The Human Side of Organizational Restructuring [*]

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Introduction

Under the new law and regulations, private higher education institutions (PTS in Indonesian term) are now given ample opportunities to manage their own institutions without necessary intervention from Directorate General of Higher Education (DGHE). With greater freedom from DGHE control, Universitas Islam Indonesia (best known as UII) in its effort to improve performance, has decided to redesign its organization, arguing that the existing design does not fit with the changing environment.

Ideally, as intended by the management of this university, the redesign should involve all organization elements, including "hard" and "soft" elements such as strategy, structure, reward system and culture (Peter and Waterman, 1982). The problem of implementing such ideal design is that the concept has generally lacked of practical focus (Bate, Khan and Pyle, 2000). In addition, by so doing it could also produce disruption (Amburgey and Dacin, 1994). Therefore, instead of changing the whole organization at once, UII chose to reorganize its structure as a point of departure to the whole organizational change in the near future.

This paper, drawing on action research study, which is defined as an exploratory, opportunistic and emergent process of "learning and changing" (Burke, 1998), discusses two issues related to designing new organization structure. The first is the process of designing new organization structure. The old structure was functional structure. It was designed compulsorily under the Government Regulation (GR) no.30 of 1990. It is then replaced with the new one – a process based. Secondly, this paper also discusses the human side of restructuring particularly its cultural and political consequences (McKinley and Scherer, 2000). The particular

discussion is considered of importance for two reasons. First, designing new organization structure is not merely scientific (Goold and Campbell, 2003). Second, the conventional way of managing higher education institution is that it tends to be managed collegially (Karmel, 2001; Simkins, 1999). In such situation, therefore, this cultural and political side of restructuring may hinder the effectiveness of the redesigning process.

Universitas Islam Indonesia at a glance

UII is the first private university in Indonesia. It was established by a group of nation's leaders in Jakarta in 1945[1]. Among the founders was Mr. Muhammad Hatta – the first Vice President of Republic of Indonesia, Mr. Much. Natsir, Mr. Much. Rum, Prof. KH. Kahar Mudzakir etc. As with any PTS, UII was growing steadily, especially during the period of 1980s and early 1990s. This growth was indicated by the number of new study programs offered during this period and the number of students attending to this university. For example, at the peak that is before economic crisis of 1997, the number of students was around 20.000 served by 20 study programs. UII however cannot

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[1] The name UII was the first time used in 1949 when this institution started to operate in Yogyakarta. Before, when it was established in Jakarta its name Sekolah Tinggi Islam (Islamic Higher School) (see: Sejarah & Dinamika Universitas Islam Indonesia)

maintain this performance. At the beginning of 2000s the number of students started to decline.

At the time of this study, UII was employing 379 full-time faculty members and 794 permanent and contractual administrative staffs and attended by 15.000 students only. It is believed that the changing external environment caused the decline of the number of students, which also means the decline of this university's performance[2]. Nevertheless, UII had to wait until 2003 to respond the environmental changes before finally it could redesign its organization structure. This response was made possible partly due to the abovementioned reform made by DGHE.

The process of restructuring

To do organizational restructuring, UII management appointed a group of faculty members, including the authors of this paper[3]. The management, in the same time, also formed an internal group consists of deans and other officials of the university called "Steering Committee (SC)" to overview the job of the team. It is expected that the team to complete the assignment in a few months. In practice, however, it took more than a year instead of six months as initially planned (the reason why the time frame was extended will be discussed later).

An initial step in this restructuring process is to collect and analyze data, followed by a proposed framework as

outlined in figure 1. The framework is called "four-stage model" of designing organization structure. The model is based on the conventional wisdom of the hierarchical relationship between strategy and structure proposed by Chandler (1962) where strategy determines structure. The team also includes a new concept – business model (Chesbrough and Rosenbloom, 2002; Hedman and King, 2003; Kraemer, et al., 2000; Lambert, 2003) into the model, considering that formulating strategy should not merely be based on Strengths Weaknesses Opportunities and Threats (SWOT) analysis as usually practiced. In itself the business model is derived from core ideology of the organization. Below, the authors describe the logic of the research model they applied.

