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RESEARCH ARTICLE **(Open Access)**

Challenging financial Institutions in the region on organizational culture change

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Abstract:

The father of modern management, Peter Drucker, concluded that "We are in one of those great historical periods that occur every 200 ore 300 years when people don't understand the world anymore, and the past is not sufficient to explain the future". We think that organizational culture is equal to quality management. At the same time, we think that quality management is determinant in the organizational performance. If management understands the preferred corporate culture of its organization, it can take steps to create or maintain that culture. Importantly, the people-management policies and procedures should be adjusted to align with and support the desired culture. Eventually, the competition for capital in the banking sectors will increase. This will push banks to look for ways to improve ROE or share price, depending on the markets. In other markets, this has led banks to get into risk areas that are not well understood by many, leading to losses. Our research also highlights an important potential competitive advantage for banks in the region. Increasing creativity should lead to new business opportunities. Creating a culture of creativity in banks in the region would be a challenging. Changing organizational culture is a challenging process and should not be influenced only by external environmental factors or the decision-making of the management, strengthening the organizational culture should be a process that must involve the entire organization by taking into account the preferred culture that is affected by local cultures and environmental changes.

Key words: culture, organization, bank, local, management

1. Challenging financial Institutions in the region on organizational culture change

The frightening uncertainty that traditional accompanied major organizational change has been superseded by the frightening uncertainty now associated with staying the same.

The father of modern management, Peter Drucker [16], concluded that "We are in one of those great historical periods that occur every 200 ore 300 years when people don't understand the world anymore, and the past is not sufficient to explain the future."

We think that organizational culture is equal to quality management. At the same time, we think that quality management is determinant in organizational performance.

One of the main issues that are facing organizations in our days is the conflict between head office staff and field staff. This issue came because they have different paradigms and this create conflict and poor customer service as output. In general, people don't understand what culture they are living, they understand the change when they move from one organization to another.

We are very interesting to study the organizational culture of second level banks in our region (Albania, Kosovo, Macedonia), but, first, I want to describe briefly the development of Apple Computer Company. Steve Jobs and Steven Wozniak invented the first personal computer in the garage of Jobs's parents' home.

The culture was characterized by profile 1 in Figure 2. As is typical of most adhocracies, a single entrepreneurial, charismatic leader was setting direction, and the company was flexible and freewheeling. The press describes the group as "renegades and crazies".

This culture profile was produced from the Organizational Culture Assessment Instrument designed by professors, Kim s. Cameron [1, 2, 3, 4, 11] and Robert E. Quinn [7, 11] in Figure 1, is an instrument that allows you to diagnose the dominant orientation of your own organization based on these core culture tapes. It also assists you in diagnosing your organization's culture's strength, culture tape, and cultural congruence.

The four main culture tapes:

- Clan
- Adhocracy
- Hierarchy

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● Market

Figure 1: The Competing Values of Total Quality Management

The high degree of emphases in the Adhocracy quadrant, moderate scores in the Clan quadrant, and low scores in the Market and Hierarchy quadrants produce the profile illustrated in the Profile 1. Apple's culture was dominated by an entrepreneurial, innovative, adhocractic culture.

