MANAGING CHANGE THROUGH LEADERSHIP DEVELOPMENT PROGRAM: SOCIAL PSYCHOLOGICAL APPROACH
An experience from FT. Caltex Pacific Indonesia

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ABSTRACT

The changes in the business environment may bring a company into a dangerous situation if the company does not react properly to the changes. In order to successfully coping with the change, a number of companies have taken several measures to improve the performance, either by restructuring, or reengineering their organization. Usually there are two areas of changes that take the attention of management. Firstly, the changes in shared vision, business strategy, structure, and system of organization. Secondly, the change in human behavior of organization, which consists of staff, skill, and style. Pascale and A thos (1981) in their se ven S model of chronic organization, called the former as the hard S while the latter they called soft 5. No matter how excellent are the business strategy, structure and system, the changes in an organization would not occur unless there are changes in human behavior.

This paper discusses the effort to change the behavior, with special emphasis on leader behavior. A case study from an oil company, Caltex Pacific Indonesia (CPI) which is in the process of restructuring, would be utilized as an illustration of the effort to change the organization through leadership development program. In CPI a massive leadership development program has been launched to speed up the process of change. The program covers all layers of leaders, starting from the bottom layer up to the top management level. The bottom layer focuses on transformational leadership, the second upper layer stresses on synergistic leadership, and the top layer concentrates on visionary leadership.

Based on qualitative data found from a preliminary study aimed at assessing the impacts of the program in speeding up the change in CPI, it was found that the CLD program has contributed positively to the change process.

DRIVERS FOR CHANGE

The pace of change in business environment has accelerated in a very high speed. Globalization is one of the most powerful and pervasive influences on business at the end of twentieth century. Information technology, communication, travel, and trade have made relation among nations become closer. Change in the nature of consumer's need, competition, depletion of natural resources, and political orientation in many countries, especially ex-communist countries need to be responded properly by company managers.

A number of writers in the area of changes argue that the ability a company to survive the change depends upon its ability to adapt to these quick changes. Unfortunately not all companies realize this fact. Most of managers still believe as if the future will be a linear extrapolation of the present. Success in the past will ensure success in the future. The fact is that the future will not be *a* continuation of the past. It will be a series of discontinuities. A company may only be survive if it accepts these discontinuities and does something about them (Gibson, 1997). A number of authors, as cited by Gibson, strongly support this argument. Charles Handy (1997): "You can't look at the future as a continuation of the past...because the future is going to be different. And we really have to unlearn the way we dealt with the past in order to deal with the future". Peter Senge (1997): "We have to stop trying to figure out what to do by looking at what we have done". Michael Hammer (1997): "If you think you're good, you're dead. Success in the past has no implication for success in the future.... The formula for yesterday's success are almost guaranteed to be formula for failure tomorrow. CK. Prahalad (1997): *"If* you want to escape the gravitational pull of the past, you have to be willing to challenge your orthodoxies. To regenerate your core strategies and rethink your most fundamental assumption about how you are going to compete.

The turbulent changes in environment require new directions in the way people manage the business. Only through intelligent adaptation a company become resilient organization.

DIRECTIONS OF CHANGE

In response to the environment changes a number of companies' executives have changed the way they manage the company. Some companies change the orientation of the company from a short-term thinking into a long term one. A decade ago only few companies had vision. Now many companies have formulated their vision statement and intensively socialize the vision as guidance for every people in the company. People start to believe that company's vision as a very important source of inspiration to bring a company to a better future. Visionary companies tend to last and perform better compared to the companies without a clear vision. Using the vision statement companies develop their business strategies. Collins and Porras (1997) in their studies on 36 big American companies found that the companies with a very dear vision tend to perform better than the one which did not.

To survive in dealing with turbulent environmental change a company must have a lean organization. People change the organization into a flat organization with a few layers only in it. The old structure of organization, characterized by pyramidal and bureaucratic nature, is obsolete. This type of organization is not adaptive to the speed of change. In a very rapid change, any decision should be made as quick as possible. To ensure the ability to make a quick decision, some companies decentralize the authority. Strategic business unit (SBU) has been a popular choice in many organizations to decentralize the power and authority. This is a good response to the need of customers, which the old-centrahzed organization could not accommodate.

