



UNIVERSITI PUTRA MALAYSIA

**ORGANISATIONAL TRANSFORMATION
OF BANK ISLAM MALAYSIA BERHAD**

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**MASTER OF SCIENCE (HRD)
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BY

ABDEL AZIZ ADAM ABDEL KARIM

**A Project Submitted in Partial Fulfillment of the Requirement for the Degree of
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*Dedicated to my beloved
father, mother, uncles, aunts,
brothers and sisters who bring
sunshine to me and brighten
my days*



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List of Abbreviation

ATM	Automatic
Bhd	Berhad
BIMB	Bank Islam Malaysia Berhad
BIRT	Bank Institute of Research and Training
BPR	Business Process Reengineering
BUTB	Bank Unit Trust Berhad
CRA	Change Readiness Assessment
IFBS	Interest-Free Banking Scheme
IOFC	Offshore Financial Centre
ISO	International Organisation for Standardization
IT	Information Technology
KL	Kuala Lumpur
KLE	Kuala Lumpur Exchange
KLSE	Kuala Lumpur Stock Exchange
MIS	Management Information System
OCM	Organisation Change Management
OD	Organisation Development
OT	Organisational Transformation
Sdn	Sendirian
TQM	Total Quality Management

ABSTRACT

Organisational Transformation of Bank Islam Malaysia Berhad

By

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July 1998

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This study was to identify the organisational transformation of BIMB since its establishment in 1983. It also identified the elements that contribute positively or negatively towards this change and the intervention techniques being practiced.

The sources of data were in-depth interviews with three BIMB management officers (human resource manager, marketing manager and retail banking manager) in the Head Office in Kuala Lumpur and a field survey covered 15 randomly selected branches in KL and Selangor State. A sample of 122 BIMB staff members filled in the questionnaire in this survey. BIMB documents were also employed as a secondary source.

The in-depth interviews concerned about the organisational transformation of BIMB, external elements motivate to change, intervention techniques being practised

and organisation resistance to change Staff questionnaire was close-ended aimed at identifying staff resistance to change BIMB documents were employed to support the interviews

The data analysis included descriptive statistics in terms of mean and frequency counts, categorisation of interviews, and a content analysis of documents were used to answer the objectives

The findings of this study revealed that BIMB has experienced different intervention techniques to cope with the changing environment in terms of liquidity, market competition, macroeconomics trends and crisis, technological innovation and globalisation and liberalisation As a result of its transformation, BIMB witnessed a great development and change, in terms of capital, size and functions. Also the results showed that BIMB capabilities in terms of capital and infrastructure support any change plans In contrast, the study showed that staff resist change because it threatens their social environment, old routine and values

ABSTRAK

Transformasi Organisasi Di Bank Islam Malaysia Berhad

Oleh

Abdel Aziz Adam Abdel Karim

Julai 1998

Penyelia Pn Hj Rusinah Joned, M A

Fakulti Pengajian Pendidikan

Kajian ini dijalankan untuk mengenalpasti transformasi organisasi semenjak penubuhan Bank Islam Malaysia Berhad (BIMB) pada tahun 1983. Ia juga mengenalpasti elemen-elemen yang berkaitan secara positif atau negatif terhadap perubahan dan teknik-teknik intervensi yang diamalkan

Sumber-sumber data adalah “temubual secara mendalam” dengan tiga orang pegawai pengurusan BIMB di Ibu Pejabat Kuala Lumpur dan satu tinjauan lapangan meliputi 15 cawangan dipilih secara rawak di Kuala Lumpur dan Selangor. Seramai 122 orang kakitangan BIMB telah disampel untuk dijadikan responden kajian dan mengisi borang soal selidik. Dokumen-dokumen BIMB juga digunakan sebagai sumber sekunder

“Temubual secara mendalam” mengenalpasti transformasi organisasi BIMB, elemen-elemen luaran yang memotivasikan perubahan, teknik-teknik intervensi yang diamalkan dan halangan organisasi terhadap perubahan. Soal selidik bagi kakitangan

berbentuk tertutup, dan bertujuan untuk mengenalpasti penolakan kakitangan terhadap perubahan. Dokumen-dokumen BIMB digunakan untuk menyokong dapatan temubual.

Data dianalisis bagi mendapatkan statistik deskriptif seperti purata dan frekuensi, temubual telah dikategorikan dan juga analisis dokumen digunakan bagi menjawab objektif kajian.

Hasil kajian menunjukkan bahawa BIMB telah mengalami pelbagai teknik intervensi bagi mengatasi perubahan-perubahan persekitaran seperti persaingan pasaran, tren dan krisis makroekonomi, inovasi teknologi dan globalisasi dan liberalisasi. BIMB mengalami pembangunan dan perubahan yang pesat dari segi dana, saiz dan fungsi disebabkan transformasi ini. Hasil kajian juga menunjukkan bahawa keupayaan dana dan infrastruktur BIMB membantu segala perancangan perubahan. Disebalik itu, ada bukti menunjukkan bahawa kakitangan telah menolak perubahan disebabkan mereka berasa sebagai mengancam persekitaran sosial, rutin harian dan juga nilai mereka.

