can also see the primary goal of this firm as maximizing its profit which is important for its survival. The firm also changed its support goals to better achieve its primary goal. The new support goals of the firm were cost minimization, quality control, productivity increase, and innovation & product development.

3.4. Goal Conflict

Goal conflict can be defined as the degree to which individuals feel that firm's goals, are incompatible and conflicting with their own goals and needs, and make it difficult to achieve them (Locke *et al*., 1994; Slocum *et al*., 2002). Edward differentiated individual's goals from firm goals and called it private goals, which is defined as a future state that the individual desires for himself (Edward 1969). The achievement of one goal (e.g. firm's goal) is seen by an individual as interfering with the achievement of other goal(s) (their personal goal) (Emmons and King, 1988). Where, individuals (employees) personal goals are immediate regulator of their actions. The resultant employees' resistance can thus inhibit the achievement of both goals. It may also arise from the discrepancy between the level of goal difficulty associated with a goal assigned to an individual (employee) by an external party (firm), and individual's personal goal.

> *The conflict between individual goal and organization goals is the heart of management as a field of study (Barnard, 1938).*

Beside this, goal conflict can occurs when organizations set its goal without considering the interest and needs of its employees, i.e. their personal goals. As, firms have more authority and power, change favors the firms goals while compromising on the employees goals. Making firm's goal in a weak and selfish way which has no meanings and challenges, can also add more to goal conflict.

Further more, individuals and firm have different needs/requirements, and what is expected from a firm is different from individuals, so the basis of setting a firm's goal and individual's goal is different. Variations in individuals and organization needs make them set different and conflicting goals. Most of the time the goal set by a firm, in change program, may have negative consequences for individuals. This kind of situation can also enhance the magnitude of goal conflict between individuals and firm. The interests of principals and agents diverge primarily because these different groups have different utility functions. In turn, this can lead to direct conflict over the use to which resources are put (Hill Charles and Jones Thomas 1992). It should not be denied that to a degree the goals of employees and firm also converge, e.g. satisfying employee claims for higher wages and better working conditions may improve employee productivity and thus provide the firm with greater resources & profits. However, the contention of this study is that; in a strategic and major change program, firms alter their goals (e.g. cost minimization, innovative products, etc), which result in shifting and increasing their focus towards new goals. The firm's increased commitment and self-centered focus on its own goals affects employees' personal goals, and it become very difficult for employees to achieve their own goals and satisfy their needs. Both parties (firm and employees) start extreme efforts which increases the magnitude and intensity of goal conflict and causes employees resistance which make it very difficult for both parties (firm & employees) to accept each other's goals.

3.4.1. Theories explaining goal conflict between the firm and its employees

The notion of goal conflict between firm and its employees can better be explained with the help of *principal agent theory*, also called agency theory. Agency theory focuses on the divergence of interests between owners (principal) and employees (agent). This literature theorizes that owners are wealth maximizers i.e. profit maximizers, while employees maximize a utility function. The firm as principal is interested in making more profits by providing less pay and decreasing its expenses on employees, on the other hand, employees as agents like to be paid high but work less investing less effort provided with good working environment. The *stakeholder theory* of the firm, also provide a clue on the goal conflict between employees (as stakeholders) and firm (as management), and subsequently solutions for this problem to a beneficial degree. According to the stakeholder theory, a firm is seen as a nexus of contracts with different stakeholders, where each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group (Shankman Neil 1999).

The behavior of the firm as profit maximizer can also be based upon the theories of Neoclassical, and Neo-Keynesian from economics. The neoclassical theory of firm assumes that firms are short run profit maximizers, and individuals strive to maximize their own utility. And Neo-Keynesian theory of the firm assumes that firms are long run profit maximizers. On the other hand, the managerial theories assume that managers maximize their own utility subject to a profit satisficing constraint.

3.5. Role of Owners, senior managers, middle manager, supervisors and labor

In this study, the senior managers and owners of the firm will be considered as principals of the firm and a single entity. Although top managers are technically employees, but their unique role suggests that they can be seen as the principals. Also their roles in this case imitate the behavior of owners and truly represent them. The middle managers and supervisors of the firm are acting and considered as agents, also they are representing the large number of rest of the employees (labor) of the firm. In this case two top managers and owners (principals) perform the work of contracting on behalf of the firm (directly or indirectly) with agents (employees). Personally being employed for one and a half year in the same firm, I (one of the authors) have the observations of the firm and this change program, and have understanding of the situation. We preferred to collect data through interviews and discussions with; owners & top managers (acting as principal) and middle managers, supervisors, and some senior labor, who are representing the large numbers of firm's employees (agents) and thus can best describe the situation on the other side of the firm.

3.6. Goal conflict in the firm understudy

To better cope with the situation, change in the firm altered its goals toward profit maximization which was very important for its survival, followed by new supporting goals to better support its primary goal of survival in its competitive market. The new supporting goals which were cost minimization, quality control, productivity increase, innovation & product development. This increased the firm's concentration and has made its focus very self-centered, which made it very difficult for employees to achieve their own personal goals and to focus on their social life, and satisfy their personal needs. These new goals of the firm has demanded more efforts and time of employees with the same and somewhat decreased pay structure, which has constrained them to achieve their own goals. This increased the intensity of *goal conflict* between the firm and employees, more specifically between owners (and top managers) and rest of the employees. This goal conflict was based on both inherent as well as resource conflict, where inherent conflict arises when progress towards one goal implies more difficulty in reaching another goal and it arises because of choosing goals badly, selfish, and following narrow approach. And resource conflict arises because of limited amount of e.g. time, money, and effort/energy available to pursue goals and it arises because of resource scarcity (Segerstrom and Solberg Nes 2006).

