Winds of Change: 
Globalization and Transformation in Southeast Asian Organizations 

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Introduction

In a constantly evolving world, people are regularly confronted with changes whether in society, their homes, or workplaces. Although theorists contend that it is human nature to resist change, there is a growing acceptance that an important life skill is the ability to deal with and manage change.

This is especially true in today’s workplace. Globalization has led to the breaking down of economic barriers and more companies are exploring new markets. These developments have given rise to intense business competition that requires organizations to evolve their strategies and practices in order to remain viable. Globalization has also opened doors for workers whose job markets are now the world rather than just their own countries. This means that workers today have to learn how to thrive in an increasingly diverse and dynamic workplace.

However, critics of globalization claim that the playing field is hardly level and that only countries that have more resources and access to technology will reap the benefits of globalization. According to Khor (2000), the reality is that low-income countries may have a marginal role in world trade, but world trade can have major economic and social effects on these countries.

With the emergence of China as a huge market and the strengthening of the economies of other Asian countries, more and more multinational companies want a piece of the Asian economic pie. In an increasingly cutthroat business environment, Southeast Asian organizations are hard-pressed to remain competitive.

How are Southeast Asian organizations responding to this challenge? This study sought to document how local organizations in Southeast Asia are being affected by globalization and how they have transformed themselves to meet its challenges.

Theories of Change

There is a plethora of Western literature on change management. There is the seminal work of Kurt Lewin (1951) who suggests a three-step model to organization change that consists of unfreezing, moving on, and refreezing; and has given rise to a number of other process models of change. Lippit, Watson and Westley (1958) expanded Lewin’s model into seven stages: developing a need for change, establishing a change relationship, diagnosing the client system, examining alternative routes and goals, transforming intention into actual change, generalizing and stabilizing change, and achieving a terminal relationship. Kotter’s (1996) Eight-Step Model prescribes the following steps: establishing the need for urgency, ensuring that there is a powerful change group to guide the change, developing a vision, communicating the vision, empowering the staff, ensuring that there are short-term wins, consolidating gains, and embedding the change in the culture.

Unfortunately, there is evidence to suggest that there are significant aspects of the Asian culture that may put into question Western change management frameworks and strategies. For example, a key concept in Western change management theory is creating the need for change. Change leaders are expected to articulate what is wrong in the current state and what the vision for the change is (Katz and Kahn 1978). However, this may require a different approach in an Asian culture that values harmony and saving face (Cheung et al. 2001).

Empowerment and engagement in change efforts are also common elements in Western change management theories. But a 10-country study of Aycan et al. (2000) found that China, India, and Pakistan are more paternalistic and have greater power distance compared to countries such as Russia, Canada, and the US. Fatalism is also higher in India compared to other countries. These differences are all the more important because managers in cultures with large power distances assume that employees are incapable of or are unwilling to take initiative.

There is a paucity of published literature on managing organizational change in Southeast Asia. A study by Zain, Richardson, and Adam (2002) compared the implementation of innovation by a multinational...
company operating in Malaysia with that operating in Germany. The study found that there were differences in the factors favorable to the successful implementation of innovation across countries. For example, management support and commitment to innovation were not as critical in Malaysia as they were in Germany. Although the German office had a more creative climate than Malaysia, the German office also encountered bigger problems in implementation.

A case study done by Andrews and Chompusri (2001) on the restructuring of a Thai subsidiary of a Western multinational corporation showed how the change created an 18-month struggle within the company. The resistance of the sales department to the change decreased productivity, suppressed profitability, and caused incalculable damage to the organization. The above study emphasized the dangers of merely transplanting Western frameworks and the need to understand the context where change will be initiated. In fact, even contemporary Western change theorists have advocated the assessment of the environment and culture before implementing change initiatives (Jones, Jimmieson, and Griffiths 2005).

This study sought to make a contribution to the literature and practice of change management by looking at this phenomenon from an Asian lens. More specifically, it asked the questions: (1) How has globalization affected local Southeast Asian (SEA) organizations? (2) What barriers and challenges do SEA organizations face as they compete in a globalized world? (3) How have SEA organizations successfully transformed themselves into becoming more globally competitive?