Along with the change in organizational structure, the change in the way the organization functions has also taken place. More and more companies apply cross-functional organization as an alternative of functional organization. The boundaries between organizational units within organization become less solid. This condition is needed, since more and more organizations operate using cross-functional team. The need to cut the business process into the simplest and the most effective one, is the driver force for this kind of approach. This approach

will reduce unnecessary processes, which frequently happen in functional organization.

The changes in the way people organize jobs require some modifications in the compensation system. The individual based compensation system should be modified to meet the need of team based organization. Similarly, career path of the employees will also be influenced in the new type of organization. To ensure the ability of employees to adapt to the change in environment, employees besides being a specialist he or she should also become a generalist. A generalist is a person who is broad enough to respond appropriately to shifting work demands, to changing market opportunities, to evolving products and services, and to the ever pressing demands of customer. In the era of turbulent change a specialist may suddenly loose his or her job due to the skill one has becomes obsolete (Champy, 1996).

In a very rapid business environment change a company should come up with intellectual capital. What are meant with intellectual capital are ideas, knowledge, know how, expertise and innovation. Bennis and Townsend (1995) argue that the key to competitive advantage in 1990's and next decade is the ability to generate intellectual capital.

The old way of managing people where command and control becomes a dominant style, now should be replaced with new leadership style. Employees as source of intellectual capital should be led not managed. They should be given empowerment, and are motivated to think and to act progressively. In addition, they should not be treated as a cog in a wheel, instead management should treat them with respect and dignity. Only then the employees would be successfully develop their intellectual capital. With those capacities employees would be able to build quality improvement as a way of life. Quality has become a famous word in business dictionary. Quality product, quality service, quality process, and quality management are among qualities companies should work on. Only company whose employees always strive for quality will survive the competition.

FOCUS OF CHANGES

To change vision, strategy, structure, and system usually is not a difficult task for most companies. Many companies with the help of consultant usually found no difficulty in formulating these aspects of organization. By contrast, it is very difficult to change the behavior aspects of organization. The changes into a more resilient organization will not happen unless there is change in the way people think and behave. To change people's thought and behavior a company needs to develop an effective transformation strategy. Kotter (1995, p.63) argues that: *"transformation is impossible unless hundreds or thousand of people are willing to help, often to the point of making short term sacrifice. Employees will not make sacrifices, even if they are unhappy with the status quo, unless they believe useful change is possible. Without credible communication, and a lot of it, the hearts and minds of the troops are never captured".*

One of effective strategies to transform the organization was formulated by Kotter (1995). He proposes the following steps that may bring transformation into a success.

1. Establishing a sense of urgency.

    Examining market and competitive realities Identifying and discussing crises, potential crises, or major opportunities.

2. Forming a Powerful Guiding Coalition

    Assembling a group with enough power to lead the change effort. Encouraging the group to work together as a team,

3. Creating a Vision

    Creating a vision to help direct the change effort Developing strategies for achieving that vision.

4. Communicating the Vision

    Using every vehicle possible to communicate the new vision and strategies. Teaching new behaviors by the example of the guiding coalition.

5. Empowering Others to Act on the Vision

    Getting rid of obstacle to change. Changing systems or structures that seriously undermine the vision. Encouraging risk taking and nontraditional ideas, activities, and actions.

6. Planning for and Creating Short-Tenn Wins

    Planning for visible performance improvements Creating those improvements Recognizing and rewarding employees involved in the improvements.

7. Consolidating Improvements and Producing Still More Change

    Using incresed credibility to change system, structures, and policies that don't fit the vision. Hiring, promoting, and developing employees who can implement the vision. Reinvigorating the process with new projects, themes, and change agents,

8. Institutionalizing New Approaches

    Articulating the connections between the new behaviors and corporate success. Developing the means to ensure leadership development succession.

The steps of transformation as suggested by Kottler were drawn from the experiences of many companies which transformed their organization. It would be very interesting to compare the practice of change as experienced by a company in Indonesia with the steps suggested by Kottler. In the next section, the paper will present the experience of PT. Caltex Pacific Indonesia in transforming organization, with a special emphasis on managing change through leadership development program.