The change program shifted the whole focus of firm towards its new goals to better achieve them, while this resulted in lot of difficulties for employees to achieve their personal goals. The firm increased focus on its new goals, which are cost minimization, quality control, productivity increase, and innovation & product development. This increasing focus was followed by activities which are also very problematic for the employees to achieve their personal goals and satisfy their own needs. The introduction of new working policies to target based work, exact time schedule, working efficiently and invest extra time, consuming specified and limited amount of resources (raw material & energy) for each output and strict inventory control has put extra burden of work and pressure on the employees due to the new goals of the firm. Some of the employee’s time and efforts which they use for their personal utility maximization have been occupied by the firm. Automatic attendance, time recording, and installment of CCTV camera system in all work places has limited the activities of employees toward continuous work investing proper efforts. New policies regarding salaries, benefits, overtime, gratuity, and other funds for employees were although very important for the firm to achieve its cost minimization goal, but it has made employees’ income very insufficient to fulfill their goals and satisfy their needs. The provision of sufficient pay, benefits (present & future), secrecy of employees’ personal privacy, interest and ease of work, relax working environment, and achievable targets plays an important role in the satisfaction of employees. Perhaps the satisfaction of individuals owns self and their needs are important factors for individuals to increase their utility. The firm was demanding individuals to suspend their ordinary morality and personal interests in the pursuit of firm survival. The firm (owners) chooses goals to maximize its utility i.e. profit for its survival, subject to the employees’ utility on a decreasing flow. Change in the firm made employees to work more, and against this, employees were expecting fair pay and more benefits, while the firm’s new goals has constrained them.

The new pay structure and revised remuneration system was although very important for the firm to minimize its cost but it has put extra burden on the employees by reducing the income of employees which has made them to make their expenses limited towards living and survival. The new pay structure and revised remuneration system was although very important for the firm to minimize its cost but it has put extra burden on the employees by reducing the income of employees which has made their living very difficult. The introduction of defined target based work with limited amount of time and resources was very important for the firm in this situation for making on time delivery of the contracted store, but on the other side this has pressurized the employees and made it impossible for them to concentrate on their social life and personal needs.

The Firm was expecting that employees will work extra hours, take on work outside their responsibilities, look for better ways of undertaking the job, show loyalty, suggest improvements, be flexible, save time and adapt to more positive changes in the work environment, to take out the firm from this difficult situation. The owners of the firm directly negotiated with the managers, supervisors, and some senior labors but it failed as the employees were directly harming from the firm's new goals. Beside this, the firm had no options. The firm and employees both were at the extreme level for achieving their goals and interests, and has cancelled the struggle of each other and both faced failure in achieving their goals.

3.7. How to better understand and harmonize goal conflict

During discussion with the employees and the owners of the firm, the issues rose by employees and firm (owners) seem very complex. After carefully considering the results, we found that a number of literature and theories touch on the issues relevant to our research question. The issue of goal conflict can better be understood through the concepts of *agency theory, and stakeholder theory and stakeholder model*. Also these two theories are considered as very important and helpful in proposing solutions to the firm, which are discussed in detail in the next chapters. The agency theory and stakeholders' theory were neither discussed nor tested empirically in the specific context of organizational change and resistance. According to principal agent theory a firm operate and make efforts to increase its own utility (which is, from a broad perspective, earning more profits and increasing the value of the firm), while individuals (employees) are working to maximize their own utility (Individuals get more utility from entertainment, free time, extra remuneration, more pay etc and not from working more which is going to help their firm achieve its goal of earning more profits). Their efforts towards achieving their goals are influenced by each other which create a situation of intense goal conflict.

CHAPTER – 4

The concept of goal conflict, which is argued in the previous chapters to be a major potential cause of employees' resistance to change, has been discussed in this chapter with support from principal agent theory. Also the purpose of this and subsequent chapters is to answer the second question of this study, i.e. how to resolve/harmonize intensive goal conflict between individuals and firm. The important possible solutions/measures provided by principal agent theory to resolve the goal conflict between the firm and its employees, have also been discussed in the specific case of firm understudy.

4. Principal-Agent Theory

4.1. Introduction

The domain of agency theory are relationships that mirror the basic agency structure of a principal and an agent who are engaged in cooperative behavior, but have differing goals and attitudes toward risk. An agency relationship is defined as one in which one or more persons (the principal(s), firm) engages another person (the agent, employees) to perform some service on their behalf (Jensen and Meckling, 1976; Ross, 1973). The essence of agency theory rests on two important assumptions, a) the desires or goals of the principal and agent conflict and (b) It is difficult and expensive for the principal to verify what the agent is doing and to measure his exact output (Eisenhardt, 1989). This situation is known as the *agency problem*. The cornerstone of agency theory is the assumption that the interests of principles and agents diverge (Hill Charles and Jones Thomas 1992). It should also be noted that the utility function of both principal and agent change over time, and there is a variance of utility function (Shankman Neil 1999) (Hill and Jones, 1992).

4.2. Agency theory & Goal conflict

Agency theory focuses on the divergence of interests between owners and employees. This theorizes that owners are wealth maximizers, while managers maximize a utility function that includes incentives and remuneration, power, interesting work, job security, free time, and status as its central elements (Hill Charles and Jones Thomas 1992). Principal and agent's relationship change overtime, reflecting a shift of interest alignment or divergence (Baumol, 1959; Marris, 1964; Williamson, 1964).

The situation of goal conflict between firm (owners) and employees is best described in the principal agent theory, also called agency theory. The most common form of the agency relationship is described in the principal-agent view of the firm in which employees (Managers and labor) of firms are seen as agents of the owners (principals) who invest their efforts in firms primarily to increase their wealth (Quinn and Jones, 1995). In this study, the senior managers and owners of the firm will be considered as *principals* of the firm and a single entity, although top managers are technically employees, but their unique role suggests that they can be seen as the principals. Also their roles in this case imitate the behavior of owners and truly represent them. The middle managers and supervisors of the firm are acting and considered as *agents*, also they are representing the large number of rest of the employees (labor) of the firm. In this case two senior managers and owners (principals) perform the work of contracting on behalf of the firm (directly or indirectly) with agents. The normative condition here is that employees as agents must act only in such a way as to maximize the NPV (profit and value) of the firm, since that is what is presumed to be the goal of the owners (principals). Although under efficient markets, this will lead to the most desirable social outcome (Shankman Neil 1999).

