

**ORGANIZATIONAL CHANGE AND ORGANIZATIONAL
CULTURE DEVELOPMENT IN A REGIONAL DEVELOPMENT
BANK IN INDONESIA**

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LIST OF ABBREVIATIONS

BUMN	Badan Usaha Milik Negara
BUMD	Badan Usaha Milik Daerah
TQM	Total Quality Management
R&D	Research and Development
NIS	New Institutional Sociology
BOD	Board of Directors
BOC	Board of Commissioners
AR	Action Research
DAT	Domain Analysis Technique
TAT	Taxonomic Analysis Technique
CAT	Componential Analysis Technique
DCTA	Discovering Cultural Themes Analysis
Ltd.	Limited
CAR	Capital Adequacy Ratio
LDR	Loan to Deposit Ratio
NPL	Non Performing Loan
KPIs	Key Performance Indicators
ATM	Automatic Teller Machine
API	Arsitektur Perbankan Indonesia
BPPN	Badan Penyehatan Perbankan Nasional
LMX	Leader Member Exchange

PERUBAHAN ORGANISASI DAN BUDAYA PEMBANGUNAN ORGANISASI DI BANK PEMBANGUNAN WILAYAH DI INDONESIA

ABSTRAK

Krisis ekonomi dan keewangan pada tahun 1997-1998 di Indonesia telah memberikan dampak kepada dua sektor yaitu sektor pemerintahan dan sektor swasta di Indonesia. Krisis ini juga mendorong kepada terjadinya reformasi pada sektor perbankan di Indonesia dimana berlakunya penswastaan, penggabungan dan pengambilalihan sejumlah bank. Sebagai tambahan, reformasi pada sektor perbankan juga membuka ruang bagi Bank Pembangunan Wilayah di Indonesia merubah entiti undang-undangnya dan menjadi syarikat sendirian berhad.

Untuk itu, kajian ini bertujuan memperolehi kefahaman tentang dampak dan kesan dari perubahan entiti undang-undang pada Bank Pembangunan Wilayah di Indonesia. Secara khususnya, mengkaji isu-isu tentang perubahan organisasi dan pengembangan budaya organisasi di Bank Pembangunan Wilayah. Suatu kajian kes interpretif dan penyelidikan tindakan penyertaan dilakukan di Bank Pembangunan Wilayah di salah satu Wilayah di Indonesia. Tiga puluh enam wawancara dilakukan pada para pegawai bank dari pelbagai lapis dan fungsi dan juga wawancara bersama pihak berkepentingan luar bank. Sebagai tambahan, data juga diperolehi dari dokumen bertulis dan pemerhatian. Teori Institusional Sosiologi Baru (NIS) digunakan dalam menjelaskan proses perubahan yang terjadi.

Hasil penelitian dari penyelidikan ini menjelaskan bahawa krisis ekonomi dan keewangan memberi kesempatan kepada bank untuk merubah entiti undang-undangnya dan menjadi syarikat sendirian berhad. Alasan dari pihak pengurusan

didalam melaksanakan perubahan ini adalah untuk memperoleh keluasan didalam membuat keputusan dan memperoleh tambahan modal dari para pemegang saham sehingga lebih besar jumlah kredit boleh dipinjamkan kepada masyarakat.

Perubahan entiti undang-undang bank juga menuntut kepada usaha untuk merubah budaya organisasi bank supaya menjadi lebih bersifat komersial dan keusahawanan. Pelbagai cara dan mekanisma dapat digunakan sebagai wahana untuk mentransformasi budaya organisasi seperti penstruturan semula organisasi, penggunaan penunjuk aras utama prestasi, memperkenalkan nilai-nilai budaya organisasi, melaksanakan prinsip-prinsip urus tadbir korporat yang baik, meningkatkan jumlah modal dalam rangka memenuhi tuntutan CAR, dan memperbaharui strategi perniagaan dan merancang perniagaan agar menjadi lebih bersepadu dan berorientasikan komersial. Setelah berlakunya perubahan entiti undang-undang, prestasi keewangan bank menunjukkan peningkatan dari tahun ke tahun dan juga peningkatan keuntungan bersih dari tahun ke tahun. Namun demikian, nisbah pinjaman dana kepada masyarakat tetap rendah dibawah 50 %.

Perubahan kepada budaya komersial adalah rendah dan landai. Hal ini disebabkan oleh para pemimpin dan pengurus bank tetap mempraktikan budaya birokrasi. Hal itu juga terjadi kerana dipimpin oleh pegawai wilayah kerajaan selama empat puluh tahun yang mana mereka ini dilantik oleh gabenor wilayah Sakura sebagai pemimpin bank. Alasan lainnya ialah kerana para pemegang saham adalah dari pelbagai tingkat pemerintahan, i.e. wilayah, daerah/kabupaten dan perbandaran/kotamadya. Mereka mewakili para birokrat. Sebagai birokrat dan sebagai pemegang saham mereka memiliki pengaruh yang besar terhadap sikap dan prilaku para pemimpin dan pengurus didalam mengurus tadbir bank. Dari sudut yang lain, budaya kepemimpinan birokratis dari para pemimpin dan pengurus bank juga

mempengaruhi sikap dan perilaku dari para pekerja didalam melaksanakan pekerjaannya.

