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A comparative study of the application of systems thinking in achieving organizational effectiveness in Malaysian and Pakistani banks

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ABSTRACT

The present work is a comparative study of the banking industry of Malaysia and Pakistan. The paper aims to measure the impact of individual systems thinking on the overall organizational effectiveness. Skilled individuals are considered as an asset of the organization especially when these individuals exhibit systems thinking capabilities that helps in achieving effectiveness. The sample consisted of 368 respondents belonging to lower and middle tier levels in the banking sector of both countries. The results indicate that Malaysian banking employees are ahead of their counterparts in Pakistan while applying systems thinking. The study is significant in enhancing the understanding of the importance of systems thinking for organizational effectiveness. The study has managerial implications for the top management of banks.

1. Introduction

Today's business environment is characterized by a high degree of dynamism and uncertainty. The dynamism refers to the frequency and intensity of changes in the external environment (Dess & Beard, 1984) that may cast pressures on organizations of all sorts to adapt or revise their business strategies (Morris, Schindehutte, & Allen, 2005) to meet the changing environmental conditions (Schneider & Spieth, 2013). The uncertainty refers to an ambiguous and complex business environment that affects organization business decisions (Daft, 2016). This dynamism and uncertainty is what has made the business environment complex and for which 21st century managers need to be able to identify the underlying interconnections.

Vasconcelos and Ramirez (2011) have pointed out that managers must cope with organizational environment complexity internally, in transaction and contextual environments. Managers, in today's complex business environment, are more uncertain, and experience more surprise, rapid change, and confusion and are unable to exactly measure, predict, or control, in traditional ways, the unfolding drama inside or outside the organization. Here complexity may be seen as a nonlinear function in the fast-paced environment that creates difficulty in predicting results (Pascale, 1999; Tetenbaum, 1998).

We take both relational complexity (Biggiero & Sevi, 2005) and cognitive complexity (Fioretti & Visser, 2004), in dealing with the organizational complexity which, if addressed, can be helpful in systems effectiveness. The idea of complex system denotes presence of many independent entities behaving in accordance with their objectives and performing mutual interactions (Fabac, 2010). Thus, understanding this complexity becomes difficult especially for managers facing challenges in their daily organizational operations. A new perception of this phenomenon has been developed, which is based on complexity theory and is important for the organizations to understand, if they want to survive in this complex web of chaos (Palaima & Skaržauskiene, 2010). To become effective decision makers, individuals need to develop systems thinking capabilities that would help them understand the complexities involved in the systems around them (Serman, 2000). Systems thinking take into account a panoramic view of interactions, creating a broader understanding of the picture (Ackoff, 1999).

This complexity within organizations can be understood through systems theoretical approach, developed by Ludwig van Bertalanffy during 1940s. The approach takes a look at the whole organization and determines patterns that help develop effective operational ways, thus, looking at the problems from a holistic perspective. Modern organizations have become complex entities, primarily because of globalization,

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technological advancements and digital connectivity along with other factors – economic, political and social – have also made organizational effectiveness a difficult construct to measure. Another important consideration is the element of inherent change in the external environment that affects organizational dynamics in different ways. Organizations as socially constructed entities may change over time and space, and so are the conceptions of efficiency or effectiveness (Fligstein, 1996). These changes in the competitive environment compel organizations to adopt strategies (Yamashita & Spataro, 2004) that may enhance organizational effectiveness and efficiency (Sohail, Daud & Rajadurai, 2006). These strategies may also be helpful in either reducing or absorbing complexity–relational as well as cognitive (Boisot & Child, 1999). There is plenty of research conducted on effectiveness. Some researchers use the term performance for effectiveness, measured through financial constructs. However, it is imperative to examine organizational effectiveness through non-financial measures. In the absence of a concrete measure of effectiveness, each organization perceives effectiveness in view of the services rendered and the success level achieved. Therefore, the term effectiveness gets context-ambiguous, as each organization views its effectiveness differently from that of another even within the same sector. Some researchers view effectiveness as a socially constructed concept determined by mental frameworks of its stakeholders rather than a rational fact (Willcocks, 2002). Others take effectiveness as a measure of how organizations serve their prime targets, and how well they engage in dialogue with the stakeholders, whose inputs are critical for the survival of the organizations (Papadimitriou, 2007).

Cameron (2015) suggests that organizational effectiveness means different things to different people. Various researchers have used different approaches to measure effectiveness. For example, Daft (1995) views organizational effectiveness in terms of goal attainments. Likewise, Yukl (2008) defines organizational effectiveness in terms of organization's ability to survive, perform its mission and maintain its financial resources and asset value. Yukl further elucidates his point that effectiveness depends on process reliability, human capital and adaptation to external environment. Thus, organizational effectiveness can be seen through planning, communication, cohesiveness and productivity of an organization in setting organizational goals and their achievements (Pounder, 2001). In our study, we look at organizational effectiveness in terms of an individual's perceptual evaluation regarding planning, communication, cohesion and productivity of an organization for attaining organizational goals. This perceptual evaluation may enhance effectiveness by guiding the organization to produce valuable outcomes (Cameron, 2015). Evaluating organizational effectiveness requires organizational members to develop systems thinking abilities that further helps in attaining overall effectiveness. Stacey (2001) rightly points out that human capabilities require continuous interactions between people and systems, where individuals are mental systems of broader system.