UII Core Ideology

An organization has its own vision and values, which is called "the soul of organization" or "core ideology" (Collins and Porras, 1996). It consists of two elements: core value and core purpose. Core value is defined as organization's

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[2] The common practice of private universities, including UII, reveals that the decline of the number of student would mean the decline of financial resource. This is because tuition fee is the main financial resource of this university.

[3] The group consists of 6 faculty members. Three of them are full time faculty members of this university and the rest are full time faculty members of other university. This group is treated as independent consultant who is freely to offer the concept of restructuring.
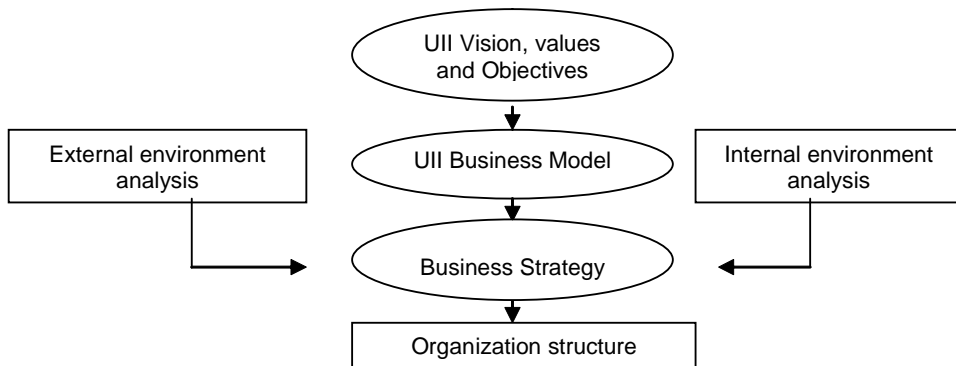
essential tenets, while core purpose is the reason for being (p. 73). Core ideology is difficult to change once it is systemized and crystallized in the life of organization. This ideology is also called as "guiding belief" (Davis, 1984) that guides the way the organization does its activities. Core ideology therefore influences the life of the organization, including how it designs business model, strategy and structure.

In the case of UII, its core ideology consists of three pillars: Islamic values, excellence/perfection and beneficial to the environment (*rahmatan lil aalamien*), where Islamic values are the core value and the other two are the core purpose. For UII this ideology is sacred, therefore, no intention has been made to change these pillars. The reverse, this ideology must be used as a basis to design the life of this organization; including how business model, strategy and structure must be designed. Accordingly, what the authors can do is just to reinterpret this ideology. The interpretation of this core ideology reveals that UII wants its students and alumni, based on Islamic values, to be a perfect person that is beneficial to the environment. This is basically the reason why UII exists. Another interpretation is that UII has to create value added for the benefit of its constituents. If this interpretation is translated into the design of UII organization, it can be said that the new organization of UII must ideologically accelerate the achievement of vision and goals; it must be

Figure 1. Four-stage model of redesigning organization structure

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                    │   UII Vision, values │
                    │    and Objectives    │
                    └──────────────────────┘
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┌──────────────────────┐  ┌──────────────────┐  ┌──────────────────────┐
│ External environment │  │ UII Business Model│  │ Internal environment │
│      analysis        │  │                  │  │      analysis        │
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                    │   Business Strategy  │
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                    │ Organization structure│
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economically efficient and effective and it must flexibly respond to the changing environment and accelerate internal decision-making process. This interpretation leads to the conclusion that the business model, strategy and structure should reflect these purposes.

Designing business model

The term business model is relatively new. It just emerges together with the mushroom of e-business. Accordingly it is seldom defined explicitly (Chesbrough and Rosenbloom, 2002; Lambert, 2003). Lambert identifies 14 definitions of business model (pp. 3-4). For example, KMLab, Inc., a consulting firm, (http://www.kmlab.com) defines business model as follow.

".... Is a description of how your company intends to create value in the market place. It includes that unique combination of products, services, image, and distribution that your company carries forward. It also includes the underlying organization of people, and the operational infrastructure that they use to accomplish their work".