4.3. Monitoring and Incentives problem

According to agency theory, the principal can limit divergence from his/her interests by establishing appropriate incentives for the agent, and by incurring monitoring costs designed to limit opportunistic action by the agent (Hill Charles and Jones Thomas 1992). Another author stated it as, the central problem agency theory addresses is how principals can control the behavior & outcome of their agent behavior, to achieve their, rather than the agent's, interests. The power of agents to act in ways divergent from the interests of principals may be limited by use of incentives or monitoring (Jensen & Meckling, 1976).

Here in this case, the firm tried to establish incentives for the agent, but it has been done on the cost of their salaries and overtime, which actually decreased the agent's income. The firm failed to catch employee's interest by providing motivating incentives.

In monitoring the activities of agent, there are two cases; the principal can know or may not know precisely what an agent has done, the principal is buying agent behavior, a contract based on behavior is most efficient, but almost an unusual case. Here we are concerned with the most usual case where the principal can not know precisely what the agent has done. The principal was having two options (1) to discover the agent's behavior by investing in information (2) to contract at least partially on the basis of the outcomes of the agent's behavior (Kathleen 1988). Both of these options required the firm to invest considerable amount of money in monitoring and recording system.

The firm understudy chooses to take both measures to get precise information as well as to define target based work to the production employees, which are almost 90 percent of its entire workforce. The firm invested in getting information regarding agent's behavior by installing CCTV cameras all around the workplaces to monitor the activities of all employees. Moreover all the department managers have been made responsible to report about the behavior of each labor working under them. It has also assigned output targets to be achieved by the agents, which made the firm to fulfill another condition of agency theory, that is, to shift some of the firm risk to the employees. These steps are taken very efficiently by the firm because of their high sensitivity for employees, so that it does not hurt them. The installation of cameras was to precisely monitor the behavior of its employees, but it communicated an indirect message from the firm to its employees, that the firm (owner) has just concern for achieving its own goals. The reporting system through middle managers and supervisors was not reliable and the middle managers and supervisors report about agents' behavior was biased and could not be trusted, according to one of the top managers. In case of incomplete information, a dilemma arises because the principal cannot determine if the agent has behaved appropriately. Although information regarding agent behavior is very important for the firm, but the information collection method should not affect employees directly. The second option, which is based on the amount of outcomes of agent behavior, has the problem of supply inconsistency of the input material and energy sources to the departments, because of imperfect market, which made the output of employees partially outside their control despite good efforts. This problem was because of firm less control and weak relationship with its suppliers.

It is also very important to deal efficiently with the above two measures proposed by agency theory. A mere mishandling of these two steps can result in severe reaction of opposition from employees. The employees tried to alter the situation by avoiding these measures and rejecting to work under this system (Eisenhardt Kathleen 1985).

The need is for control to be achieved over employees by winning their trust and by minimizing the divergence of preferences and goals between the firm and its employees.

4.4. Alignment of agents' goals with principal's goals to resolve goal conflict

Agency theory plays an important role in explaining the concept of goal conflict between principal (firm) and agents (employees). After defining the above problem i.e. goal conflict, it proposes the following important solutions to align agents' goals with the principal's goals, to allow them work on a common ground and achieve the firm (principal) goals (Jensen & Meckling, 1976) (Hill Charles and Jones Thomas 1992).

a) Establishing appropriate incentives for the agents to motivate them towards the principal's goals.
b) Efficiently monitoring and observing agents' behavior through direct and indirect means based on sensitivity of situation. The principal can even avoid monitoring the behavior of the agents if sensitive, and evaluate or monitor their outcomes (the work they do). The outcome can be made as basis for evaluating agents' behavior. It will also act as a way to shift some of the principal's risk towards the agents.
c) Making efficient contracting and establishing cooperative relationship with the agent.

Also the focus of the theory in the agency relationship is the selection of appropriate governance mechanisms between principal and agents that will ensure an efficient alignment of principal and agent interests; the goal is to ensure that agents serve the interests of the principals thereby minimizing agency costs.

The dynamic nature of principal and agent's relationship demand two things, first, we must use a theory that focuses more upon the task performed rather than the relationship established at the time of hire. Second we must view agency relationship through a lens that can accommodate the shifting of interest alignment (Albanese, Dacin and Harris 1997, Eisenhardt Kathleen 1985).

The agency theory is very helpful in providing solution to resolve/harmonize the goal conflict between firm (owners) and employees. It can better make employees goals in line with firm's goals. But the solutions provided by agency theory are more biased towards the firm (owners) and the employees are made to suffer by compromising on their personal goals. Perrow commented on this, as agency theory is unrealistically one sided because of its neglect and potential exploitation of workers i.e. agents (Perrow, 1986). The next problem in agency theory is that it assumes efficient markets and doesn't consider the external forces and irregularities caused by these forces e.g. suppliers can disrupt the system of monitoring the outcomes of employees by irregular supplies. Also, agency theory only recognizes the economic responsibilities between principals and agents. In fact, it is a theory about how principal-agent relationships can be arranged so as to ensure the economic interests of the principal; it is silent on other responsibilities, e.g. the social responsibilities of the principal, which are implied in the agency perspective.

Agency theory develops incentive and control mechanism with the help of contractual mechanism, which is very important in making the employees' performance inline with the firm's goal. But it has been argued by different authors that regardless of incentives and control mechanism, it is very difficult to build trust within organization (Caldwell and Karri 2005). Also, as the situation of perfect market is impossible especially in underdeveloped countries, that is why it's very difficult for the firm to act on most of the measures of agency theory. The interests of the principal are viewed as having primary importance (Shankman Neil 1999). Although agency theory is very important and perfectly describes the principal and agent, their relationship, and the notion of goal conflict, but the solutions provided are not justifiable and more biased towards the principal and it alone can not be considered as the best solution of the problem.

CHAPTER - 5

5. Stakeholder Model and Stakeholder Theory

The stakeholder model has been used to know the important stakeholders of the firm and study the irregularities they may cause in the firm. The theory of stakeholders has been explained, which provide a broad but good base for understanding the concept of goal conflict between firms and employees. The purpose of this chapter is to provide more justified solutions to the second question, for resolving/harmonizing goal conflict.