Kajian menunjukkan bahawa walaupun terdapat perubahan pada pelbagai tingkat dan prosedur dari proses-proses pengurusan di dalam bank, tetapi dipisahkan dari aktiviti waktu ke waktu diantara para pekerja. Oleh yang sedemikian, perubahan yang terjadi dapat dilihat sebagai perubahan pada tingkat pertama yang masih bersifat upacara dan tidak memberi impak yang besar terhadap sikap dan perilaku anggota organisasi. Perubahan di dalam bank berlaku adalah bagi mendapatkan pengakuan/legitimasi dari lingkungan eksternal. Untuk itu, terdapat tiga badan atau organisasi yang sangat kuat melakukan tekanan terhadap proses perubahan pada Bravo Bank. Mereka adalah pemerintah wilayah Sakura sebagai pemegang saham dan pemilik Bravo Bank, pemerintah pusat Indonesia sebagai pengubal undang-undang, dan Bank Central Indonesia sebagai pengubal dasar. Namun yang sedemikian, ini merupakan tekanan dari sudut coercive isomorphism yang mendorong tekanan dari dua isomorphism lainnya iaitu mimetic dan normative kepada bank.

ORGANIZATIONAL CHANGE AND ORGANIZATIONAL CULTURE DEVELOPMENT IN A REGIONAL DEVELOPMENT BANK IN INDONESIA

ABSTRACT

The 1997-1998 economic and financial crises in Indonesia have impacted both the public and the private sectors in Indonesia. This crisis has also led to reformation of banking sector in Indonesia which has resulted in the privatizations, mergers and acquisition of a number of banks. In addition, the reform of the banking sector also provided an avenue for Regional Development Banks in Indonesia to change their legal entity to become as limited companies.

Therefore, this study aims to gain understanding about the impact and consequence of legal entity change in a regional development bank in Indonesia. Specifically, the issues on the organizational change and the organizational culture development in the regional development bank were examined. An interpretive case study utilizing a participatory action research is undertaken in a regional development bank in one of the provinces in Indonesia. Thirty six interviews were conducted with employees of the bank from various organizational and functional levels and with external stakeholders of the bank. In addition, data were also derived from documentary reviews and observations. New institutional sociology (NIS) theory is used in explaining the change process.

The findings of this research suggest that 1997-1998 economic and financial crises opened opportunity for the bank to change its legal entity to become limited company. The reasons that the management undertaken this change is to obtain flexibility in decision making and to obtain more capital from their shareholders so that more credit can distributed to the public.

The legal entity change of the bank also leads to the conscious effort to change the culture of the bank to become more commercially and entrepreneurially driven. Various ways and mechanisms can put in place as a vehicle for transform the organizational culture such as the restructuring of the organization, the use of key performance indicators (KPIs), the introduction of shared cultural values, the use of good corporate governance (GCG) principles, to increase the capital amount in order to meet the CAR requirement, and to renewing the business strategy and planning to become more integrated and commercial oriented. After legal entity change the bank's financial performance shows that the capital amount increase from year to year and it creates increasing in net profit from year to year. However, the loan to deposit ratio (LDR) is still low, under 50 %.

The change to the commercial culture is slow and gradual. It is because the leaders and managers in the bank still practiced bureaucratic culture. It is also based on 40 years experience in leading Bravo bank by provincial government officials who were previously appointed by the Governor of Sakura Province as the leaders of the bank. The other reason is because the shareholders are from the various levels of government, i.e. the provincial, regencies and municipalities. They are represented by bureaucrats. . As bureaucrat and shareholders they have a great influence to the attitude and behavior of the leaders and managers in managing the bank. From this point of view, the bureaucratic leadership culture of the leaders and managers within the bank also influence the attitude and behavior of the employees in doing their jobs in the bank.

.The research shown that although there was a change in various levels of procedures and management processes in the bank, they are decoupled from the day to day activities of the employees. As such, the change is only at first order change,

is ceremonially instituted and do not have major impact on the attitude and behavior of the organizational members. The change in the bank was put in place to gain legitimacy from the institutional environment. There are three powerful bodies that to pressure the change process of Bravo Bank. They are Sakura Provincial Government as the shareholder and the owner of Bravo Bank, Indonesia Central Government as law legislator, and Indonesia Central Bank as regulator. However, it is the coercive isomorphic pressures that drive the other mimetic and normative isomorphism in the bank.

CHAPTER 1

INTRODUCTION TO THE STUDY

1.1. Background of the Study

1. 1. 1. The Era before the Economic and Financial Crisis in Indonesia

The New Order under President Suharto's regime that enabled the Indonesian Government to rule for approximately thirty two years (1965-1997) was a change of government from the Old Order under the leadership of President Sukarno's (1945-1965) regime. The New Order era recorded significant progress in the development processes planned for a long term, and later spelled out through development phases in the form of Five-Year-Development Plans (*Rencana Pembangunan Lima Tahun* shortened to REPELITA). For this reason, one phase of long-term development was set out for a period of twenty-five years. Then, the long-term development was shaped into a gradual five-year-development plan in the form of a mid-term development plan. Furthermore, the five-year-development plan was spelled out as a short-term development plan which was subsequently divided into a development plan for each fiscal year. The strategy for planned development had brought the Indonesians significant social and economic progress through the development of the economic sector as a priority, which boosted the development of other sectors. Such a leap of progress was not evident during the Old Order.