PT. CALTEX PACIFIC INDONESIA'S EXPERIENCE

PT. Caltex Pacific Indonesia (CPI) is a multinational oil company operating in Indonesia under a production sharing with Pertamina (national oil company). The company owned by Chevron and Texaco, with the assett, such as land and equipment belong to Pertamina. CPI is the largest crude oil producer in

Indonesia with the average production of 760,000 barrels of crude oil per day. The company is managed by Indonesian and American expatriates. CPI employs approximately 6200 people and about 23,000 contractors. CPI's operating area covers more than 52,000 square kilometers spread over three provinces in Sumatra. The operating corporate headquarter is located in Jakarta, while the operating headquarters are located in Rumbai around 600 miles distant.

In responding proactively to the business environment changes, in March 1995 CPI transformed its organization from a functional to a process- and team-based organization, restructuring its operating organization into strategic business units (SBU), pushing empowerment "closer to the well-heads" The change was part of a process which evolved over CPI's 60 years of operation in Indonesia . The organizational transformation was and is part of CPI's strategy to respond to global competitive challenges and to ensure CPI's long-term survival and growth (see Wahjosoedibjo, 1996).

The SBU is a company within a company. It has support and service organizations as required for an independent firm, including finance. The new CPI organization consists of four revenue generating SBUs. To support these four SBUs at corporate level , there are six divisional units: Exploration and Technology Support SBU, Corporate Support Operations, Corporate Services, Corporate Human Resources, Corporate Finance, and Corporate Public Affairs. The units within organization are bond together by corporate vision, mission, values, guiding principles, integrated business strategy, and performance measures.

The vision of CPI is "To be recognized as a world class company committed to excellenece". CPI's mission is "As a business partner of Pertamina, CPI will add value by effectively exploring for and developing of hydrocarbons for the benefits of Indonesia and CPI's shareholders". Its values consists of six core values (which is currently in the process of modification in its wording). Those values are: 1) Comply with all applicable laws and regulation; 2) Adhere to highest ethical standards; 3) Recognize employees as the most valuable resources; 4) Maintain a safe and healthy environment for employees, contractors, and

dependents; 5). Protect the environment and support the community; and 6) Adopt continuous quality improvement as a way of life.

CPI's business strategy consists of four core strategies (exploitation, increased recovery, gas and total cost management) and five enabling strategies (business processes, human resources, partnering, safety-health-environment, and technology). The corporate performance measures include avails (salable production), lifting flow, reserve replacement, return on capital employed, and safety and environmental records.

CALTEX LEADERSHIP DEVELOPMENT AS A CHANGE PROCESS

At the upper level management, from Vice President up to President and Chairman of Managing Board, the steps of transformation as suggested by Kottler are already in place, although there are some shortcomings, which are quite natural during the change process. The commitment of upper level management to transform the organization may be seen in the way they prepare the change. Creating the sense of urgency, forming a powerful guiding coalition with all member of upper level management's commitment to the change, building a new vision - mission - values-guiding principles - business strategy and performance measure, communication the vision (verbally and written), empowering others to act on the vision, planning for and creating short-term wins (through award and recognition program), consolidating improvements and producing still more changes (by always reviewing organizational structure, compensation system and business process, etc), and institutionalizing new approach to all employees.

The best effort to institutionalize the change is through Caltex Leadership Development program (CLD). This program is a tailored-made program, which was prepared by the CPI management in collaboration with outside consultants. The ownership of the program is on CPI, since the original ideas came from CPI. The consultants helped preparing materials to be used in the workshop, and become facilitators in the workshop.

There are three levels of CLD program. CLD-1, CLD-2, and CLD-3. CLD-1 CLD-1 focuses on " Building transformational leadership for high

performing teams". This level is offered to Team Leaders. The CLD-1 consists of five modules:

1. Understanding the changing business environment
2. Becoming a quality leader
3. Managing Change
4. Managing Innovation and Intra-preneurship
5. CPl's Journey to World Class.