5.1. Stakeholders

In literature, stakeholders have given very much importance in the activities of organizations. It has been argued that firms are no longer the instruments of owners alone but exist within society and therefore have responsibilities to that society, and that there is therefore a shift towards the greater accountability of companies to all participants (stakeholders). These stakeholders have not just an interest in the activities of the firm but also a degree of influence over the shaping of those activities. This influence is so significant that it can be argued that the power and influence of these stakeholders is such that it amounts to quasi-ownership of the organization (Ortiz Martinez and Crowther 2008). The stakeholder concept found its roots in the works of Rhenman and Stymne (1965) from Sweden. “Stakeholders in an organization are the individuals and groups who are depending on the firm in order to achieve their goals and on whom the firm is depending for its existence”, Rhenman and Stymne assert (Archie and Juha 1997).

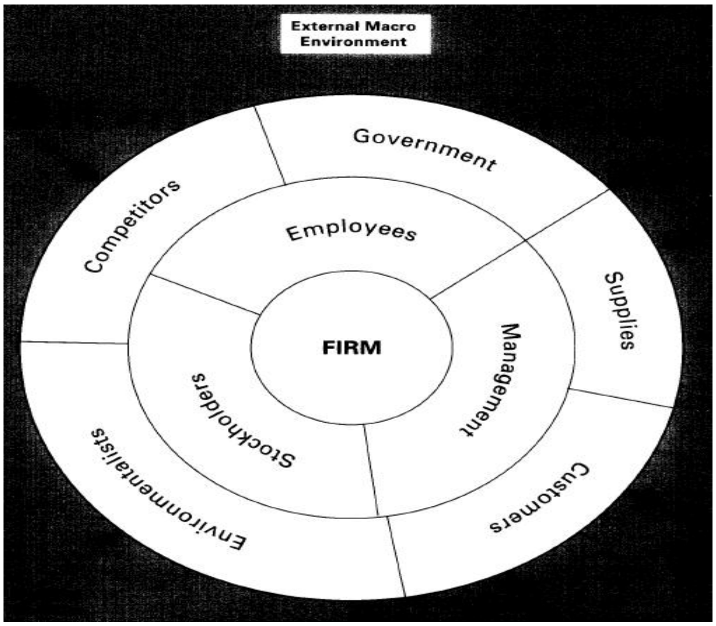
5.2. Relation between stakeholders and with the firm

An organization is not a Monolith; it consists of many sets of actors (stakeholders) with divergent interests, preferences, and criteria for organizational goals and performance. There are many stakeholders with an interest in the output and benefits, both inside and outside the organization (Kanter et al. 1992). Pfeffer & Salancik (1978) picked up the idea of organizations as coalitions of varying interests and contributed the notion that organizations are "other-directed" (1978: 257), being influenced by actors that control critical resources and have the attention of top managers (1978: 259-260). *The firm* is characterized by relationships with many groups and individuals ("stakeholders"), each with (a) the power to affect the firm's performance and/or (b) a stake in the firm's performance (Freeman, 1984). In many cases, both conditions apply. The firm can thus be seen as a "nexus of contracts" (Jensen & Meckling, 1976) between itself and its stakeholders. Organizations will maintain relationships with several groups that affect or are affected by its decisions (Freeman, 1984), these groups are called stakeholders on which the firm is dependent for its continued survival. This is a broad definition suggesting that almost anyone can be a stakeholder of the firm. It should be noted that, these interactions, coalitions, relations, attitudes, and preferences with and within various group of stakeholders of the firm are not static, but changes over time (Ulh, xF and i 2007).

Stakeholders are very important for firms, and executives must continuously consider the impact of organizational strategies and policies on each of the stakeholder groups and their possible reactions to the firm's decisions and actions. Also the goals of organization influence the society and all of its stakeholders (Ronald, Bradley and Donna 1997).

5.3. Who are important stakeholders of the firm?

To be more specific, we can define stakeholder as those who have a relationship with organization and bear some form of voluntary and involuntary risk as a result of having something invested of value (Freeman & Heed, 1983:91). Stakeholders consist of internal organizational members, including employees, managers, and board members; external members, such as owners, customers, suppliers, and competitors; and hybrid members engaged in inter-organizational cooperative activity with the firm (Marguerite 2002).

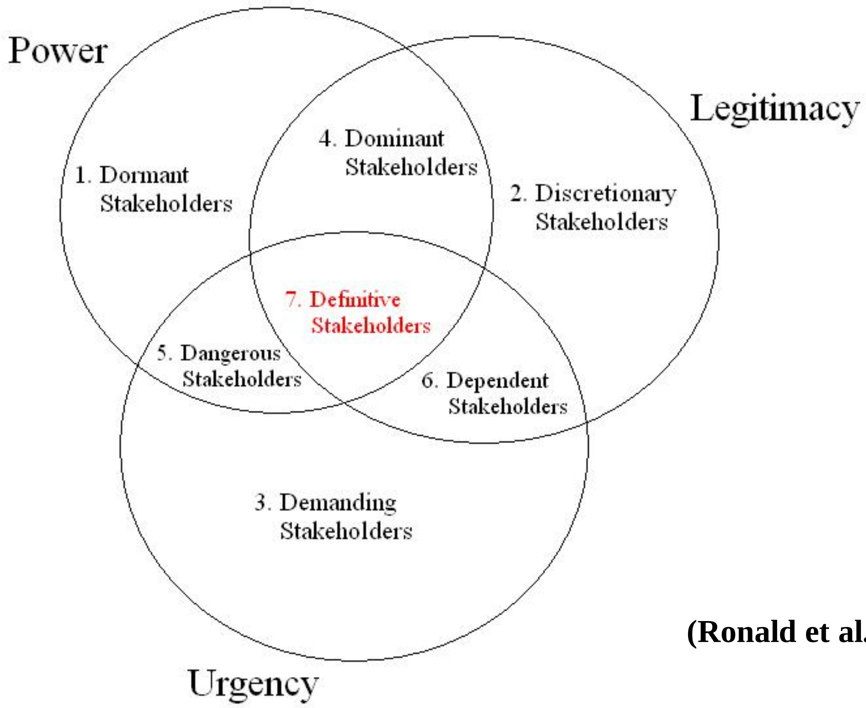


(Steadman, Zimmerer and Green 1995)

Distinctions between stakeholders have also been identified by virtue of their importance to the survival of the firm (Shankman Neil 1999). Freeman identifies *primary stakeholders* as those that have a formal, official, or contractual relationship with the firm, and all others are labeled as *secondary stakeholders* (Caroll, 1989). The classification of stakeholders is very important to provide standards for assigning relative weights to the interests of the various constituencies (Ronald et al. 1997). Actors with a high stake will demand more comprehensive incentive mechanisms and governance structures in order to safeguard their asset-specific investments in the firm (Hill Charles and Jones Thomas 1992).