The development was designed in one development concept called the Development Trilogy. This concept was implemented through three development priorities: 1) stability, 2) growth, and 3) income distribution. Between 1966-1968,

stability was laid out as main priority because Indonesia was just free from the abortive government overthrown by the Indonesian Communist Party (*Partai Komunis Indonesia*, PKI) in 1965, known as *Gerakan Tiga Puluh September* (G 30 S PKI) or the September Thirtieth Movement. That event caused the Indonesian economy to be unstable, disordered, and out of control, and reached hyper inflation of 900%. Because of these, stability became a choice in the state and government management to rebuild the trust of Indonesians and foreign countries in Indonesia. The international trust in Indonesia was expected to help through support and fund influxes to redevelop the Indonesian economy.

The second priority was growth. Indonesia which had already been stable could develop its economy to achieve growth. Such economic growth would help nurture the national and international trust, support the creation of job opportunities for the Indonesians, and invite foreign investors for investments by managing various natural resources in Indonesia. Starting in 1969 and post-1969 during the New Order era under the leadership of President Suharto, priority given to the development of the economic sector to boost economic growth was accelerated and made as a leading sector in encouraging other sectors in the Indonesian development processes. During this era, a lot of foreign investors had already put their trust in Indonesia, made investments through their management of various natural resources in Indonesia, and brought about products for domestic consumption and exports that garnered foreign exchange for Indonesia.

The third priority was income distribution. Increasingly better economic growth can contribute to the creation of job opportunities so that it would pave the way for the participation of the Indonesians in the development processes. In such a way, better wealth distribution would occur among the people and income

distribution of development results would also occur among Indonesians from time to time.

During the New Order era, the Indonesian economy underwent relatively high growth averaging annual growth of seven percent with fairly solid macro economic stability. Together with Thailand and Malaysia, Indonesia was even categorized as one of “The New Asian Tigers” (Yudhoyono, 2003). The same recognition was also given by the World Bank in 1997 (several months prior to the economic crisis) which was quoted by (Yudhoyono, 2003) from a book published by the World Bank (May 1997):

“Based on various macro indicators, the Indonesian economy recently has shown excellent performance. The Gross Domestic Product increased to 7.8 percent in 1996 and the inflation rate decreased to 6.47 percent. Domestic and foreign investments increasingly boomed, fairly significant fiscal surpluses were kept and, despite their high interest, the payment acceleration of government debts was continuously made. The formal foreign exchange reserve increased to USD 4 billion during 1996/1997.”

In general, the implemented economic development concept is excellent and has initiated a phase of economic progress in Indonesia. The implementation of that development concept during the New Order era has resulted in the control of the Indonesian economic resources by only twenty percent out of one hundred percent of Indonesian people. Meanwhile, eighty percent of the population who lived in the rural areas depended on natural resources and still lived in poverty. This fact indicates that the development processes during the New Order Era created a deeper gap between the increasingly rich (twenty percent) and the poor (eighty percent).

In line with the condition experienced by Indonesians, the financial crisis that started mid 1997 and kept worsening into 1998 developed into a large-scale economic crisis with negative and direct impact on the populace, national leadership,

and business organization. The prices of basic needs rose steeply and layoffs occurred everywhere (Boediono, 2009, p. 3). As a result, the Indonesian people were dissatisfied and in 1998 mass demonstrations were publicly held in Indonesia; specifically in Jakarta, students from various university campuses and people demanded change in Indonesia. The demonstrations and demands for change eventually forced the powerful President Suharto to resign as President of the Republic of Indonesia. In the aftermath of his resignation, change occurred in the Indonesian government and B.J. Habibie was inaugurated as the third President of the Republic of Indonesia in 1998 to lead and implement the government in Indonesia. This is the starting point of the reformation process of the government of Indonesia which has given an impact on various sectors of development and the life of the people in Indonesia. The change in the government sectors then has given much impact on various business organizations of the private sectors in Indonesia and, in particular, on the organization of banking sectors in Indonesia.

The crises of the banking sector in Indonesia, resulting from the economic and banking crises of 1997 and 1998, can be seen from a number of liquidated banks and another number of banks undergoing mergers and acquisitions. This condition indicates that the banking industry in Indonesia is highly susceptible to crises caused by mismanagement. This can be clearly noticed from a number of national banks whose low capital adequacy ratio is below the standard level (a minimum of six percent) whereas their non-performing loans surged above the standard level (a maximum of two percent). A number of banks have to undergo recapitalization because they experienced critical capitalization problems with implications for their capital adequacy ratio (CAR) levels. In short, it can be said that the effects of the banking crises in Indonesia during the 1997-1998 economic and banking crises have

forced the Indonesian government and Indonesia Central Bank to implement reformation at the banking sector in Indonesia to establish confidence of the public and investors in the banking sector for the sake of investment in Indonesia.