Methodology

This paper reports findings gathered using qualitative methods. Specifically, it draws from interviews and case studies on local organizations in the Philippines, Thailand, and Indonesia that transformed in response to globalization.

Interviews were conducted with five business leaders in each country. These leaders were from local companies and represented various industries: outsourcing, finance, manufacturing, telecommunications, and hospitality.

Three case studies were done of SEA locally-owned companies that had successfully transformed to elicit the challenges to and best practices in organizational transformation. The information from the case studies came from interviews with key respondents in each organization and from the examination of company documents. In the Philippines and Indonesia, the case studies were of manufacturing organizations. In Thailand, the case study was on a bank.

Globalization and Change

The research validated the far-reaching effects of globalization. All organizations reported that they had been affected by globalization in both positive and negative ways.

The primary advantage of globalization reported was the opening up of new markets and the generation of more businesses for some local organizations. This was particularly important for local businesses after the collapse of domestic markets during the Asian crisis. There is the example of Indoporcelain that survived the crisis by shifting to international markets that now comprise majority of its businesses. Even those who were not affected by the Asian crisis see the possibilities that globalization brings. They claim: "Free trade agreements represent opportunities. I believe in competitive advantage. We should focus on what we are good at."

Hand in hand with increased market opportunities, however, local organizations recognized that being globally competitive meant the need to continually improve their products and services. As one Thai leader said, "Change or die—it’s as simple as that.”

Respondents also noted that innovations had been particularly beneficial to consumers, because these meant better products and services at competitive (even lower) prices. As a Filipino leader explained, "Given global competition, there is a need to make sure that your products are priced competitively. This means lowering cost of production, labor costs."

Globalization has allowed some local companies to partner with foreign companies, thereby increasing their local companies’ capital and resources. In the case of PT Wijaya Karya, its partnerships with a Japanese firm and, later on, a US firm, allowed it to expand its operations. Indoporcelain’s joint venture with a German organization provided it with the new equipment needed to manufacture its export products.
Beyond knowledge resources, local companies benefit from the exchange of technology that globalization brings. The president of Indoporcelain, for example, regularly attends global fairs regularly to keep abreast of developments in the market and in technology. Information generated is then used by the organization to continuously improve its products and processes. Says a Thai leader, “Looking outside always brings new knowledge. Whenever I visit customers in various countries, I learn how they can do things better than other competitors and be more productive.”

Other than the influx of new information, local organizations have benefitted from an increase in knowledge and skills, which have, in turn, improved the capability of their human resources. Some organizations such as Indoporcelain, for example, regularly bring in expatriates who facilitate the transfer of knowledge and technology.

Notwithstanding the positive changes brought about by globalization, respondents also noted what they perceive to be its negative effects, foremost of which is the interdependency of economies. Respondents noted that although globalization has opened up markets for Asian organizations, it has also made the economies of the world more dependent on each other. They cite the current financial crisis in the US and its impact on Asia.

The competition from other countries that bring in products of lower cost has caused a decrease in the sales of local products, leading to the collapse of small industries and loss of jobs. In today’s global business environment, it is the organization that can provide the highest quality goods at the lowest price that survives—wherever they are in the world. Says Terry Soetander, President of Indoporcelain, of the current financial crisis,

Most of our customers don’t buy from one vendor. Crate & Barrel, for example, buys from China, Sri Lanka and Bangladesh. Our product was the number two seller, while the number one seller was from Sri Lanka. But, apparently, this factory was not delivering as expected. So Crate & Barrel transferred its business to us and we now supply the biggest selling products of Crate & Barrel.

Competition from other countries also includes the labor market. Respondents have noted how globalization has also benefitted individual workers whose job market is now global. The downside of this is that local employers are having a hard time keeping their talents, who are sometimes being pirated by employers in the more developed countries.

Conversely, there are also those who note that although expatriates do contribute important capabilities to an organization, their presence sometimes causes feelings of inequity among locals who feel that the expatriates are valued more. This is particularly true when there is a constant flux of expatriates at high levels of the organization, and there appears to be a glass ceiling among local workers.

As for the workers, employers note that the increased pressure on organizations to do more with fewer workers has created an increasingly stressful workplace. Leaders cite the increasingly long hours employees need to put in, because of increased workloads and the need to multi-task.