Ronald (1997) provides an important formula for prioritizing stakeholders' relationships on the basis of three attributes, which are; power, legitimacy and urgency. *Power* is defined as a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that 'B' would not have otherwise done. *Legitimacy* is defined as generalized perception of assumption that the actions of an entity are desire able, proper, or appropriate within some socially constructed system of norms, value, beliefs, and definition. *Urgency* is the degree to which stakeholder claims call for immediate action.

One the basis of these three attributes, stakeholders have been classified as:



(Ronald et al. 1997)

It has been argued that stockholder's salience is positively related to the cumulative number of stakeholder attributes i.e. power, legitimacy, and urgency, perceived by firms to be present. Where salience is the degree to which firm (owners) gives priority to competing stockholder's claims. Based on the above three attributes all the expected stakeholders of the can be checked and prioritize accordingly. The recognition and study of salient stakeholders of the firm is very important to get to know their effect (external forces effect) on the firm, and the subsequent change and its reactive effect on less salient stakeholders.

The stakeholders under study, who are the most important resource of the firm, are employees. They are most necessary for the achievement of firm's goal and highly effect and, are affected by firm's goals and procedures. Based on the above classification employee's may underlie any of the above classification of stakeholders based on their saliency, but normally most of the firm's employees count as expectant (4,5,6 in diagram) stakeholders of the firm. Depending on the attributes employees possess, they can change from one class to another class of stakeholders.

5.4. Stakeholder theory

The contract is an appropriate metaphor for the relationships between the firm and its stakeholders (Eisenhardt, 1989). Stakeholder theory describes the firm as a nexus of cooperative and competitive interests possessing intrinsic value. Also it conceptualizes the firm as a series of groups with different respective relationships to stakeholders. Each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group (Shankman Neil 1999). The individual's relationship with the firm makes them able to be benefited by the firm's actions and operations. This relationship also makes it possible for the firm to harm them or to violate their rights. The relationship of individuals is contingent and two way (both are affected by each other's activity), while human behavior is assumed as rationality bounded and risk aversive. It postulates that other stakeholder groups also place claims on the firm that, if satisfied, reduce the amount of resources that management can channel towards the pursuit of growth through diversification. Satisfying employee claims for higher wages, consumer claims for greater quality and/or lower prices, supplier claims for higher prices and more stable ordering patterns, and the claims of local communities and the general public for lower pollution and an enhanced quality of life, all involve the use of resources that might otherwise be invested by owners in maximizing the growth rate and thus profit of the firm (Hill Charles and Jones Thomas 1992).

At different stages different stakeholders become critical for organizational survival. Consequently, depending on whom the critical stakeholders are at each stage, an organization is likely to use different strategies to deal with those critical stakeholders versus other stakeholder groups (Jawahar and Gary 2001) for which the above model can better be utilized to know the present salience of each stakeholder.

5.5. Goal conflict between stakeholders and with the firm

According to stakeholder theory, there is an ongoing battle between multiple stakeholders for different preferences, who are each trying to shape the organizational activities in ways that will further benefit their own interests. This battle results in change in political view of the firm (Kanter et al. 1992). Pfeffer and Salancik express organization as coalition of interest altering their purposes and domains to accommodate new interests that face an environment of competing and frequently conflict demands (Pfeffer, Jeffrey, 2003 p.36). The divergence between firm (owners) and stakeholders' preferences with regard to the firm's goals will result in a failure of stakeholders to act in their own best way for achieving their personal goals. The difference between the utility that stakeholders could achieve if management acted in stakeholders" best interests, and the utility that is achieved if management acts in its best interest, can be referred to as a *utility loss* (Hill Charles and Jones Thomas 1992) which specify a situation of goal conflict between stakeholders and firm.

5.6. Stakeholders of the firm understudy

The important and most salient stakeholders of this firm are its customers, suppliers, creditors, employees, and federal government.

5.6.1. Customers

The relationships of the firm with its *customers* are most of the time on contract basis and every condition (price, type of work, quantity, delivery date etc) regarding customer transaction with the firm is finalized in the contract. Depending on the quantity of work most of the contract are long term and range from 3 to 5 years. The relationship of customer is established through formal tender system. The degree of salience of the firm's customers' is very high, because of their large quantity orders. Most of the customers are different government agencies and some are private organizations. These customers are in very strong position, on whose decisions, the firm is dependent, and it was very difficult for the firm to increase prices in short term, if the inputs prices increase.

5.6.2. Suppliers

The *suppliers* of the firm can be divided into three parties who are suppliers for a) steel raw material b) plastic raw material and c) Energy & fuel. There is a high degree of salience of the firm's suppliers. The most important and highly consumed raw material of the firm is steel, which is imported from other countries, therefore the firm has very less or no control on its international suppliers for smooth supply and consistent price during a period of time. The fuel suppliers, mostly governmental, are very powerful and prices are regulated by the government. The decisions regarding the price and supply of fuel and energy can not be influenced by the firm.

5.6.3. Creditors

Another important stakeholder of the firm is creditors who are operating in a cartel; therefore are in a strong position and most of the time the firm has less or no control over them. Beside banks, there were no creditors available.