1.1.2. The Change of Bravo Bank Legal Entity

Managing an organization is a dynamic process, a strategic effort reliant on strength while overcoming weaknesses from internal environment. The effort aims at anticipating and benefiting from chances as well as coping with threats from external organizational environment.

In the contemporary competitive world, organizations are constantly facing external and internal forces that drive them to change. External forces such as deregulation of industries, removal of trade barriers and rapid advances in information technology are among the factors that shape the way organizations handle their business (Atkinson, et al., 1997; Burns & Vaivio, 2001; Gunasekaran, Williams, & McGaughey, 2005; Lukka & Shields, 1999). In order to survive, organizations are forced to change from within. Internal changes are those meant to increase effectiveness, improve efficiency, gain market share; or they simply indicate the organizational design, where managers are constantly creating new programs, streamlining procedures, evaluating proposed courses of action, and encountering new opportunities in their organization's environments (Glick, Huber, Miller, Doty, & Sutcliffe, 1990).

The change processes in organization as already explained will occur when effective mechanism is used in managing organizational change. To carry them out, two significant elements are necessary. First, the culture that reflects how things are done (Flanagan, 1995) and how problems are solved in an organization. It may be

defined as the ethos of the organization or the shared values and team spirit. One culture can be distinguished from another in terms of how some commonly shared human problems are addressed and how the specific solutions sought (Trompenaars, 1993) affect the performance of everyone within the culture positively or negatively. Organizational culture is the pattern of basic assumptions that is invented, discovered, or developed by an organization as it learns to cope with its problems of external adaptation and internal integration. In addition, organizational culture also indicates patterned basic assumptions that are validated enough to be taught to new members as the correct way of perceiving, thinking, and feeling in relation to these problems (Martin & Meyerson, 1988). The set of basic assumptions evolve into values, artifacts, and norms in terms of which an organizational culture may be examined and understood.

Second, leadership, as an important issue in the pursuit of effectual organizational change, is another element. James (2005) noted that leadership style is a more implicit characteristic of the organization as it is more about the role of leadership as part of organizational life and about its relationship with organizational change. Leadership is about influencing others in pursuit of the achievement of organizational goals (Watson, 1983).

The two media for change management imply the dynamic nature of organizational changes. Within the development of the operation and management of corporate organizations, organizational managers strived to make internal changes by converting the bureaucratic system of corporate organization to become more entrepreneurial. The corporate organization which is to be more entrepreneurial in a new paradigm displays a more flexible, effective, and efficient organization when compared with the management of a bureaucratic organization.

Likewise in Indonesia, Indonesian Law Number 13 of 1962 states that the Regional Development Bank is established to provide the funding for regional development efforts within the framework of the National Overall Development Plan. The regional development will effectuate the increase in regional prosperity, also a stimulus for wider regional autonomy. Moreover, Indonesian law No. 14 of 1967 concerning Banking Principles regulates the implementation of fund gathering through banks. Banks particularly accept deposits in the forms of checking accounts and deposits and give short-term credits. In addition, the Regional Development Bank is one which, in its fund gathering, particularly accepts deposits and/or issues mid-term and long-term financial papers and, in its business, particularly gives mid-term and long-term credits for development. Based on that law, the Provincial Government, “Sakura”¹ Bank serves not only as a development bank but also as a commercial bank that provides credit that includes short-term, mid-term, and long-term credits. To enable the bank to contribute more to the development of the province by earning larger profits and subsequently annually increasing dividends for the provincial government, the legal entity of the bank was changed from a regional company into a limited company.

The change is based on scrutinizing the development of the dynamic and competitive banking world and on the social demands for sound banking system, particularly, for facing competitions in the free market era. For this reason, the bank needs to consolidate and improve its organization to accommodate the policies underscored by Indonesia Central Bank, particularly, the adjustments of its business strategy to law and capitalization.

¹ To ensure confidentiality, the real name of the province is not mentioned.

Various legalities have led to the establishment of the Regional Development Bank of Sakura Province as a limited company. The enactment of Law number 1 of 1995, (later amended as Law number 40 of 2007) concerning Limited Companies, and the Regulation of the Minister of Domestic Affairs Number 1 of 1998 concerning the legal entity of Regional Development Bank in Indonesia as well as the principal agreement of the Minister of Domestic Affairs through Letter Number 584/104/PuOD of 1999 provide an opportunity for the Regional Development Bank of Sakura Province to change its legal entity from a regional company into a limited company.

On one hand, the change processes include terms and conditions of non-foreign exchange commercial banks, in which the bank is obliged to meet the minimum capital need. In such a way, the shareholders are compelled to deposit their capitals to increase the capital amount of the bank. On the other hand, the change of legal entity of the bank is expected to meet three requirements. First, it is capable of increasing its performance and social services equivalent to other commercial banks (particularly, in capitalization) by involving third parties or private entrepreneurs as capital owners. Second, with the support of qualified human resources and its flexible institutional status, the bank should be capable of anticipating the global banking competition that requires reliable technology, quick in decision making, and the ability to further develop banking business. Third, since the majority of shares are in the hands of the provincial, regency and municipality governments with equal but specific rights and or other rights owned by common share holders, the bank management should be able to assist the implementation of the provincial and regional autonomy.