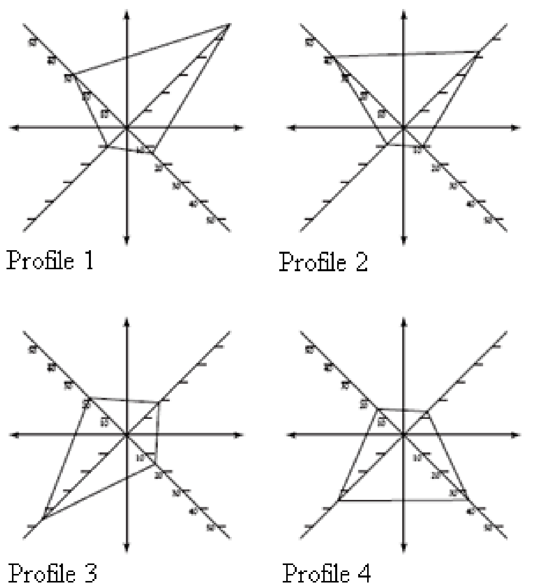

Figure 2: The life cycle of Apple Computer Company

Within a few years of incorporation Apple established one of the most successful ventures ever experienced in the industry – the formation of a group of "pirates" dubbed the Macintosh Team. The team's endeavors were so successful (as was the rest of the Apple's business) that the entire organization adopted the team culture and come to look as Profile 2 in Figure 2 – a highly cohesive clan. Employees wore Apple logos on their clothes, had Apple bumper stickers on their cars, and spoke warmly of the "Apple family". With hundred of thousand computers being sold, distribution channels expanding worldwide and the emergence of a large array of highly competitive rivals, the freewheeling clan faced a need for controls and standard procedures. Policies and regulations were needed; in other words, a hierarchy orientation had to be developed (Profile 3 in Figure 2). Jobs, Apple's CEO was the quintessential innovator and team leader, perfectly comfortable in an organization dominated by adhocracy and clan Culture. He was not an efficient administrator and not inclined to manage a hierarchy. John Scully from Pepsi Co was hired, therefore, to manage the shift to stability and control. A shift to a hierarchical culture generally produces a sense of apprehension, of abounding core values of replacing family feelings with rules and procedures. As Apple developed into a large, mature organization under Scully, the culture shifted again to the fourth stage Profile 4 in Figure 2. One reason for the performance difficulties of Apple is the continued emphases in the company's culture on the bottom two quadrants in Figure 2. In an industry faced in the 1900s with the need to innovate constantly with very rapid cycle times, the continued culture dominance by the bottom quadrants, instead of shift back up to the adhocracy quadrant, seems to have had significant negative effect on Apple's performance as a company until the development of the innovative iPod.

2. Why traditional banks' decline?

During the last years the global leaders are very concerned about debt governments and the performance of second level banks. New regulators of the "Basel III" [16] required higher level of capital adequacy ratio, the second level banks must increase the capital ore decrease the risk assets.

Professors, Franklin R. Edwards [15, 17] and Frederic S. Mishkin [15] did very detailed analyses on the banking sector in USA and worldwide. In the United States, the importance of commercial banks as a source of funds for nonfinancial borrowers has shrunk dramatically. In 1974 banks provided 35 percent of these funds; today they provide around 22 percent. U.S banks are not alone in losing their monopoly power over depositors. Financial innovation and deregulation are occurring worldwide. To survive and maintain adequate profit levels, many U.S. banks are facing two alternatives. First, they can attempt to maintain the same traditional activity lending by expanding into new, riskier areas of lending…. [Second, they can] pursue new, off – balance - sheet activities that are more profitable. Much of the controversy surrounding banks' efforts to diversify into off – balance – sheet activities have centered on the increasing role of banks in derivative markets. In the Banks Profile in Figure 3 we have illustrated the second level banks organizational culture designed by professors, Kim s. Cameron [5, 6, 7] and Robert E. Quinn [8, 9, 10] .

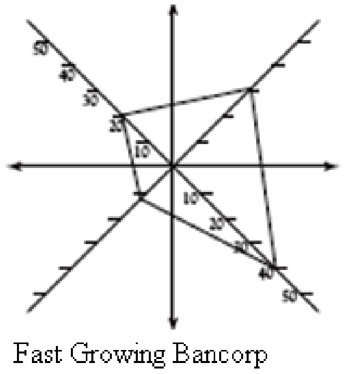

Figure 3: Banking Culture Profile in Developed Countries

Environment change has shifted the banks organizational culture in typical of most adhocracies cultures, innovations, and risky products.

3. Banks in Albania and in the region:

As in the other part of the world, banks in Albania and in the region are facing loan quality portfolio problems, but in a difference with a developed country, banks in our region (Albania, Kosovo, Macedonia) have not taken risk by entering into the derivatives market. One of the main reasons is that stock market is inexistent in our region (Albania, Kosovo, Macedonia) and banks are not feeling the competition, they are the only source funds for non financial borrowers.

4. Methodology:

The goal of our research was to diagnose the banking culture in the region. To do this research we used the Organizational Culture Assessment Instrument.