Ironically, although globalization presents opportunities to expand local businesses, some organizations have also cited two of its negative impacts: the decrease in regular employment and the increase in labor outsourcing. Explains one business leader in Indonesia,

Outsourcing became popular because of all the strikes we experienced. At the same time, our current laws are very pro-labor. If we have to let go of workers, we are required to pay them a steep severance package—regardless of the reason for the separation. So employers outsource. But I don’t really think outsourcing is the answer. The problem is we need them to be permanent so we can train them to be skillful. For people to deliver, they must like what they do. They must have this feeling of ownership—that they belong to and are part of this company. But in outsourcing, employees don’t feel like they belong. We are just using them physically and they can let be go anytime.

Business leaders also note that these new employment arrangement has created a workforce that is transactional and with little loyalty to their employers.

Beyond the change in employment arrangements, the influx of new technology, while improving operational efficiencies, has also meant raising the bar in terms of knowledge and skills requirements. A harsh reality of the adoption of technology is the loss of employment
opportunities for those left behind. Recounts one Filipino business leader, "Eventually, we realized we needed a more highly skilled workforce. We felt, for instance, that the engineers would appreciate the equipment better because they had line responsibilities for the uptime of equipment. That also meant less need for our blue-collar, manual laborers." The increasing marginalization of workers who do not have access to quality education and are ill-equipped for today's workplace cannot be ignored.

Confluences in Globalizing Organizations

Despite globalization's negative effects, business leaders are unanimous in acknowledging that globalization is a given and that local organizations have no choice but to try to compete in a new global business environment. Given such, they have now begun to adapt to its demands and the opportunities it offers.

One direct impact on local organizations seeking to expand globally has been the transformation from local to global structures. In the case of PTTPM, an energy company established in Thailand in 2005, the company grew from 65 to 130 employees in five years. Three overseas offices were set up in China, Vietnam, and Dubai because of the huge market opportunities and the agreement with ASEAN to create a free trade zone. According to its Managing Director, "Our having offices in the customers' countries has allowed us to better understand the market and respond quickly. Today, 70 percent of our sales come from exports."

The expansion to other markets has also created the need to obtain accreditation from international institutions that certify the quality of products and services. Recounts an Indonesian leader, "We apply all world-class systems, ISO, Baldridge, etc." Along with international standards, local organizations seeking to compete globally have also adopted international systems, processes, and technologies. For example, a leader of a Filipino manufacturing organization says, "Six Sigma, Kaizen Express—we use these to improve our quality." Others, however, prefer to adapt the systems. Explains one Indonesian human resource manager,

As we needed a system to measure and reward performance, we looked at McKinsey's Balance Scorecard. But we felt that the metrics and rewards were too individualistic. We value meritocracy, but do not want our leaders to compete with each other or to feel that one is more valued. That will not work in our collectivist culture. So we adapted the system so it will fit into our culture.

One interesting phenomenon that has emerged in the past decades and is a manifestation of confluence is the relationship of competitors. Unlike in the past, competitors today are less adversarial and are, sometimes, even cooperative. In fact, Wikipedia defines coopetition as a "a neologism coined to describe cooperative competition. Coopetition occurs when companies work together for parts of their businesses where they do not believe they have competitive advantage and where they believe they can share common costs." The President of an Indonesian pharmaceutical company recounts, "Our line of business has changed. Multinational companies cannot just come in here and put up factories. One of our emerging lines of businesses actually produces for them. We have state-of-the-art production facilities that allow us to be a toll manufacturer for other competitors."

What has allowed organizations across the globe to collaborate is technology. Information and communication technology appears to serve as a vital link in enabling access to data and services. In addition, leaders note that technology has leveled the playing field. Says an Indonesian business leader, "With the Internet, it has become easier to get a potential market. In the 1980s, more of our clients were local. Now, it is very easy to get information and communication so that 20 percent of our earnings comes from overseas."