Due to the legal entity change as already explained, the management style of leadership have to change to be more enterprising, because for a long time the management practiced the bureaucratic style of leadership. It is because Indonesia has followed the global managerial trend and has consequently introduced major reforms in various spheres of public bureaucracy and its management, such as the introducing of good corporate governance in business or bank organizations and also good governance in government sector organizations. Though reforms are nothing new in the Indonesian context, sustained efforts have been made especially since the mid-1980s when market forces have come to be recognized as the engines for growth and development. The role and boundary of the public service has since been redefined and many pro-market values like efficiency, productivity, and cost-effectiveness have been adopted in the business of the government.

In relation with the government-organization practices already mentioned, the privatization of national-owned companies (BUMN) and legal entity change of regional-owned companies (BUMD) aims at managing them better for the sake of sound growth, increasing performance, and higher income. Higher incomes enable the companies to contribute to the state and provinces larger deposit values to support national and regional development. It is in such spirit and enthusiasm that the Sakura Province Government runs the change of legal entity of its regional development bank to enable it to be more effective and efficient and to develop it to be more entrepreneurial. The organizational culture which will be developed is then expected to drive and inspire all members of the banks to cooperate more effectively and efficiently and to be market-oriented in doing their duties and responsibilities for better performance and leading to larger profits.

1.2. Problem Statement

Understanding the organizational situation can be considered an internal identification of existing weaknesses that need to be managed and changed into strengths to enable good performance of the bank. For that reason, a good bank performance needs to be considered as a factor to push and unite the managers and employees in the spirit of camaraderie and high motivations to implement their respective duties.

The reformation process in the banking sector in Indonesia which is forced by Indonesia Central Bank, as a regulator, onto all banks in Indonesia creates pressures from an external environment on all banks to make changes in their internal environment. From this point of view, Bravo Bank as a regional development bank and as a Provincial Government owned company starts with the change of its legal entity to become a limited (Ltd) company. Furthermore, the change in the legal entity of Bravo Bank pushes the process of change from inside the bank through to the change of some management practices and also to introduce the new management practices into the bank. The new management practices introduced, such as the implementation of good corporate governance (GCG), the implementation of key performance indicators (KPIs), and the shaping of Bravo Bank Organizational Culture Values become more entrepreneurially driven and commercially oriented.

In relation to the organizational culture, Barker and Coy (2004, p. 9) argued that entrepreneurial culture influences what we value and our belief in what we do. The entrepreneurial culture helps direct the behavior of leaders, managers and employees to achieve better organizational performance. It vigorously influences corporate decisions, how time is spent, and the interaction processes among

managers and employees, among employees themselves, both within and without the bank.

This study is carried out to explain the bank's legal entity change processes. In this regard, legal entity change could be understood as a form of public sector management reform for improving efficiency and effectiveness. Legal entity change paves the way for moving from a bureaucratic culture to a commercial way of doing business, where profitability goals are established and reinforced. This impact will result in the incorporation of ethos and entrepreneurial values that will inspire the managers and employees in doing their jobs. Therefore, it is important to study these issues because companies aiming to increase profit are very much influenced by the work motivations of the leaders, managers and employees within an organizational culture that spurs creativity and innovation. Therefore, the role of human resources in the company is crucial because human beings are both motivators and decision makers who are responsible for the success of the bank.

In relation to the above case, the organization since its establishment and operation as a regional enterprise, the bank has been very much affected by the bureaucratic work style of the provincial government. This condition is due to the relations established between the senior management and shareholders who are officials of the governmental bureaucracy working in a bureaucratic system and culture. The logical consequence of such a condition is that the behavioral exposures of leadership and work behavior of the leaders and employees are conventional and bureaucratic. Such a condition shapes the mindsets of the leaders and employees in the bank. The mindsets are incongruent with the entrepreneurial spirit and enthusiasm that should have been assimilated in order to lead and practise corporate activities in the form of a business enterprise.

Therefore, the regional development bank can only earn large profit or income whenever the leaders, managers and employees work are based on the spirit and enthusiasm and are more entrepreneurial. As Nyberg, Buckley, Harvey, and Wheeler (2007) state, the backbone of business no longer lies solely in its physical assets; much of the worth of a business is captured in the minds of its leaders, managers and employees. Progress in the business world requires the employees to be more educated and possess knowledgeable human resources. Employing more “knowledge workers” as managers and employees will be creatively and innovatively stimulating to the establishment of the entrepreneurial culture at a bank, and, at the same time, form a work atmosphere conducive to interactions and mutual inspiration.

1.3. Research Questions

This study is focused on understanding the process of legal entity change of Bravo-Bank and the efforts to internalize entrepreneurially driven organizational cultural values and change the mindsets and behavior of both the managers and also the employees. This study attempts to answer its main research question. ***How the legal entity change of Bravo Bank influences the leadership style and organizational culture of the bank?***

More specifically, the study will seek answers to the following questions:

(1). Why did Bravo Bank has to change its legal entity?