5.6.4. Government

The government as stakeholder can be understood by their dual role in this situation. The government is acting as a regulatory body, a customer as well as supplier for fuel and energy. The most powerful and salient stakeholder of the firm is the government (local and federal).

5.6.5. Employees

As employees are the most important resource of every firm, therefore they can be seen as important stakeholders of the firm. But, due to high degree of salience of other stakeholders, the firm has no option but to revise its terms with its employees. The external forces from other stakeholders has been tried to absorb in employees. Employees of this firm has less salience as compare to other stakeholders of the firm, but being large in numbers, their effect on the firm was of high degree once they get reflective. Also it should be noted that firm was in no position to part with such a large number of employees at one time as it would have greatly affected operational activities, and in addition to that, firm had to incur extra costs in hiring and training new employees.

Looking towards the position of this firm, it is under much influence and control from the outside micro-environment stakeholder including suppliers, customers, creditors, and local government. Whenever the firm was influenced by forces from these stakeholders, these forces created lot of irregularities in the firm which forces the firm to do major changes to absorb their pressure. As the external micro-environmental stakeholders of the firm were in powerful position, that is why, one available option to deal with any problem is to revise its terms with its employees and convert the flow of external pressures towards employees. Here the change in this firm shifted the focus of organization toward stakeholders with more power, which causes to affect one or some of its stockholder's. This created a situation of irregularities in the firm which were solved by shifting these irregularities toward employees, whose personal goals/interests and social life has been affected. This resulted in increasing the intensity of goal conflict between the firm and its employees. These stakeholders (employees) in return reacted and resisted towards organizational change.

The situation of upheaval and the external & internal force has forced the firm to find alternative suppliers and also to negotiate with its customers to make amendments in the contract and make them accept price increase, but in vain. The firm lost a lot of time and got delayed in most of its operations, because of delays in input as well as negotiation with customers and creditors. As a result different government agencies (its customers) have imposed late delivery charges on the firm as decided in every contract. Due to the strong limitations on the firm from its stakeholders, the firm could do nothing but to decrease and control its cost through its human resource. Also, employees (as internal stakeholders) actions to the firm are more predictable than external stakeholders (here external stake holder's actions are more uncertain and unpredictable). The firm decided to implement a change program and revise its terms with its employees on different basis. The firm changes in way which was more favorable to other stakeholders, which are customers utility (customer's utility increases by providing better quality, and cheap price) and also supplier's utility (supplier claims for higher prices and more stable ordering patterns) has been increased. This in turn affected employee's and made it difficult for them to achieve their personal goals.

The employees of the firm are with uniquely tailored and specialized skills as per the requirements of the firm and thus cannot leave without bearing substantial exit costs in the form of the lower rent stream that their skills can earn in the next best application. The 'stake' of such employees in the firm is high. Also on the other hand, it is very difficult, expensive, and even might impossible for the firm to hire new employees with the required specialized skill, as there was no ready supply of replacement labor, but to incur large amount of investment in making the new employees as per its requirements e.g. training, learning skills and culture etc, for newly hired employees. So the EXIT of resisting employees is very expensive for both parties (firm and employees). In these circumstances resistance was the most effective enforcement mechanism; also it is the least costly mechanism to be adopted by the employees. It also attracted some newsworthy cheap publicity for the firm but has severely damaged firm's reputation and increased losses to the firm.

5.7. Solution proposed by Stakeholders' theory

The main problem with the firm was that it failed to keep a satisfactory balance with all its stakeholders. The firm could not control and mismanaged the external stakeholders and in response to their pressure on the firm, it has compromised on the goals of its employees. The employee's personal goals and interest was affected and they were forced to loose their position in the firm for the sake of absorbing the pressure from its external stakeholders. Stakeholders' theory considers an imperfect and real market situation, and suggest accordingly. Supporters of the stakeholder theory argue that firms who govern their behavior according to principal agent theory will get profit below industry average and will have less satisfied stakeholders; on the other hand, those firms who govern their behavior according to stakeholder theory will earn profit above industry and also would have more satisfied stakeholders including employees (Shankman Neil 1999). The stakeholder theory proposes soft and long term/broad goals of the firm. Its major objective is that firm earns a fair amount of profit while providing benefits to all of its stakeholders and society i.e. corporate social responsibility. The aim of which is, that organization should not only exist to satisfy its own needs but also the needs of those working for it and the needs of society. The stakeholders' theory suggests maintaining a satisfactory balance with and between all its stakeholders' divergent and conflicting interests and needs.

In stakeholder theory, the firm (owners) is supposed to pursue its best interest, but that should also include the needs of other stakeholders (employees in this case). The task of firm is to reconcile the conflicts of interest that occur between it and its stakeholders (Archie and Juha 1997).

In this case of firm understudy, we can see how the firm could not handle and mismanaged to deal with the conflicting interests and external pressure of its stakeholders, which causes the firm to change so as a situation of intense goal conflict between the firm and employees, has been created. What we can derive from stakeholders' theory is that, the firm should go forward with its goals while supporting the personal goals of its employee, keeping a double but balanced approach. It required the firm to show some compromise and flexibility for achieving goals. Opposite to the agency theory, the firm should set, define its goals so as the employees interpret the firm goals as if these were their personal goal. The first task is to deal with all the similar attributes of stakeholders in common to resolve their conflicting preferences and battles by giving them the same access and opportunity to earn while dealing with the firm. It will make the firm to treat its external stakeholder (customers, suppliers, creditors, & government) so as their pressure and power to change the firm, will not affect other important stakeholders (employees). The next task is to balance the interest of its stakeholders with the interest of the firm, by considering the interest and aspirations of all of the stakeholders before deciding on the firm's own interests. The achievement of firm's goals and interests should be designed keeping long term and broad goals, so as it does not constrain the goals and interests of any of its stakeholders.

CHAPTER - 6

As discussed in the previous chapter, the measures suggested by agency theory and stakeholders' theory, and both concepts are very important for the firm. However there is something that lack in agency theory on which stakeholder theory provides positive insights and also something is lacking in stakeholders' theory for some of which the agency theory provide important initiatives. Based on these, the major purpose of this chapter is to propose recommendations for the firm understudy.