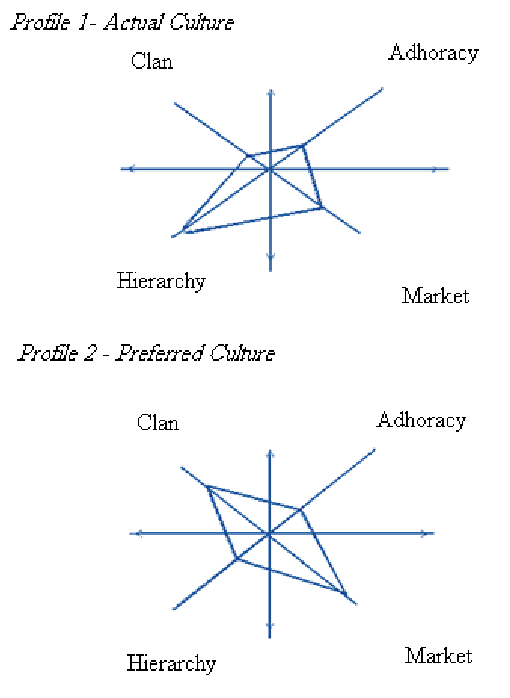

Figure 4: Banking Culture Profiles in Albania

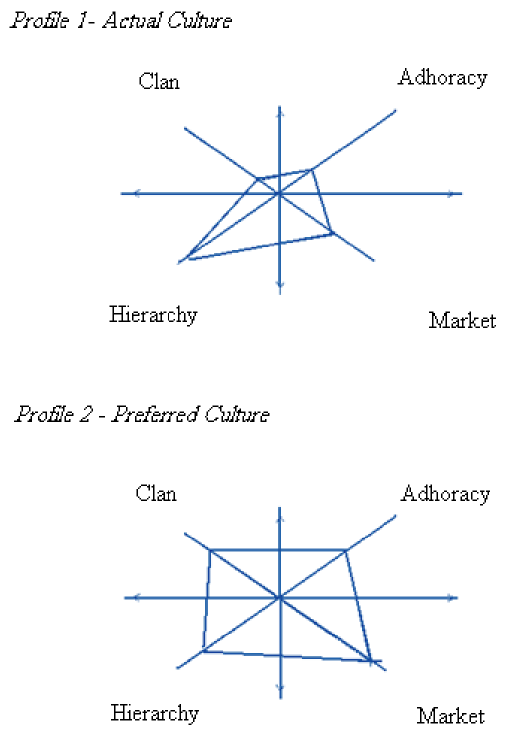

Figure 5: Banking Culture Profiles in Kosovo and Macedonia

4.1Determination of sample size

Simple random sampling method was used in this study in the region, because it is considered the simplest, most convenient and bias free selection method.

Sample formula:

$$n = \frac{1}{N} + Nxe^2$$

Where:

n= desired sample size

N= size of the population

e= Limit of error tolerance which was assured to be 5% (0.05); confidence limit

Computing with above formula, the number of questionnaires to be administered was obtained

N = 6000

e= 0.05

n = 6000/1+6000(0.05)2*

n= 375

Therefore, in order to arrive at a statistically valid conclusion, we administrated at least 375 questioners. The questioner has two sections, actual culture and prefers culture.

5. Results

Referring to Figure 4 in profile 1 and Figure 5 in profile 3 we have identified that the culture of banks that are operating in our region (Albania, Kosovo, Macedonia) are characterized by the same culture, market and hierarchy.

Referring to Figure 4 in Profile 2, we have identified that employees in Albania preferred a combination of Clan and market culture and a moderate increase in adhocracy culture compare with actual culture; as figure 5 in Profile 4 we have identified that employees in Kosovo and Macedonia, preferred a combination of clan, market and a adhocracy culture orientation compare with actual culture.

6. Conclusions:

- Actual organizational culture of second tier banks in the region is almost the same and does not change from one bank to another bank or from one state to another state. In the prefer organizational culture are differences between Albania and Kosovo, Macedonia, note that in Albania employees prefer a combination of Clan and market culture and a moderate increase in adhocracy culture while employees in Kosovo and Macedonia prefer a combination of clan, market and a adhocracy culture orientation.
- Organizational culture in developed countries is oriented into adhocracy culture and this has come as a result of environment change. In developing countries which came from former communist regimes in which the innovation and new ideas were not welcome the actual culture is not oriented into adhocracy culture but we have to take into consideration that in the region, employees prefer adhocracy culture.
- If management understands the preferred corporate culture of its organization, it can take steps to create or maintain that culture. Importantly, the people-management policies and procedures should be adjusted to align with and support the desired culture.
- Eventually, the competition for capital in the banking sectors will increase. This will push banks to look for ways to improve ROE or share price, depending on the markets. In other markets, this has led banks to get into risk areas that are not well understood by many, leading to losses.
- Our research also highlights an important potential competitive advantage for banks in the region. Increasing creativity should lead to new business opportunities. Creating a culture of creativity in banks in the region would be a challenging.
- Changing organizational culture is a challenge process and should not be influenced only by external environmental factors or the decision-making of the management, strengthening the organizational culture should be a process that must involve the entire organization by taking into account the preferred culture that is affected by local cultures and environmental changes.

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