(2). How does the change of Bravo Bank legal entity impact its:

(2.1.) leadership style; and

(2.2.) key management processes such as human resource management, organizational culture values, strategic planning, training and development?

(3). How does the organizational-culture changes be more entrepreneurial?

The New Institutional Sociology (NIS) theory is specifically adopted in this study as the basis for analyzing and approaching the answers to the research questions. The NIS theory gained its popularity when the works of Meyer and Roman as well as those of Zucker were published by the *American Journal of Sociology* in 1977. In 1983, the journal published the works of DiMaggio and Powell (1991), Meyer and Rowan (Meyer & Rowan, 1977), and also of Scott and Meyer (1983) that symbolized other improvements in the theory. Jepperson wrote a work on the theory in 1987 before Powell and DiMaggio eventually edited numerous works on new institutional theories and published them under the title of *The New Institutionalism in Organization Analysis* (Powell & DiMaggio, 1991). By utilizing NIS framework, the institutionalization of organizational change and organizational culture development is considered. Separately, chapter three of this study provides arguments for the justification of using the new institutional sociology (NIS). In this study, theories and case observations are to develop exploration of the case.

1.4. Significance of the Study

Meanwhile, the factor that has motivated the researcher to conduct this study is important because regional development banks in Indonesia play an important role in supporting the economic and social development processes of regional governments in Indonesian provinces. This role becomes important because all funds from the regional governments, in the form of both routine and development-program funds are deposited at and managed by regional development banks. Another important factor is that the provincial government (provincial, regency and

municipal government) is the owner or major shareholder of regional development banks in Indonesia.

As a regional development bank in Sakura Province, Bravo Bank has drawn the attention of the researcher to study it because it manages a large number of funds owned by Sakura Provincial government. The funds received annually increase significantly in tandem with the realization of the processes of government reformation and decentralization as well as the implementation of regional autonomy in Indonesia.

In the meantime, the new industrial-banking policies such as the minimum requirement of capital adequacy ratio (CAR) (increased from six to eight percent) and the maximum requirement of non-performing loan (NPL) (increase from two to five percent) to be issued by Indonesia Central Bank and applied to each bank in Indonesia after the economic and banking crises among other things require each bank to meet these requirements. It should be prudential and healthy, and the loan to deposit ratio is approaching one hundred percent. In such a way, each bank in Indonesia, particularly, Bravo Bank in Sakura Province should try to meet all of these conditions for a healthy bank as imposed by the Indonesia Central Bank.

For that reason, the significance of this study in the context of industrial banking in Indonesia is the study of the bank's roles in spurring the growth of the economic sector in creating job opportunities for the public. In particular, the study on Bravo Bank in Sakura province is narrowed down to how the bank through its legal-entity change and in the midst of inter-bank competitions on the one hand can exist to play its role as an agent of economic development in the province. On the other hand, the study also focuses on the extent to which provisions from Indonesia Central Bank as a regulator require the implementation of a number of things by each

bank in Indonesia, particularly, the application and development of organizational culture; it also focuses on the extent to which the provisions can give significance to the processes of internal change experienced after the legal-entity change. How do the application and development and significance impact the leadership, attitudes, and behavior of the management and employees of Bravo Bank in their jobs? Has the legal-entity change of Bravo bank influenced other management practices and has it lead to any significant changes in the leadership style and mindset of the organizational members of the bank?

1.5. Contribution of the Study

This study is expected to give both theoretical and practical contributions. In addition, it will also provide theoretical and practical insight into the management of organizational change, organizational culture values, and entrepreneurial-driven leadership culture more specifically within the domains of public enterprise sector. It is strongly believed that the application of an improved understanding of the institutionalizations of organizational change and organizational culture values can help organization to manage the change process more effectively. Theoretically, it is hoped that this research will be able to broaden the usage of institutional theory specifically in describing the institutionalization process of new cultural values within a public sector organization.

Furthermore, each of the three isomorphism pillars, which are coercive, mimetic and normative, contributes together to the change. However, the coercive process leads the other isomorphism to the change process of management practices within Bravo Bank. The introduction of new cultural values and the development of entrepreneurial leadership at Bravo Bank based on the perspective of institutional

isomorphism are viewed from two points. First, the environment where Bravo Bank operates is connected to Sakura provincial government as shareholders, Central Government as the law legislator, and Indonesia Central Bank as the regulator. Second, Bravo Bank should be responsive to external demands and expectations in order to survive (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1991). Meanwhile, the level of isomorphic pressures depends on environmental conditions surrounding the organizational life. The researcher felt that the different institutional environmental agents could have become powerful bodies that brought effect to the change processes.

Practically, it is hoped that the study will make a fundamental contribution to the problem of change processes within Bravo Bank. The problems are identified as essential and primary matters and they include the mindset change of Bravo Bank members. The mindset change should be seen from the change of attitudes and behavior of the leaders and employees in decision-making processes and in doing their daily activities. Furthermore, the enculturation of entrepreneurial values within the commercial orientation in Bravo Bank are important for influencing the attitudes and behavior of the leaders and employees and inspire them to be more commercial and entrepreneurially in carrying out their jobs and responsibility.