6. Comparison of Solution provided by Stakeholders & Agency theory

In the situation of intense goal conflict, where both parties (the firm and its employees) were making extreme level of *efforts* for achieving their own conflicting goals, and their struggle has cancelled the effect of each other and both parities faced failure in achieving their goals. Employees were more focused on their own goals, and putting more efforts to achieve them. On the other hand, firm (owners) was focusing on its own goals to be achieved, which they expressed as very important for its survival. This increased and self-centered concentration of both parties on their goals has made the situation very critical.

Agency theory specifies the problem of conflicting goals of principal and agent, and say that, the firm should align the conflicting goals of the agent (employees) with its own (owners) goals to resolve/harmonize goal conflict. Agency theory concentrate on making attractive incentives and implement measures to control the behavior or outcome of their agents to achieve their, rather than the agent's interest. It also focuses on how principal agent relationship can be arranged in a manner (efficient contracting) so as to ensure the economic interests of the principal, and remain silent on other responsibilities of the firm e.g. its corporate social responsibility. The principal's interests are given primary importance (Jensen and Meckling 1976). It should be considered that there is an institutionalized bias in the market place towards the interest of owners over the employees. So the solution provided by agency theory is not justified as it is more biased towards the interests of owners over its employees. Also this solution will not necessarily be accepted to the employees and may de-motivate them.

The stakeholder theory of the firm has the potential to subsume agency theory because of its broad approach (Shankman Neil 1999). It suggests firms to keep a satisfactory balance in the interest of all its stakeholders in such a way as not to affect some its stakeholders due to pressure from other powerful stakeholders. The firm is required to resolves the battle between its multiple stakeholders, who are each trying to shape it's activities in ways that will benefit them personally on the cost of other's stakeholders. The important insight of stakeholders' theory is that it considers an imperfect & real market situation by assuming the effect of all parties, also it proposes firms to keep long term and broad goals in a manner that employees interpret the firm's goals as if these were their own goals. Despite its important insights, the stakeholder model has some problems. The two most obvious are its inability to provide standards for assigning relative weights to the interests of the various constituencies, and its failure to contain within itself some clear cut steps for the firms to follow, and this is because of its long term approach.

6.1. Combination of Stockholders and Agency theory

Stakeholder theory is broad and more appropriately describe firm behavior by virtue of its logical coherence, while agency theory is narrow, and is explained in stakeholder theory. It has been argued that the assumptions of agency theory, taken to their logical conclusion, amount to a stakeholder view of the firm (Shankman Neil 1999). We believe that stakeholders' theory proposes unbiased and justified solutions to deal fairly with all stakeholders.

Although stakeholder theory has been shown to have the potential to subsume agency theory, there are many important insights offered by the agency perspective which should not be ignored here: (a) agency theory establishes the importance of incentives and self-interest in organizational thinking; (b) it provides the means to explain organizational phenomenon from different fields; (c) it introduces the notion of information as commodity, and provide means for making efficient contracting and establishing cooperative relationship with the agent; and (d) it examines the implications of risk preferences in cooperative relationships (Eisenhardt, 1989). The main focus of the theory in the agency relationship is the selection of appropriate governance mechanisms between principal and agents that will ensure an efficient alignment of principal and agent interests; the goal is to ensure that agents serve the interests of the principals without losing its own interest, thereby minimizing agency costs. For stakeholder theory to be accepted widely, it must incorporate the ideas of optimal contracting, incentives, and reduction of agency costs into its formulation (Shankman Neil 1999). The main insight is that firm must pay some strategic attention to those groups who were important to its success, without ignoring and affecting its other stakeholders.

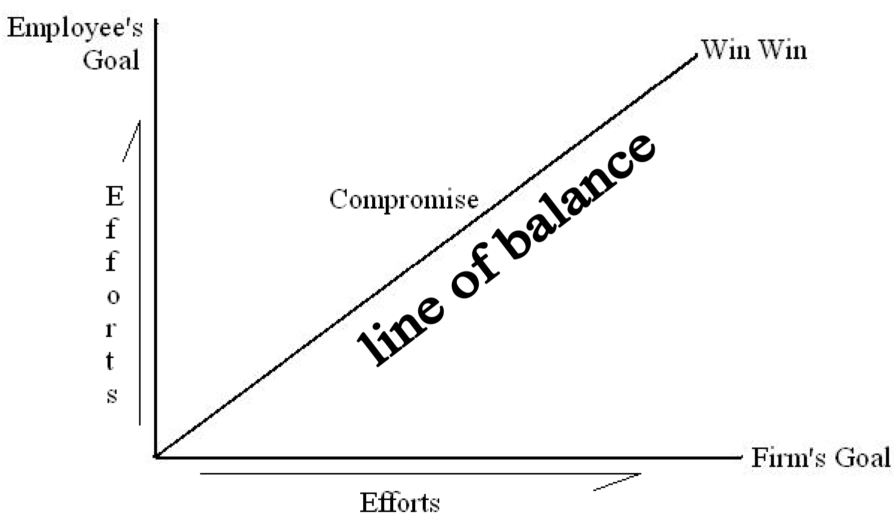
As we can see both stakeholder and agency theory has some flaws and problems that may make not properly solve the problem of goal conflict. However, the combination of solutions proposed by these two theories, and or incorporation of important insights from agency theory in stakeholder theory (stakeholder theory is believed to provide better solution in this specific situation of firm understudy) can definitely resolve/harmonize goal conflict between the firm (owners) and individuals (employees).

6.2. Recommendations for resolving/harmonizing goal conflict in XYZ firm

The change process should constantly develop to make it more responsive and receptive to the contentment and needs of all stakeholders including employees, and the firm should transform the relatively simple profit maximization paradigm towards the welfare and corporate social responsibility of the firm. Although both agency and stakeholders' theory provide very important steps for solving the problem of employees' resistance in the firm understudy. But as per our analysis of these two theories, we assert that incorporation of some important insights from agency theory in stakeholders' theory provide most suitable solutions as per the situation of this firm, while the change management theory is very helpful solving the problems of change implementation process. The agency/managerial literature postulate that satisfying the claims of owners involves maximizing the efficiency of the firm (Fama, 1980), while satisfying the claims of employees requires increasing the size of the firm (remuneration, power, job security and status are argued to be a function of firm size). However, in this case, we propose a trade-off between growth and efficiency maximization, so as both parties get equal opportunity for achieving their goals (Hill Charles and Jones Thomas 1992).