Meanwhile, Osterwalder (2004) says

"a business model is nothing else than the value that company offer to one or several segments of customers and the architecture of the firm and its network of partners for creating and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams".

These two definitions show that business model is an effort of an organization to create value for the benefit of constituents it serves. This effort however should be unique, differ from other organization's effort and more specifically should be difficult to imitate. This elaboration confirms that business model is basically a construct or a paradigm that guides an organization on

how it delivers its services. For example, Universitas Bina Nusantara uses airline as its business model. Meanwhile Xerox Corp., when it creates copy machine for first time, it preferred to use leasing rather than selling as its business model (Kraemer, et al., 2000).

Due to uniqueness of business model, therefore, constructing a business model, to certain extent, is beyond rational justification. Rather, it is sometimes subjective and intuitive without formal standard of measurement. A lack of measurement is therefore the main problem of proposing a new business model particularly if the organization has its own existing model. The resistance from internal constituents is expected to be high considering the effectiveness of this model, at the time it was constructed, is unclear. We have to wait for several periods of time to see and assess the effectiveness of the implementation of the new model. This means that business model is worth nothing if is not supported by the appropriate strategy.

In the case of UII, two factors are taken into account in developing the business model: internal factor consists of core ideology and UII core business; and external factor that is value added being offered to the customers. Following is the logic of this model. Philosophically, according to its core ideology, UII has to create "value added" for the benefit of its environment. Since UII is higher education institution, it can be said the

core business of UII is to produce and disseminate knowledge that gives benefit to the customers. The question is which customer UII is going to serve? Is it students or their parents who pay for tuition, or others? To answer these questions we propose a business model as outlined in figure 2. The model is based on a conventional open system mechanism as a way to create value added. The systems approach attempts to view the organization as a unified purposeful system composed of inter-related parts. The parts of the systems consist of input, process of activities, output and users.

Figure 2 shows that the role of UII is to transform input into output. Since UII involves in education services, therefore, the core business of UII and what is to be transformed is basically "knowledge". UII is basically knowledge factory (Holbrook and Hubert, 2002). Furthermore, considering that the main input of this process of activity is students, and then, the output is graduated students, who obtained knowledge produced by this university. The question is who really get the benefit from this knowledge? The authors believe that the purpose of students to acquire knowledge is to be better persons so that they could be accepted by the society. This means that the end user or the end beneficiary of this process of activity is not students but is actually the society. There is no doubt that the students also

Figure 2. UII Business Model
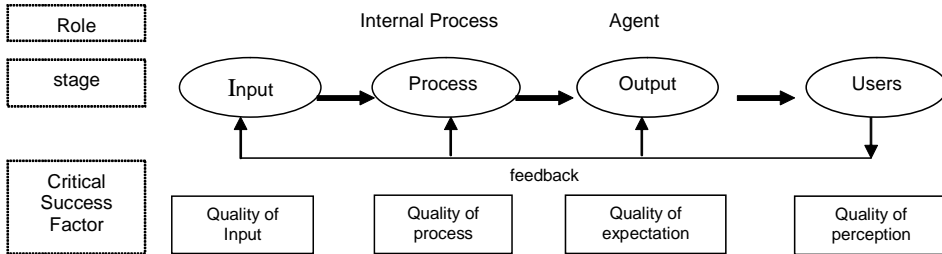
get benefit from this process of activity. But this is just potential benefit until they implement and practice the knowledge in the society. This proposition implies that the process of activity in this university has not yet finished when students graduate. UII still has another job to complete that is to facilitate its alumni to enter into society. In this case, therefore, UII has to treat students and alumni not as end users, or as argued by Holbrook and Hubert (2002) as products, producers or customers, but as channel of distributions. By treating alumni as **channel of distribution** or **agent** means that the role of alumni is to bridge or to be liaison between internal party (UII) and external party (society as end users). To be good agent, therefore, alumni should be excellent. They should also smart intellectually as well as capable mentally, religiously, morally, and socially. In other words, under this business model, UII should provide alumni, not only knowledge but also with character and skills. **"Crafting agent to enhance human dignity"** is

probably the proper terms for referring the business model of UII.