What is interesting is that local companies that have been able to transform themselves to become global have invested in language and communication skills. Says Khun Narongchai, Assistant MD of PTTPM,

In our overseas office, we hired local people, as they have a better understanding of the market. In Vietnam, our workforce can speak Thai. Our Chinese workforce communicates well in English. We prepare our Thai employees by developing their English language skills. All of our team members were encouraged to take the TOEIC test. We were first surprised to learn that only 40 percent of our team achieved a score of over 600 marks, so we arranged for English classes to be given to them.
Globalization has also created greater tolerance for diversity. Says the HR Manager of PT Wijaya Karya of Indonesia, “Our workers are very highly skilled. We have 14,000 Indonesian workers in Algeria working alongside people from China, Egypt, India, Algeria.” Such diversity has created greater openness to different cultures.

**Contestations: Challenges to Becoming Global**

Confluences notwithstanding, business leaders are also quick to describe the challenges they face to becoming globally competitive. A common challenge is dealing with resistance to change. The leaders’ frustration usually stems from workers’ not being open to feedback, their tendency to wait for orders from their superior, their lacking a sense of urgency to change, the absence of motivation in them to take action, their lack of a global mindset, their subscribing to a culture of conformity, their feeling of inferiority. Explains one Filipino business leader, “When I started in 2005, I think we were complacent. The organization was basically coasting along.” He attributed the resistance to change to the age of the institution, saying “Maybe it’s an old organization, people have been here for a long time. The attitude is—we survived the financial crisis so we must have a good system: why fix it if it ain’t broke?” Beyond simple resistance, however is the difficulty of detecting and addressing it, given the Asian culture of conflict avoidance (Ting-Toomey et al. 1993). Explains one leader, “It is not uncommon to get acquiescence only to find out that behind your back, people are complaining and contesting the change.”

A common rhetoric among leaders is the inadequacy of workers and the poor quality of education to which they have been exposed. Explains one leader in Indonesia, “Knowledge is always changing. If a teacher teaches something, that changes in a number of years. With information technology, everything is easily available. But in Indonesia, the teacher is a guru. Students are trained to follow the teacher. They learn to copy—there is no discussion or critical thinking. This is the challenge.”

Some companies such as WIKA have responded to the lack of preparation of workers by investing in training and development. Says Tonny Warsono, Director of Human Capital & Business Development of PT Wijaya Karya, “We cannot influence the Department of Education. But we can control ourselves. We put up a learning center because the workers were not prepared. So we are preparing them. That’s our contribution to our nation. We have English classes, technical skills training, and leadership programs.”

Business leaders have also cited the growing diversity in the workplace because of the younger workers’ exposure to a bigger number of global cultures. As one Thai leader says, “We still face the generation gap in our team. Fifty percent were with us from the day of the spin-off, while the remaining 50 percent were newly recruited. Given their differences in educational level and individual styles, these two teams do not always understand each other. The challenge for us is to achieve the right balance and to create team spirit among ourselves.”

For some countries, the lack of capability is compounded by labor problems. In Indonesia, the Asian financial crisis, the subsequent stepping down of long-time president Soeharto, and the appointment of a pro-labor minister signaled a new era in labor relations. Unionism became stronger and strikes became commonplace. Recounts a business leader in Indonesia,

> It was like a disease. So I talked to the union. Of course I negotiated. But it hurts, what have we done wrong? Nothing actually. We have given them more than is required by the government. Some NGOs were influencing the workers—and told our workers to ask for more, regardless of what was being given already. It was the climate. Strikes, demos were everywhere.

At the macro-level, business leaders in all three countries cited poor governance as a barrier to globalization. Specifically, they described problems relating to bureaucracy, political instability, and corruption. Explains one business leader in Indonesia,

> The problem is corruption. There is a lack of transparency and that is what is discouraging for investors. Another problem is the inefficient tax system. We are regularly audited and companies such as ourselves are easy targets for unscrupulous tax collectors. But how do you correct a huge problem such as corruption? It’s not that easy. Terrorism is a problem. Bali experienced this in 2004 and there was another terrorist attack a couple of years after.

Leaders also cited the lack of government investment in education, and in research and development as a barrier.
Another common barrier cited was the lack of capital, resources, and infrastructure required to compete with global corporations. Says the President of a pharmaceutical company in Indonesia, “There is a popular misconception that the cost of labor is cheapest in India. That is not true. Labor is cheaper here. But the problem is infrastructure. There are not enough roads to transport goods.” This appears particularly salient in the case of the Philippines and Indonesia, which are both archipelagos.