Research on organizational culture change and entrepreneurial culture development in the context of banking institutions in Indonesia is still very limited. This study is also expected to fill in such a literature gap, flavoring it with more contextual and comparative cultural values that may support organizational change and practice of organizational culture development in banks. More practically, this study will contribute to the Indonesian regional development banks, in relation to the processes of legal entity change and the development of their organizational culture.

1.6. The Outline of the Thesis

The thesis is divided into eight chapters. Chapter one is the introduction. It discusses the background of the study, problem statement, research questions, and its contribution. Chapter two is devoted to a literature review of three main and related issues of this study: organizational culture change, entrepreneurial management leadership and leadership culture. Chapter three explores issues related to the theoretical framework. In this chapter, organizational culture change and entrepreneurial leadership is then put in the context of New Institutional Sociology (NIS). This chapter also examines the core idea of organizational change followed by the discussion of the NIS. Chapter four is designed to explore research methodology. The chapter starts with a rumination of epistemological and ontological assumptions that provide a philosophical background of this research. Afterwards, it continued with methodological ramifications of social research and participative action research.

Furthermore, the discussion is continued with the description of qualitative research and in particular the participatory action research, by which this study is set on. This part will emphasize sociological views of interpretive approach or paradigm, its branches, its significant properties, and its implication that should be heeded by a researcher when this particular approach is used to understand a certain piece of social phenomenon related to organizational change. Furthermore, a case study research as a method used and as a strategy in doing this research is meant to gain a better understanding of the research phenomenon. In relation to the research methodology, research visits will be made for collecting data through interviews and triangulations from various data collected. The data gathered will then be dealt with through analyses of cases being studied.

Chapter five and chapter six are the results of field-research findings of the object being studied. Chapter seven is a theoretical analysis which exposes the relations among the findings within the theoretical framework that supports the examination of the validity of the research results. Finally, chapter eight, the last chapter, basically expounds research contributions, limitations, and suggestions.

CHAPTER 2

ORGANIZATIONAL CULTURE AND ENTREPRENEURIAL LEADERSHIP

2.1. Introduction

The first section of this chapter expounds the concepts of organizational culture, entrepreneurial culture, and organizational culture change. This will be followed by an analysis of change in an organizational culture. The next section will elaborate on entrepreneurial leadership, essentially, a process that leaders and managers rely on to realize the full potential of employees and encourage them to work enthusiastically to accomplish the goals of a corporate organization. The final section synthesizes various results of researches in organizational culture change and entrepreneurial leadership that are related to this study.

2.2. The Concepts of Culture, Organizational Culture, Entrepreneurial Culture and Entrepreneurial Leadership

2. 2. 1. Culture

The concept of culture, drawn from anthropology and ethnography, has centered the organizational literature as a framework for extending the ideational understanding of organizations (Allaire & Firsirotu, 1984; Meek, 1988; Pettigrew, 1979; Smircich, 1983; Van Maanen & Barley, 1984). Schein (2004) defines culture as a pattern of shared basic assumptions that was learned by a group as it solves the problems of external adaptation and internal integration. The problem solving has

worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 2004). Based on this definition, Schein argued that culture as a concept will be most useful if it helps us to better understand the hidden and complex aspects of life in groups, organizations, and occupations; where we cannot obtain this understanding if we use superficial definitions. Furthermore, Schein (2004) explains that “if the concept of culture is to have any utility, it should draw our attention to those things that are the product of our human need for stability, consistency, and meaning.” Culture, as an ideational system, is produced and reproduced through action and interaction. But it is not just lodged in people’s minds. Culture is public perception, the product of minds, among minds. Culturally significant events give public expression to the ideational system (Dent, 1991).

The appreciation of organizations as cultures brings the interpretive, experiential aspects of their activities to the foreground of analysis, emphasizing their expressive qualities (Van Maanen, 1979, 1988; and Feldman, 1986). For example, knowledge in banking, beliefs, and values vest the people with symbolic qualities of meaning. Cultural analysis attempts to uncover these meanings and trace the underlying thematic relationships. The objective is interpretation and “thick description”: the production of rich, contextually laden accounts conveying the symbolic content of social action.

Within the overarching concept of an organization as a culture, it is sensible to recognize the possibility and likelihood of distinct subcultures existing among managerial teams, occupational groups, members of different social classes and so on; many of which may transcend organizational boundaries (Van Maanen & Barley, 1984, in Dent, 1991, p. 709). Also, some may be dominant-cultures and others

counter-cultures (Martin & Siehl, 1983), perhaps partially uncoupled from each other (Berry, et al., 1985), or co-existing in an “uneasy symbiosis” (Martin & Siehl, 1983), or in contest with each other for dominance (Feldman, 1986; Gregory, 1983; Pettigrew, 1985; Riley, 1983). Moreover, cultures in organizations are not independent of their social context. They are interpenetrated by wider systems of thought, interacting with other organizations and social institutions, both importing and exporting values, beliefs and knowledge.