Formulating business strategy

As mentioned earlier, business model is worth noting if it is not translated into an appropriate strategy. Conventionally, strategy is basically a formal, long-term plan to achieve organizational goals. It is defined as an integrated and coordinated set of commitments and actions designed to gain a competitive advantage (Wheelen and Hunger, 1995). In the case of UII, the ultimate goal of this university is to achieve standard of excellence. But, to accomplish this goal, UII has to go through some intermediary goals, starting from collaborating, competing, and through to leading. Each goal needs each own strategy. Collaborating, for example, needs action programs to create a good image to facilitate it to set up net working with other relevant organizations. Figure 3 demonstrates goals and strategies for each period. The

period is set for 16 years, divided into 3 to 4 different periods of time frames.

To design organization structure, UII has to use the strategies as a guide. The strategies will guide the way UII divides authority and responsibility as well as units and activity performed. Proposing new structure

Based on GR no. 30 of 1990, the organization structure of UII, as with any PTS, was functional structure. This form of structure, which tends to be rigid and bureaucratic and therefore does not fit with the changing higher education environment, prevents this university from achieving better performance. Under this structure, UII management just administered the work activities since the real management of this university was actually in the hand of DGHE. Realizing the ineffectiveness of this structure and supported by the reforms in higher education system, the authors propose a new structure. In so doing, the aforementioned factors: core ideology, business model and strategy are taken into consideration, in addition to

UII business process. Hammer and Champy (1993) define business process as a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer (p. 35). Meanwhile, Vanhaverbeke and Torremans (1999) classify business process into four types. First, *customer processes* which are those processes that add value for external customers. Second, *development processes* such as product development, product/ market innovation, technology innovation etc. allow the organization to work effectively on the longer time horizon. These both types of process are the *raison d'etre* of a process oriented organization and they are the basis around which organizational units are centered. Third, *planning and control process* that focus on particular management tasks and finally *staff and service processes*. They play an important role as an enabler of all other types of processes. ICT, Human resource management, Finance and administration

Figure 3. Business strategy
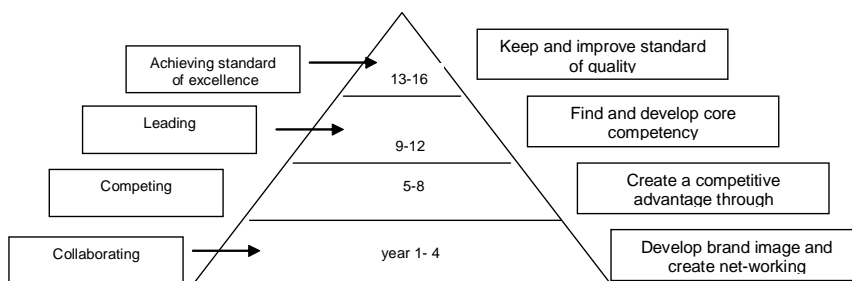
management are the examples of the last type of business process.

With this argument in mind, before redesigning the new structure, the authors also take into account the uniqueness of university management (Sanyal, 1996). This is what we call "tension" in terms of power sharing between top-level management (the rector) and lower level management (head of department). On the one hand, faculty members want an academic freedom, which means that budget should not constrain the academic development; while on the other hand, the management of this university emphasizes the efficiency and effectiveness in using limited resources. This situation my create tension between these two parties that requires specific organization structure.

The abovementioned considerations lead to the conclusion that the appropriate structure for higher education institution, particularly in the case of UII, is process-based structure. This form of structure is totally different with the conventional one – functional structure. Under the old structure, organization usually has considerable problems in taking customer's perspective because processes that produce value for the customer cut across departments. Hierarchically, the later only report to the higher-level managers, so that the customer perspective can only be realized at that level. Meanwhile, under the new structure, the

organization has the ability to overcome that problem, since processes bring customer to the fore. The process-based structure is basically cross-functional structure that de-emphasizes the functional structure.