The present research focuses on the banking industry. The banking industry is characterized by complexity due to larger geographic spans, cross border systemic risk, internal liquidity dynamics, managerial agency frictions, and too big to fail attitude (Cetorelli & Goldberg, 2014). Rising inflation across the world and exchange rate instability seen in the last couple of decades has made banking system susceptible (Honohan & Laeven, 2005) to failure. This can be seen clearly from the two financial crises that world saw since 1997 that made the banking industry crumble and to sustain these crisis national governments had to prepare banking bailout packages. The costs of these banking crises have been very large which has not only been borne by its shareholders but also by the governments and tax payers. In addition to the fiscal cost, collapses of large banks across the world have contributed to longer economic downturns.

Despite the crises seen by the banking industry, there is high competition for consumer deposits, a wide array of wholesale and capital markets funding products with technological advancements (Akhtar,

2007). Managers are required to interpret and act quickly by developing systems thinking capabilities for understanding the underlying complex behaviors over relatively extended periods of time and refining future decisions (Morecroft, 2010; Serman, 2000). This is coupled with the increasing regulatory pressures, customer needs and shareholders' expectations have put management under pressure to be more effective and efficient in their approaches (Robu, 2015).

Malaysia and Pakistan are considered to be two major Asian Muslim countries more economically developed than most of the other Muslim countries in the region. Both countries are multi-cultural, multi-ethnic and multi-linguistic with moderate to high literacy rate. The services sector of both countries boosts high labor employment and high growth rate. For example, in 2016, Pakistan's services sector recorded an annual growth of 5.71% and slightly over 54% of labor force participation (MoF, 2017); while Malaysian services sector registered a growth of 5.5% with labor force employment of 60% (DOSM, 2017). Moreover, both countries are categorized in the same cultural group in terms of individualism and power distance as defined by Hofstede (Arifeen, 2010). Similarly, on the dimensions of long term orientation and masculinity both countries are in the same group as well. However, despite the similarities shared by them, both countries exhibit stark differences in their educational attainment, ethnic composition, and cultural domains. For example, literacy rate of Malaysia is 94.6% (UNESCO, 2017) as compared to Pakistan's 58% (MoF, 2017). If we look at the educational enrollment, then Malaysia has 26% tertiary education enrollment as compared to Pakistan (10% tertiary education enrollment) (UNESCO, 2017). Similarly, if literacy rate is translated into employment ratios then Malaysia has a lower unemployment rate of 3.4% (DOSM, 2017) as compared to Pakistan's 5.9% (MoF, 2017). Likewise, ethnically, Malaysia is more diverse as compared to Pakistan in terms of cultural differences, linguistics and religion. Malaysia is a multi-ethnic and multi-cultural country comprising of Malays, Chinese and Indian population exercising their own culture and religious rituals as compared to Pakistan which has 97% Muslim population (Malaysia has 60.4% Muslims). Although both countries are predominantly Muslim, the similarities and differences exhibited by these countries are intriguing and serve as bases for a comparative study.

The banking industry in both Malaysia and Pakistan has shown robustness mainly due to government support and strict regulations enacted by the central banks of both countries. In both countries, banking industry is one of the most challenging and thriving sector of the economy. Despite the financial crunch across the globe, the banking industry has shown tremendous growth in the past decade alone. The Pakistani banking sector is composed of 32 commercial banks (27 local and 5 foreign), 14 specialized and development banks, and 10 micro-finance banks (SBP, 2017). The banking industry in Malaysia is composed of 27 commercial banks (8 local and 19 foreign), 18 Islamic banks, and 11 investment banks operating in the country (BNM, 2017). The global financial crisis of 2008 had little impact on the financial institutions mainly due to strict regulatory requirements and banking reforms that were carried out in the past two decades (Nazir, Safdar, & Akram, 2012; Phulpoto, Shah, & Shaikh, 2012). Malaysia is considered to be the pioneer and innovator in Islamic banking and finance (Khan & Bhatti, 2008) and is also one of the top Islamic economy in terms of development and fully realized sharia based financial system along with conventional banking (Haneef, 2001; Haniffa & Hudaib, 2010; Zaher & Hassan, 2001). The Malaysian banking system is mainly driven by strong capital and high government support which has helped the industry to withstand the financial crisis of 2008 (Abdulle & Kassim, 2012).

The paper aims to investigate the influence of systems thinking on organizational effectiveness in Malaysian and Pakistani banks. Systems thinking refer to the ability of the individuals to ascertain the underlying connections of relationships that are exhibited by the social systems such as organizations. This ability is of utmost importance when assessing effectiveness; while effectiveness is concerned with the

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