The CLD program is conducted in five days class discussion and presentation, and one-day outdoor exercises. Each module spends the whole day, start from 7.00 a.m. and finish at 5.00 p.m., with the exception of Module-5 which takes 2-3 hours to deliver.

One-day outdoor leadership exercise is designed to unlearned the old behaviors and learn new behavior. In this exercise participants involve in games, and raft building for crossing a river. The activities aim to build trust, closeness, team cohesiveness, synergy, etc. The participants start the program with outdoor exercises.

Module-1 and Module-2 were designed to create the sense of urgency for change, and to make the participants understand the changes in CPI. The modules discuss the changes in global, national, and local environments, and how the changes may create problems for CPI, if no proper actions are taken in advance. Discussions on these modules, for example, expose participants with the environmental factors (such as political, economic, environment, demographic, bureaucratic environment), which increase the cost of oil production from year to year. The modules also include a case discussion on devastating impact of changes, when the parties involved in change have not taken proper action proactively.

A group discussion on vision, mission, and values of CPI is also included, aimed at exposing participants with CPl's new directions. Workshop participants are invited to translate the CPI's vision into team activities, and to provide samples of behavior for each CPl's values. Group discussions were designed to speed up the internalization of CPI's vision, mission, and values.

Module-3 and Module-4 expose participants to new behaviors that are needed in managing new CPI. The new CPI requires leaders who can move their team into a high performing team. The leaders in CPI are expected to able to synergize their activities, to motivate him/herself and its colleagues, to innovate, to communicate effectively, to empower group members, and to develop intrapreneurship skills.

Module-3 introduces participants with the concept of transformational leadership, in contrast to transactional leadership. A transformational leader is a person who works for higher order needs (i.e., self-esteem and self-actualization) rather than by the lower order needs (i.e. salary, facilities). In discussing leadership concept, facilitator relates the concept with the sample behaviors that appeared during the outdoor leadership exercises. The outdoor exercises provide substantial number of old-paradigm behaviors, which are not appropriate to the New CPI, and new-paradigm behaviors, which are suitable to the New CPI.

Module-4 exposes participants to concept of innovation and intrapereneurship, and leader and organizational behaviors, which stimulate and inhibit innovation. The module also emphasizes the role of innovation and intrapreneurship as a competitive advantage in the new business environment. Class exercises as parts of the modules, were designed to expose participants with the process of innovation, and personality characteristics of an intrapreneur. Intrapreneurial competency relates to skills, knowledge, and behavior that allow one to take responsibility for business-related innovation of any kind within an organization (Wahjosoedib)o, 1996).

Module-5 introduces the participants to CPl's journey to world class. The module inform the participants about vision, mission, values, guiding principles, business strategies, and performance measure of CPI.

After being exposed to all modules, the participants are requested to prepare a class presentation, containing their proposed activities to implement the CLD-1 concept in daily work. The class presentation always attended by President or the second person in the company.

CLD-2

The theme of CLD-2 workshop is "Developing synergistic leaders for high performing organization". The workshop participants are team-managers and managers whose major activities are to lead teams under his or her coordination, and lateral teams. The workshop lasts for 6 days, one day longer than CLD-1 workshop. The workshop modules consist of synergistic leadership and synergistic relationship. Modules on synergistic leadership are designed to build competency in coordinating teams within one's span of control. How to move teams synergistically so that the teams as a whole would perform better. sfu ,-. Modules of synergistic relationships aim to build the ability to coordinate inter-teams relationship. Since CP1 utilizes a cross-functional teams, there will be a coordination problems that may arise from inter-teams activities, under control of several team managers and managers.

Similar to the CLD-1 workshop, CLD-2 also involves one-day outdoor leadership exercise, although activities and games are different. The activities in outdoor exercise aimed to create trust, closeness, teamwork, synergy, and personal challenge. The exercise is conducted in the first day prior to in class activities. Prior to attending CLD-2, the participants join pre-meeting informing the participants briefly about the purpose of CLD-1, so that the participants understand the expected changes in behavior of team leaders under their coordination, and the expectation of team leaders about the behavior of their super-ordinate. The pre-meeting serves as a linkage between CLD-1 and CLD-2. In addition, participants also attended three-day workshop on " Seven Habits of Highly Effective People". The workshop introduces a pattern of habits to enhance personal, team, and organizational effectiveness.