Redesigning an organization towards a process-based structure implies that all activities, which logically belong together in order to create value for the customer, are grouped together. In this case, work activities of this university are divided horizontally based on the business process – early entry, product creation and development and post-harvest activities. Early entry activities are basically all activities related to the effort of this university to create image so that potential students and other end users are willing to transact with this university. Product creation and development activities are activities related to knowledge creation and development, which are traditionally the responsibility of rector for academic affairs. Finally, post-harvest activities deal with how this university facilitates its alumni to enter into the society. Figure 4 outlines the basic business process of this university.

According to process-based structure, Rector as head of senior management team is in general the chair and key support processes owner. This means that Rector is responsible for creating values for the benefit of customers (customer processes as mentioned earlier by Vanhaverbeke and
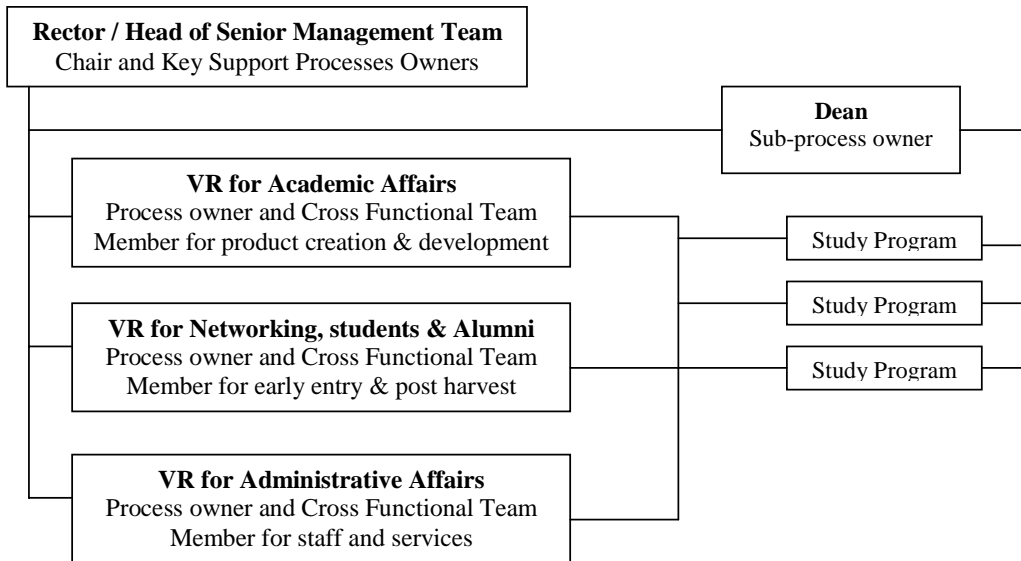
Figure 4. Basic business process
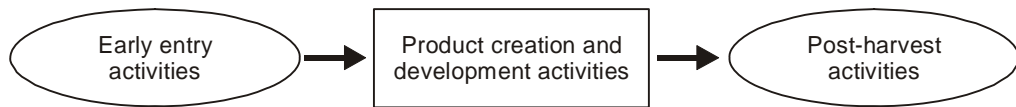
Torremans). However, since Rector can not do all these processes alone, the customer processes should be broken down into several processes. In this case, for example, Vice Rector (VR) for academic affairs as a member of senior management team is the process owner of product creation and development activities and VR for networking, students and alumni affairs is the process owner of early entry and post harvest activities. In addition to these three main activities, supporting activities are also needed. For these purpose, then, VR for administration is assigned as process owner for staff and service processes including human resource management, finance and administration and maintenance. Figure 5 outlines the proposed process based structure of Universitas Islam Indonesia.

As can be seen from figure 5, every organizational unit is basically process owner for its own activity. Despite this fact however, process owner is automatically team member of other related organizational unit. For example, Head of Department, or in Indonesian case Head of Study Program is responsible (process owner) for creating and developing knowledge for the benefit

of the customers (end users) (to review the role of Head of department, see for example: Smith, 2002). This means that Head of Department shall be free to produce and disseminate knowledge, while taking customer needs into account. Meanwhile the rest of the activities become the responsibility of UII management. In spite of different roles between the role of Head of Department and UII management, in this new structure, however, coordination between and integration of the two should be emphasized. In this case, this is the role of Dean – the arm-length of Senior management team, to do the coordination and integration jobs. If otherwise the number of study is few and Head of Study Program can coordinate and integrate directly with Senior Management Team then the existence of Dean is not necessary. Figure 5 also shows that process-based structure is similar with functional structure. The main difference is on the role of manager (process owner).