CHAPTER I

INTRODUCTION

Organisation change is a broad phenomenon involving a diversity of applications and approaches. The term organisation development (OD) is one of the newest and most exciting areas of study to emerge since World War II. Smither et al., (1996), define OD as the practice of bringing planned change to organisation. These changes are usually designed to address an organisational problem or to help an organisation to prepare for the future

Lippit et al., (1958) look at planned change as a purposeful decision and deliberate effort to improve a system by using available resources. A plan must be worked out on how to utilise local resources and also seek external help (human and financial). According to them change is a sequential phases of activities which are (a) Develop of a need for change (b) establishment of a need for change (c) working towards change (d) generalisation and stabilisation of change and (e) achieving a terminal relationship.

The relationship between the client (employees) of an organisation and the change agent (management) is a situation where both parties arrive at a decision to work together towards the process of achieving the desired goals of planned change.



The theory and practice of bringing planned change to organisations-summarises the basic idea of OD; the field is obviously more complex than simply applying change to organisations. For examples, organisation development is also concerned with improving organisational effectiveness, developing new approaches to organisational problems and providing for the psychological well-being of organisational members (Smither et al., 1996).

A review of both academic and managerial literature reveals that the need for change is now taken for granted and is seen as hallmark of the late twentieth century. Organisational development theorists, from Toffler (1984) to more recently theorists, have pointed out to the accelerating pace of change in society. Toffler (1984) refers to the “death of performance” and associated “future shock” while Margon (1989), talks about how managers will have to develop new competencies to cope with the turbulence caused by the “waves of change”. Change is thus seen as omnipresent and organisations are seen as facing ever-changing economic, technological, social, political and cultural environmental context if they want to survive in the increasing competitive world economy.

In today’s cyberspace age financial institutions such as commercial banks provide so many services we find it hard to believe they have in fact, only two traditional purposes. One is the receive deposits from the public and keep the money until the depositors want it back, usually with interest. The second is to give loans to people willing to pay fees or interests on them.

In the second millennium, everyone is aware that the business of banking involves not just the lending of money and collection of deposits; a bank is the chosen agent of any country's economic property, acting as conduit or facilitator for both local and global transactions. A nation's economic growth predicated by the uncertainty in other regions' economies and the new concept of a borderlines world entails that banks like other commercial and industrial players, need to be constantly fit and change with emerging world economies; they must be streamlined, nimble and efficient to face unpredictable challenges and competition ahead.

Financial transaction began with fancy and cowry shells. Gold and silver were later introduced as improvements and transformation process. But gold and silver were heavy. Today we have paper cash notes and simple nickel or silver coins that are durable and convent to carry around. The following form of the transformation of money were electronic records or balances in our cashes society in which debt cards, credit and ATM cards became invaluable convinces and stores of wealth (Ruin, 1998).

With regard to bank mergers, the first bank in Malaysia opened in 1875 in Penang, Some 124 years later, as of July 1997, there were 35 banks with 1,622 branches spread throughout Malaysia. Apart from these commercial banks, there are numerous finance companies, hire purchase and controlling firms, as well as merchant banks that complement commercial banking services. Also, by the end of 1997, there were more than 1,600 offshore and supporting companies for offshore banking services established since Labuan became an International Offshore Financial Centre (IOFC) in October 1990. To serve these companies, there are, to date, 63 offshore banks, 25 insurance and insurance related companies and 20 trust companies. To

compete with other overseas offshore banking, insurance, the trust business, fund management, investment holding, investment banking and management services (Ruin, 1998).

From the early '70s on, changes in banking have been cataclysmic. It was in fact the increase in customer sophistication, the growth of Malaysian income and industry, as well as the restructuring objectives of the New Economic Policy that reversed the old lacklustre Malaysian banking pattern to one that is robust, aggressive and sophisticated. The '90s have shown a time of stiff competition among commercial banks and between commercial banks and financial intermediaries like finance companies, hire-purchase firms and merchant banking as well as leasing and factoring institutions. Many banks have been transformed and change to face the next decade with wide bases. They are also large in terms of branch networks. Indeed, the days of old bank was expected to provide the twin services of collecting deposits and providing interest as well as lending money to enterprise, today's typical banking revolve around five subsets:

- (1) Personal or retail banking services;
- (2) Corporate or wholesale banking services;
- (3) Treasury, including foreign exchange, money market and derivative trading services;
- (4) Custody (safe deposit boxes); and
- (5) Institutional banking services (fund management, statutory and governmental corporation, as well as specialised or innovative concepts in banking business such as interest-free Islamic banking).

However, the modification of certain conceptual framework in banking – for example, Islamic interest-free banking has changed the banking paradigm into one that is morally and ethically acceptable, credible, viable and acceptable commercial pursuit.