CLD-3

CLD-3 is designed for upper level management, Vice Presidents, Senior Vice Presidents, and President. The theme of the workshop is "Becoming a world Class Company through Visionary Leadership. The workshop lasts for three days, with the emphasis understanding business environmental changes, and the

organizational strategies and behaviors that need to build. Modules also include evaluation on the CP1 position in the journey to world Class Company, and assessment on participant's leadership style and behaviors. During the workshop the CLD-3 participants also are exposed to the lesson-learned from CLD-1 and CLD-2, and the expectation of those who attended CLD-1 and CLD-2, especially the expectation on the upper level management's behavior. This part is aimed at creating a linkage between CLD-1 and CLD-2 with CLD-3, so that the participants of all CLDs will have the same perception and the same pattern of behavior in managing CPI.

To obtain maximum benefits from the program, CLD workshop is held in a hotel. The participants stay in hotel for the whole week, and a way from the participants' daily job activities. This makes the attention of participants focused only on the program. In addition, being secluded in hotel provides the opportunity to participants to socialize intensively. By being together the whole weeks allows them know each other. This will improve their work relationship after they back to work.

In each class of CLD program, CPI management assigns an observer, whose position in the company is higher than job position of workshop participants. The role of observer is to record any question, critics participants are team-managers and managers whose major activities are to lead teams under his or her coordination, and lateral teams. The workshop lasts for 6 days, one day longer than CLD-1 workshop. The workshop modules consist of synergistic leadership and synergistic relationship. Modules on synergistic leadership are designed to build competency in coordinating teams within one's span of control. How to move teams synergistically so that the teams as a whole would perform better.

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Up to now, 13 classes of CLD-1, and three classes of CLD-2 have been completed. There will be two more classes of CLD-1, one dass of CLD-2, and one class of CLD-3 to complete by the end of 1997. The upper level management has a very strong commitment to the CLD program. In every class of CLD, top management (either President or senior Vice President) formally opens and closes the workshop, and also attends class presentation.

IMPACTS OF CLD PROGRAM ON CHANGE.

The impacts of CLD program in the change process are not easy to measure quantitatively. However there are some qualitative data suggesting that the program works well. In the post workshop evaluation, all participants suggest the CLD program should be exposed to all employees as fast as possible. By so doing, employees of all layers would understand why CPI should change. If all employees were already exposed to CLD concept, it would be easier for employees to adjust their behaviors in accordance with the needs of new CPI. The

interview data with thr ex-participants about application of CLD concept in the field indicate that the best work relationship mostly was found in the team where both team-leader and team-manager/ manager already have joined CLD program

Pre and post observation on the attitude of participants toward change in CPI showed a dramatic change. At the first day, before they are completely introduced to the CLD program, some participants showed a strong resistance to the change in CPI. But at the end of the program they indicate a favorable altitude to the change.

Another way to assess the impact of CLD program is through alumni conference. The conference was held around six moths after completing the program. Most conference participants reported that they could apply the concept of CLD, especially if their 'super-ordinates' are already exposed to the CLD program. The observation made by the upper level management also indicates that there are changes in employees' behavior. For example, in one case an employee criticized company's policy on a certain thing related to employees. He wrote:" If 1 had not attended CLD, I would have used indecent words in expressing my critic to company's policy ".

The other way to assess the impact of CLD is through employee survey. CPI conducts employee survey every two years. In the next employee's survey, CPI management intends to include some items assessing the impacts of CLD programs.

CONCLUSION

Leadership Development Program, as an executive development program in CP1, has indicated positive effect in accelerating the process of change. Besides providing understanding about why a company should change, the participants also learn new behaviors that are required for new ways of conducting business. To be effective as a tool for change, an executive development program should be designed to serve the needs of company in the process of change. This would be possible if the initiative for the program comes from the company, and the management has ownership on the program.

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