In the above stated situation of intense goal conflict in the firm, the need was to change the situation which required both parties to show some flexibility in their goals. The firm should focus on its mutual and inter-dependency on its employees, and also should better take care of its employees' goals with its own goals. It should discourage the self-interested attitude of its employees as well as its own, and focus moderate efforts in this case of conflicting goals so as to reach the level of compromise. As suggested by some author in the literature of organizational goal, that the firm should stop its goal directed activities so that it can give proper attention and understand the situation to repair the damage that has been caused by self centered goals, especially economic goals (Edward 1969); Bales, 1958). The result will although not be so good for both parties in the short run, but it will make them reach a win-win situation in long run. And then firm (owners) and employees even with different goals will work so as both parties goals are achieved.

In the long run, the need is for creation and keeping a flexible and dynamic balance between all stakeholders of the firm and striving continuously for maintaining this balance. The firm can better be able to make a balance between its stakeholders when it has the power to control and influence on stakeholders. The better option will be to reduce the power of its suppliers by developing alternative sources of supply, as alternatives are always available when a good search effort is done. It can reduce the power of its customer by building a more diverse customer base through product and market diversification, making a need for its products through innovation. Both national and multinational diversification can also be used to limit the power of the creditors and government. After balancing the interests of all its stakeholders, the firm would be in a better position to provide good incentives mechanism for all of its employees, to make good cooperative relationship. The next important step which we would like to take from agency theory is, to make efficient contracting with employees based on interdependent and mutual dependency. This will make employees and the firm to feel the importance and need of existence for each other, and make trust between both parties. In this way the firm would better be able to redefine its goal in a broad manner and long term basis that would better take care of employees' personal goals.



The firm should give rise to its ability to effectively utilize employees to harmonize their personal goals with the firm's goals, thereby facilitating the active cooperation of employees in the firm goal achievement as well as the achievement of their personal goals. This solution seems more unbiased for both parties interest and can be said as more justified and also easily acceptable for both parties. The firm should go forward with its goals while supporting the personal goals of its employees, keeping a double but balanced approach. These will make both parties to travel on the line of balance, towards a win-win situation.

Limitation of the study

The major limitation of this study is, of course the short period of time. Although lot of efforts has been done to study maximum literature regarding our problem area but due to short of time, we may have not covered the complete literature, also this short period of time made our access limited to few employees (workers, middle managers, and supervisors), management and owners of the firm for collecting primary data. Due to huge numbers of labour it was not possible to talk with all employees, but few senior labor and supervisors with middle managers have been interviewed. Also there was very limited and reserved discussion with the owner of firm due to their time scarcity, but we have been able to discuss the issue with the top managers more openly to collect information. We got some problems in gaining access to some of the important literature, which was although covered by studying the same work in some other's large number of articles/literature (e.g. the work of Eric Rhenman on stakeholder model and theory).

Further Study

As employees' resistance has positive as well as negative affects on organizational change, further work can be done to find out the factors that creates/increase the positive affects of employees´ resistance.

The empirical case of this study is a firm operating in a developing economy; further study can be done in a firm operating in a developed economy. This firm is a partnership firm and the structure is authoritative, another empirical case of a different kind of firm can be taken.

The goal conflict between firm and its employees can be analyzed for other problems in a firm, e.g. how it contributes towards other problems in a firm. Moreover, we can also analyze the positive aspects of goal conflict.

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Appendix – A

Questions of Interview and Discussion

The interviews and discussion was done with the firm top managers (and owner) and middle managers & supervisors of the firm. The name of the firm and its products name have been desired by the firm to remain confidential. The top managers and owner are considered as one party i.e. principals and middle managers and supervisors are considered as another party i.e. agents. Where the change implementers were the top managers and owners, and change recipients were middle managers, supervisors, and all labor. As personally being employed for one and a half year, frequent and frank discussions and interviews have been done with top managers and middle managers including supervisors and some senior employees, to get to know clearly from them about everything related to change in the firm. Most of the interviews were semi-structured and informal so as to get unbiased opinions of all the participants and deeply understand the situation. The more specific questions of the interviews are as follows:-

1. First of all, questions were asked regarding the firm need for change to get to know the reason which made the firm change?
2. What was the importance of this change program? And how it was valuable for the firm to get out of this problematic situation?
3. How and what has been affected and changed by this change program? What has been really changed?
4. How the change program affected employees of the firm, and how much it benefited the firm.
5. The solution provided in the literature of change management, has been discussed with the firm (change implementers) to know if they applied these solution or not.
6. What are your personal goals/interests (asked from different employees), how important are these goals and how was these affected the change program?
7. Why the change program is so important for the firm, and why it introduced new goals?
8. What were the reasons of the failure of this change?
9. Why and how the employees resisted this change?
10. What are the different suppliers, customers, and creditors of this firm?
11. What are the direct affect of local and federal government on the firm business?
12. How the suppliers and creditors are managed by the firm? And what is their importance for the firm, are there any alternative suppliers and creditors?
13. How customers are management by the firm, what are there expected demands from the firm? How much they are important for the firm, and how much is the firm important for them?
14. Specific questions {5W's and 1H (how)} were then asked regarding the functions of new machinery and tool, target based work, CCTV cameras, the change in pay structure, revised remuneration system, benefits, gratuity etc, and automatic attendance and time schedule recorder.

15. Discussions on the problems of change and the measures taken by the firm has been discussed (how much it succeed and how it failed?). Discussion with supervisors and middle managers has been done to know clearly how the employees suffered from change, and how best the firm to do to help both parties.
16. The solutions provided by agency theory, stakeholders theory, and our personal recommendations have been discussed with the firm and employees, to know how they would react to these solutions and what they really want.