In 1983, Bank Islam Malaysia Berhad, was incorporated as the sole Islamic Bank in Malaysia. The impetus of such tremendous growth is largely attributed to the desire of Muslims in Malaysia an alternative form of banking and finance – that which is based on the principle of Shariah Law. To them, the conventional banking system was seen as inadequate to meeting their daily needs; needs which are governed by a strict religious decree. This, coupled with the Malaysian government's support for the Islamic banking system has helped the bank to thrive within the conventional banking environment. Working in such an environment has made its success even more remarkable given the comparatively restrictive lines, which it operates on.

Banking was once considered among the most stable industries, but then came the 1980s, the saving and loan debacle and the corporate restructuring and downsizing (Parker, 1996).

Today, change is the name of the game in banking as it is in virtually every industry. Banks are transforming themselves with so many changes occurring, how work is done, manage teams and individuals, provide services and products to their customers. Among these banks that adopt transformation programme is Bank Islam Malaysia Berhad. During the last fourteen years of its existence, the Bank has relentlessly worked to lay a firm foundation for its operation as an Islamic commercial bank. One critical area is the development of Islamic banking facilities and services for

both sectors of sources and uses of funds. This was undertaken in the environment of the Malaysian economy which is well diversified and fast expanding and with a futuristic eye towards the Vision 2020 objective of making Malaysia a developed country by this year. This naturally demands varied, sophisticated and efficient banking services. To a large extent the bank has succeeded in this task, under the guidance of its Shariah Supervisory Council, the supervision of Bank Negara Malaysia (Central Bank of Malaysia) and the support of all.

BIMB Facilities and Products

In terms of products, the Bank has created and developed deposit and financing facilities, which are distinctively, Islamic in nature. Deposit facilities under Al-Wadiah concept of safe custody include the Current and Saving Accounts. Under Al-Mudharabah notion of trustee profit sharing, the facilities available are the Savings, General Investment and Special Investment Accounts. By the June 1997, two additional savings accounts under Al-Mudharabah concept were introduced to the public, the Ijraa Savings Account (for teenagers between 13-18) and the Wadi Savings Account (for children up till the age of 12). Both these savings accounts were developed in response to the government's nation-wide Saving Campaign which is aimed at including the habit of saving money among the young generation of Malaysia.

The bank has been called upon to give technical assistance on its system of operation to a newly established Islamic bank in Indonesia, an Islamic bank, which was converted from a conventional bank in Brunei Darussalam. The bank has also assisted other parties from these countries as well as other parts of the world. In

Malaysia, steps have been taken to establish an Islamic banking system and financial institutions to set up interest- Free Banking Scheme based on the Bank's system of operations. Through its wholly owned subsidiary, BIMB Institute of Research and Training Sdn. Bhd. (BIRT) is assisting this programme through the provision of consultant services, training and seminars to the relevant banking and financial institutions and other interested parties in Malaysia and overseas.

In order to enhance the services, BIRT has designed another integrated course on the conceptual and practical approaches of Islamic banking and finance. Integrated Course on Islamic Banking and Finance have been attended by practitioners from various countries besides Malaysia such as Saudi Arabia, Kuwait, Bahrain, Qatar, Negeria, Algeria, USA, Hong Kong, Pakistan and so on.

To provide a more efficient financing service, the Bank, in May of 1996 introduced its first consumer-financing centre. The centre serves to provide vehicle financing and refinancing, education and also personal (cash note) financing. In addition the Bank also offers facilities to all its full-fledged branches. These facilities include house, land, umrah and visit package, tour package, personal computer, vehicle and leasing of equipment and machinery.

The ever-increasing number of the Bank's branches, 79 in all as of April 1998, is another reflection of the Bank's rapid growth. Out of this number, 46 are full-fledged while 33 are mini branches, all strategically located in all Malaysia states. With this increase, the Bank envisages an increase in deposits and financing which would, in the long turn, contribute towards the Bank's overall growth.

Human Resources

BIMB human resources have shown steady increase since its establishment. As a result the Bank's demand for workforce has largely been satisfied. The Bank has a staff comprising of 1,600. Albeit the increase in quality, The Bank's human resources policies also emphasise on the overall quality of its workforce. Professionalisation and good work ethics is continuously stressed in line with the Bank's corporate objectives.

Given this fact, Bank Islam Malaysia Berhad has the potential to be great inventors, creators and communicators. In varying degrees it has the ability to foresee the future. Real organisational transformation therefore takes all this into account. Thus, by altering fundamental components such as guiding beliefs and principles of organisations, creating a productive work environment is the best method for making the transformation in line with the turbulent environment.

In as much as there are several factors influencing change, the impetus for change usually starts from a belief that the organisation and its human resources can be more productive. Once this perception is realised organisations should not let change forces it and find themselves pulled under its power waves. Organisations should learn to manage the change in such a way that it helps to move them forward rather that it sets them back or makes them feel that they are drawing.

Today as managers prepare for to enter the 21st century, a knowledge of OD should be concrete to address new challenges of sophisticated technologies, diversity in the workforce and global competition (Tyson, 1997).