2.2. 2. Organizational Culture

Numerous authors in the organization management field have tried to determine how an organizational culture can be identified in order to serve as an element of observation (Ouchi, 1981; Peters & Waterman, 1982). According to Kreitner and Kinicki (2007), organizational culture denotes values and collective conviction underlying the organizational identity. An organizational culture is a conviction of value systems and general perception widely adhered to in shaping and signifying employees’ behavior so that it becomes a relatively fixed habit. Organizational culture is also defined as a set of values, beliefs, and behavior which shapes the core identity of the organization and helps refine the organizational behavior of the employees (Amstrong, 2005). An organizational culture is understood as a characteristic of the day-to-day environment as seen and felt by those who work there (Choueke & Armstrong, 2000; Wallace, Hunt, & Richards, 1999). Based on that insight, it can be said that organizational culture is a social controller and regulator of the organization’s operation based on collective values and conviction. In such a way, they become group work norms, operationally called work culture because they serve as guidelines and directions of the behavior of the

employees at work. According to Schacter (2005), understanding organizational culture can help to understand why change does not take place, or why a project fails. It will also help to determine where to strive to make changes to the culture. It is essential to understand the organizational culture if we want to make changes to how work is done, what type of work is being done, or at the broadest level, to affect the organization's standing in its industry.

Wallace et al. (1999) furthermore assert that all organizations have more than one culture: formal and informal cultures. Formal culture denotes idealized statements of what beliefs and behavior should be, typically manifested through mission/vision statements, policies, procedures and rules. Informal culture refers to actual beliefs and behaviors; informal character or culture is the key to understanding organizations. Furthermore, Beer (1980) and Sadri and Lees (2001) emphasize the influence that the external environment has on organizational culture. External environment influences an organization directly (legislation, government regulations) and indirectly (expectations and values of employees). On top of that, the dynamic of the market dictates the pace of change in organizations and the frequency of the need for change influences organizational culture; organizations in fast changing environments have typically more loose structures whilst the organizations in slow changing environments have more bureaucratic structures. Beer (1980) concludes that "successful organizations can be separated from unsuccessful ones by appropriateness of their structural form and management process to their environment". The process is based on organizational assumptions, values, and norms. An organizational system has been defined by Bamber (2003) as a set of interrelated and interacting processes that drive the behavior of individuals, team, and groups in an organization toward a goal or set of objectives.

The concept of organizational culture is particularly important when attempting to manage organization-wide change (Clarke, 1994; Senge, 1990). Practitioners are coming to realize that, despite the best-laid plans, organizational change must include not only changing the structures and processes but also changing the organizational culture (Castka, Bamber, & Sharp., 2003; Robbins & Smith, 2000).

Drawing on Schein (1992, 1999) this study tries to conceptualize organizational culture as an institutionalized phenomenon which binds time and space through ongoing processes of social interaction. Thus, this study is meant to define organizational culture as a socially constructed and validated pattern of shared basic values and assumptions, which have been developed by a specific group of individuals (organizational members) as it learns to cope with the problems of external adaptation and internal integration (Busco, Quattrone, & Riccaboni, 2007),. Such taken for granted assumptions represent the store of mutual organizational knowledge, which is ‘taught’ to newcomers as the appropriate way to act, think, and feel in relation to specific situations which might occur (Schein, 1992).

To understand the social learning processes through which cognitive schemas and routine patterns of behavior come to be institutionalized within a shared culture, Schein proposes a holistic and dynamic approach in which stability and change are not mutually exclusive. Being affected by both endogenous and exogenous factors, stability and change are not considered independent phenomena, but the ‘contingent’ faces of the same – multifaceted – process (Burns & Scapens, 2000). The key role which Schein attributes to the daily enactment of routine patterns of behavior, as a means of coping with the anxiety which may arise during actors’ continuous psychological search for ontological security, highlights the similarities with the

work of Giddens (1976, 1984, 1991). Furthermore, Giddens' duality of structure has much in common with Schein's conceptualization of the processes of organizational culture change as a dynamic-stability, involving both objective (institutionalized, taken-for-granted) and subjective (emerging out of human interaction) dimensions. These dimensions are the medium and outcome of each other, and represent "that duality" which needs to be placed at the very core of organizational life (Giddens, 1984). Consequently, by avoiding the traditional distinction between 'organizations having culture' and organizations as cultures' (Parker, 2000), this study wants to explore the processes of social construction and validation which underpin the institutionalized taken-for-granted assumptions.

The recognition of a 'duality culture' (Hennestad, 1999) implies that corporations have their own distinctive culture, which is characterized by shared taken-for-granted assumptions and interpretative schemas, and exists outside of time and space, as a set of institutionalized properties of the organization itself. Furthermore, as the agents' mutual stocks of knowledge, these assumptions are drawn upon by 'position practice' incumbents and instantiated in their routine patterns of behavior (Giddens, 1984). Thus, during the day-to-day flow of interaction, the knowledgeably reflexive members of the organization rely upon specific modalities of structure to enable processes of meaningful communication (interpretive schemas), to determine patterns of behavior for sanction or reward (norms) and to facilitate the enactment of power.

Matching individuals to organizations is a crucial part of success for any organization or company. The match between people and the companies for which they work is determined by the kind of organizational culture that exists. The degree to which an organization's values match the values of an individual who works for