To assure the appropriateness of this new structure, the authors conducted test provided by Goold and Campbell (2003) that is "nine test of fit and goodness" consists of *The market advantage test, The*

Figure 5. Proposed process-based structure


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│ Rector / Head of Senior Management Team  │
│   Chair and Key Support Processes Owners │
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	Dean Sub-process owner

VR for Academic Affairs Process owner and Cross Functional Team Member for product creation & development	Study Program
	Study Program
VR for Networking, students & Alumni Process owner and Cross Functional Team Member for early entry & post harvest	Study Program
VR for Administrative Affairs Process owner and Cross Functional Team Member for staff and services	

parenting advantage test, The people test, The feasibility test, The specialist culture test, The difficult-link test, The redundant-hierarchy test, The accountability test and *The flexibility test.* The first four tests are fit tests. They provide an initial screen for design alternative, revealing whether the structure supports the organization's strategy, talent pool and situation. The next five tests are good design tests. They can help an organization refine a prospective design by addressing potential problems areas, including the balance between empowerment and control.

Cultural and political issues of restructuring

Even though the abovementioned new organization structure is philosophically and academically sound, Goold and Campbell (1993) remind us that creating a new organization structure is one of the toughest – and most politically explosive – challenges that an executive face. They go on to say that organization structure rarely results from systematic, methodical planning. Rather, it evolves over time, in fits and starts, shape more by politics than policies. In our experience, the politics of organization restructuring is probably more explosive than what Goold and Campbell just mention. For example, as mentioned earlier, this project should be finished in a few months (more precisely 6 moths) but in practice it took a bout two years. The longer time needed to finish this projected was not due to the lack of philosophical and conceptual

basis of the proposed new design. Rather, it is because of different interest coming from the individual member of SC. Therefore, even though most of deans and faculty members agree with our philosophical and conceptual basis for designing new organization structure, their resistance was also high particularly when the authors propose to merge the nine faculties just into four faculties. The argument of the merging is that the role of faculties in the new structure is not too essential compared to the old structure (see: Bedeian, 2002; Gallos, 2002). The reason for their resistance is basically not rational. It tends to be more on emotional and political reason. The real reason is they will lose of opportunity to be a dean if their faculty is merged with other faculties. Another reason, especially for a growing faculty, they don't want to merge with other faculty because they do not want to share their funds with others.

Another issue related to this restructuring is the organizational culture of this university. Awbrey and Aubrey, 2001 and Del Favero (2003) for example say that the internal problem commonly faced by the university is the conflict between faculty members and administrative staffs. This conflict emerges because each of these groups has different culture and different orientations. Therefore, when a university is going to change its structure, each group sees different

problems from different angle (Baum, 2002; Harper, 2000). The implication is that redesigning organization structure takes time than expected. Most of the time that the authors spend was to deal with this problem and convince them the appropriateness of this new structure.

Conclusion

Probably the appropriate terms to illustrate the change process during the organization restructuring is that change is scary, needs hard work and messy. This is because redesigning organization structure is not merely scientific. It is, rather, art and politics. Therefore another approach should be used. Particularly the culture and the politics of this organization should be taken into consideration. In addition, redesigning organization structure is basically unfinished business since, regardless the test being used, the effectiveness of new structure is still unclear at the time this new structure was redesigned. The effectiveness of the new structure will depend on how well the management manages the implementation of this restructuring and how well the management executes the new structure. For other researchers, this paper could be used for further research. First, for management researchers further investigation on the effectiveness of new organization structure needs to be done. Second, psychological impacts of organization restructuring need to be

investigated realizing that there is tendency that resistance is relatively high.

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