Related to this, leaders also cited poverty and social inequality as a barrier to competitiveness in their countries. As a business leader in Indonesia expressed, “There is also the problem of the big gap between the rich and the poor. Here the top 5 percent control 90 percent of the wealth of the country.” The lack of social equality is perceived to be a vicious cycle depriving the poor of opportunities for education and employment, which lack effectively marginalizes them from joining the labor force.

Continuities: Strategies in Transforming Asian Organizations

Given such challenges, how have local Asian organizations managed transformation in their organizations? On the one hand, the use of the more “classical” change management theories is evident. Business leaders have talked about identifying change goals, planning the change, communication, the monitoring and evaluation of change—all of which are typical concepts in Western change management literature. However, beyond the “what” of change management, even more striking is the “how”. How are these processes carried out? How do they reflect cultural sensibilities?

Personalistic and transformational leadership. Western literature focuses on the importance of leadership behaviors. It describes leaders in terms of their ability to transform and inspire others. To some extent, the characteristics mentioned appear to be in keeping with Kouzes and Posner’s (1995) definition of transformational leadership. However, the findings also reflect a paternalistic style. For examples, the Head of HR in the Sahapat Group describes the leadership style of its Managing Director as “paternalistic—he provides direction and support to his team. Employees in the organization trust him, and are obedient and highly loyal to the organization.”

The success of Indoporcelain has also been largely attributed to its leader. Soetander has been described as firm, charismatic, and disciplined. According to a subordinate, “He will praise what is good and point out what is bad. He also does monitoring himself.”

However, beyond the ability of leaders to inspire transformation, another critical factor appears to be the relationship of leaders with their subordinates. As Matsumoto (2000) suggests, leaders in Asia win loyalty and support by establishing personal contact with subordinates, and showing awareness of their problems and sentiments. In the companies we studied, concern for the person was evident despite management’s drive to achieve bigger profits. At Sahapat, there was no layoff policy. Its management believed in the value of each individual and believed that people should be developed or placed in the areas that suited their capability best. For instance, when there were reorganizations in the company which resulted in redundancies, the people would be moved to other companies or subsidiaries within the group.

The personalistic orientation is also evident in how communication is done. Business leaders highlighted the importance of communication in all the stages of change. Beyond using formal means to communicate, however, what was striking was the effort to communicate personally and face-to-face. In the case of one Philippine organization that needed to relocate a plant, a move that would dislocate workers, the effort of the President to talk to each worker, one by one, was cited as the reason why the labor union did not stage a strike. Such leadership behavior inspires trust among subordinates and appears to be important in enabling transformation. This is understandable given a culture where power distance is high and where workers are dependent on and seek the approval of authority figures (Hofstede 2005).

Organization as Family. Thailand, the Philippines, and Indonesia have all been identified as having a collectivist culture (Hofstede 2005). Although there are those who believe that such could be a hindrance to globalization because of the pressure to conform, there are those that have been able to harness it. Case in point is the Sahapat Group, a Thai conglomerate operating in consumer goods. In 2003, to turn the company around after the financial crisis, management introduced a new approach to organization thinking and strategy called MOP (Mission, Objectives and Policies). Recounts one leader,
In the previous years, management would discuss the strategies and revenue target among themselves. That year, management asked the employees to set the target for the organization. The President asked them how many months of bonus they would like to get, and, from that amount, he worked back to the increase in profit and revenue. With such participation came empowerment. Each team was asked to set its objectives, strategies, and action plans to achieve the target. People suggested ways to reduce expenses by making better use of resources. They suggested new projects to bring in revenues to the organization, such as people development, cost control, sales control, and new distribution channels. Each team was then required to report back within two weeks on its initiatives, actions taken, and the results. The initiatives were so alive and successful that each team across the organization came up with new projects all the time. It also helped the company to achieve substantial increases in performance and revenue.

Leaders also identified a family-oriented organization culture as a contributing factor to successful transformations. According to Matsumoto (2000), Asians tend to view their work groups and the organizations to which they belong as a fundamental part of themselves. Employees who see themselves as being integral parts of the organization are more likely to accept and support changes. This family-culture is harnessed by PTTPM of Thailand, whose motto is, “We move together.”

The sense of family is also evident in Sahapat. Its Head of HR explains,

People here are very nice and cooperative. Most of them stay with the company for a long time and hardly leave the organization. Whenever there were changes in the past, people were cooperative. There was no major resistance or organizational upheaval. The culture of this organization is highly family-oriented. People treat one another like family. Lifetime employment is still seen in certain parts of the organization. The workers feel that Sahapat is their second home. They have Sahapat in their blood.

Beyond feeling as though they were part of a family, the Filipinos’ sense of commitment stems from a sense of reciprocity. This is more commonly referred to as utang na loob (“debt of gratitude”), which one feels in the face of kindness or aid (Jocano 1999). Interestingly, there is an Indonesian value called hutang budi that reflects the same concept (Pye 1999). It seems that when employees feel they are cared for by their employers, they reciprocate by cooperating with changes.

Transforming Asian Organizations

On the one hand, the findings validate Western literature on the importance of sound change management practices such as developing a vision for change, planning the change, finding change champions, creating a change management team, monitoring and evaluating the effectiveness of the change initiatives, in building commitment to change (Herold, Fedor, Caldwell and Liu 2008).

Yet, the findings also highlight the importance of understanding the context and culture in which change takes place. In the case of the three countries in the study, what appears to be important in transformation is not just the systematic process of change management, but also building trust and good relationships as a foundation for change. This requires investing in building positive relationships among employees, between leaders and employees, and between groups in the organization. When trust, teamwork, and employee commitment are present, it is easier to harness the collective.

The results also emphasize the value of organization communication in successful change management. But beyond what is communicated, the medium of communication is important. Our results suggest that what appears most powerful in the Asian setting is personal communication, which is not surprising, given the region’s personalistic culture.

Our findings also show that leaders in these countries need to be sensitive to nuances of cultural communication. They must know how to detect indirect communication and what is not being said. They need to understand the informal social networks that are important in driving communication and influence throughout the organization. Given the importance of trust and relationships, interpersonal skills are a must for leaders. In order for leaders to be effective, they need to learn to reach out to the employees by listening to them and being able to speak their language. It also means being sensitive to what is not being said.
The Role of the State

Beyond efforts on the level of organizations, the results also pinpoint country-level factors that appear to influence the ability of SEAsian organizations to compete globally. For example, business leaders identified the importance of ensuring that the business environment and labor laws are fair to both employers and employees. There appears to be an increasing reliance on outsourcing—a phenomenon that will need greater scrutiny in terms of its long-term social and economic impacts.

Quality of education was cited as a key to economic growth. Developing countries that wish to have a globally competitive workforce will need to seriously invest in improving their system of education and ensuring a better fit between the demand for and supply of labor. It is also important that marginalized and informal workers be provided opportunities to retool or enhance their capabilities to become productive members of society.

Underlying all these is the importance of good governance. The private sector leaders specifically identify issues of corruption, inefficient government services, the lack of infrastructure, and the lack of trade agreements and protections as barriers to the competitiveness of local business organizations. Without such support, there is a danger that local firms will merely collapse or be taken over. According to Khor (2000), a major feature of globalization is the growing monopolization of economic resources and power by global firms. He contends that national policies have increasingly been influenced by international agencies and big international corporations. This phenomenon has eroded national sovereignty and diminished the ability of government to protect national interests.

Civil Society

Although the obligation to institute good governance does fall on the State, civil society also has a role to play. For example, the evolution and fragmentation of labor movements also present opportunities for alternative forms of worker representation. In addition, civil society organizations can support informal and marginalized workers by providing capability-building programs or by organizing these workers into social enterprises.

Conclusion

To conclude, transforming Southeast Asian organizations is a challenging process—one that requires collaboration among business, government, and civil society. Currently, however, the onus for transformation falls with the leaders of private organizations. Our results highlight the importance of not just change management skills, but more importantly, of interpersonal skills and cultural sensitivity. At the same time, the successful transformation of local organizations that have gone global provides evidence that such transformation is possible, despite the macro-level barriers that business organizations face. This should provide inspiration to other local business organizations that can choose to be buffeted by the winds of change or to ride them toward greater heights.

REFERENCES


