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Resistance to Change / Learning in the Financial Markets  
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### Abstract

Resistance to Change and Resistance to Learning are intertwined. Often change brings with it the need for new learning. This paper looks at the interconnection between resistance to learning and resistance to change. Works are considered from several different fields, including the recent activities of the financial sector, with the premise that resistance to change / learning is universal to all fields of human activities. We will also look into what is needed to create an organizational infrastructure that will prevent or at least reduce this phenomenon of resistance.

## Problem Statement

### Resistance to Learning

Resistance to learning is a subject that is well researched. The authors in this section point to possible reasons why people resist learning. Later in this paper, we will show how these factors could be applied to why the financial industry recently resisted the lessons of the past.

Kiselev, A. (2003, 11), an educator in Russia talks about how learning takes effort. She refers to children, and how their interest in learning or lack of it, has an effect on whether they learn or not.

Another problem is very important, in my opinion: the motivational purpose of schooling, the problem of getting youngsters interested in their studies. It is true that learning takes effort, but it is a fascinating effort. Every researcher knows this. For example, I was interested in problems of history and I never became tired of it. It is true that there were times when I slumped, due to exhaustion. Overall, however, it was not the work that made me tired: it was all interesting to me. It is a different matter when you are engaged in something that is heavy and even joyless; in that case, overload is inevitable. It is essential to know how to get the child interested, and then he will make the effort.

According to an article in *Teaching Professor* (2004, 3-6) about first year college students, resistance to learning also “takes effort”. The article states that this effort is based on “Motivation” and the level of or the type of motivation determines if there is resistance or acceptance of the learning. The article draws on the work of French & Oaks (2003, 83-102) where they state that there are four components of what they refer to as Intrinsic Motivation. Those four components are:

- Challenge; the level of challenge perceived is definitely relevant.
- Control; choice and power are also strongly associated with intrinsic motivation. This helps to explain why motivation is so often missing when students enroll in “required” courses.
- Curiosity; any learner must want to acquire new knowledge. It also helps to have satisfying previous learning experiences — to have mastered something and felt the sense of satisfaction and accomplishment that it brings.
- Career Outlook; this aspect of intrinsic motivation has to do with how future-oriented the student is.

Both of these authors suggest the learning takes effort, and resistance stems from interest/motivation or an unwillingness to expend the effort. Kindred, J., (1997, 4) also feels' that learning takes effort, this energy (effort) although misplaced, “can be an act of orientation, from which learning can proceed.” Most teachers either in the workplace or in the classroom would at this early point of resistance dismiss the opposition as simply “resistance” and treat it as such. Kindred feels that resistance can be part of the learning process where the learner is looking for a point from where he or she understands and from that point starts to learn, they are resisting in order to solicit further explanation.

The principle that they all talk about, resistance to learning, can carry over into the workplace as well, and in the workplace, resistance can be prompted by other reasons, and are not necessarily restricted to any particular work discipline.

Kindred, J. also in her work on resistance to learning in a bus maintenance department, cites the work by Goodnow (1990, 259-286) where he feels that knowledge and skills are linked to one’s social identity and those links can account for either acceptance or resistance to learning. Kindred, J. also cites Litowitz (1993, 184-197) where he states: “That a contradiction may arise

between one's sense of oneself and the one you become if you internalize the knowledge, out of such struggles in identification is resistance born".

An interesting study done in Canada on unionized workers in a Pulp & Paper mill was performed by Bratton, J. (2001,333), looking at restructuring duties for more flexibility. In this study, he found that much of the resistance was not for the benefit of the individual worker, but more for the benefit of the group. The study noted that the workers themselves saw the long term benefit of learning other positions or skills, but felt that in the long run there would be a reduction of the workforce in spite of the assurances of management to the opposite. Larry, a pipe fitter in the study, talked about the social relations of production and the importance of supervisor-subordinate relations:

If you have a supervisor that can relate well to you one-on-one, and you have a good working relationship, then you will do so much, but at the same time it's always in the back of your mind; how far can I go before I take somebody else's' job away.

Thus far, we have looked at some reasons put forward by researchers on resistance to learning as applied to manufacturing, schools and a bus maintenance department. The reasons suggested so far are:

- Job protection
- Loss of social identity
- Conservation of energy (effort)
- Intrinsic Motivation
- Orientation

The reasons put forward above are not unique only to those sectors, but can apply to the financial industry as well.

### Resistance to Change

The next component of this paper, which has been suggested to be interlinked with resistance to learning, is resistance to change. Often change requires new learning, but not always. People who are required to perform the same tasks they usually perform, but in a different location, or at a different time, or for a new boss, or with a different machine can exhibit resistance to change. New methods that require simple new learning can elicit strong resistance from some workers. Is this resistance to change anything different than resistance to learning, almost all change requires some form of new learning, or is it the same thing only restated or given a different name?

Parker, Wall, and Jackson (1997, 899-929) researched the affects of employee understanding of the broader roles of the organization, strategic orientation, and the effectiveness of their training. They conducted three studies in British manufacturing facilities. One where the employees had implemented new techniques, but otherwise everything else remained unchanged. The second study was conducted at a facility where TQM and JIT had been implemented. No other organizational changes were made. In the third study, new training techniques were also introduced, but autonomy was given to the employees for the results. Parker, et al found that employees given a sense of autonomy for the training and implementation of new processes had a greater sense of the "big picture" as well as learned better.

Mauer, R. (1996, 20), speaks about how people are resistant to training or change. He feels, as some of the others do, that resistance is energy, usually directed at slowing something down, but energy never the less. He has found ways to re-direct that energy towards positive goals, i.e. the training. He has discovered much like the previous authors found that if a resistive

force were met with an opportunity for that person to express their own ideas, directed towards the task, the training would be successful.

LeTourneau (2004, 286) discusses physician's fears that lead to their avoidance to change. She cites Jeffery S. Rose, who has written an article on the subject. Rose points out three Physician attitudes toward resisting change:

- a) "I will be perceived as incompetent"
- b) "this is going to interfere with getting my work done"
- c) "I don't know what this is or why it is being proposed"

Letourneau's interpretation of Rose's first attitude, "I will be perceived as incompetent" (Rose, 1998), is unique to this study although it is very closely connected to Goodnow's (1990) loss of identity, the other two attitudes can be connected to the other authors in this section.

Powell & Posner's (1978, 29-34), position is that the approach to employee resistance to change has been approached from the same perspective in most business writings. They feel that we have been looking at the problem primarily from the "change agent" side method. "We should look at it more from the person "in front of the change", that is the person that is being affected". They state that the conventional methods are wrong. Powell & Posner argue that some resistance is due to these old methods, not necessarily the change itself.

Change efforts in organizations are primarily aimed at:

1. Structural variables; systems of communication, authority, rules, and workflow in the organization; or
2. Technological variables; problem-solving inventions such as work measurements techniques, computer programs, or CNC machinery; or
3. People variables; attitudes, values, norms, motivations, and behaviors of organizational members

Powell & Posner point out that the "people approaches" receive the most attention in business writings. A people approach that has received a lot of attention is the "manipulative" people approach. They describe it as follows:

People approaches, which may be viewed as "manipulative", are those, which are concerned with the most effective techniques for selling (or imposing) change. They address the question of "how do we get those people to change?" after the decision to do something different has been initiated or determined by someone else.

Powell & Posner go on to point out that, this approach is from "the wrong side" of change. They also indicate two forces that affect the worker to resist change, "Individual" and "Group and Organizational" forces. These forces act on the worker from the worker side of change and efforts to implement change from the other side cause resistance.

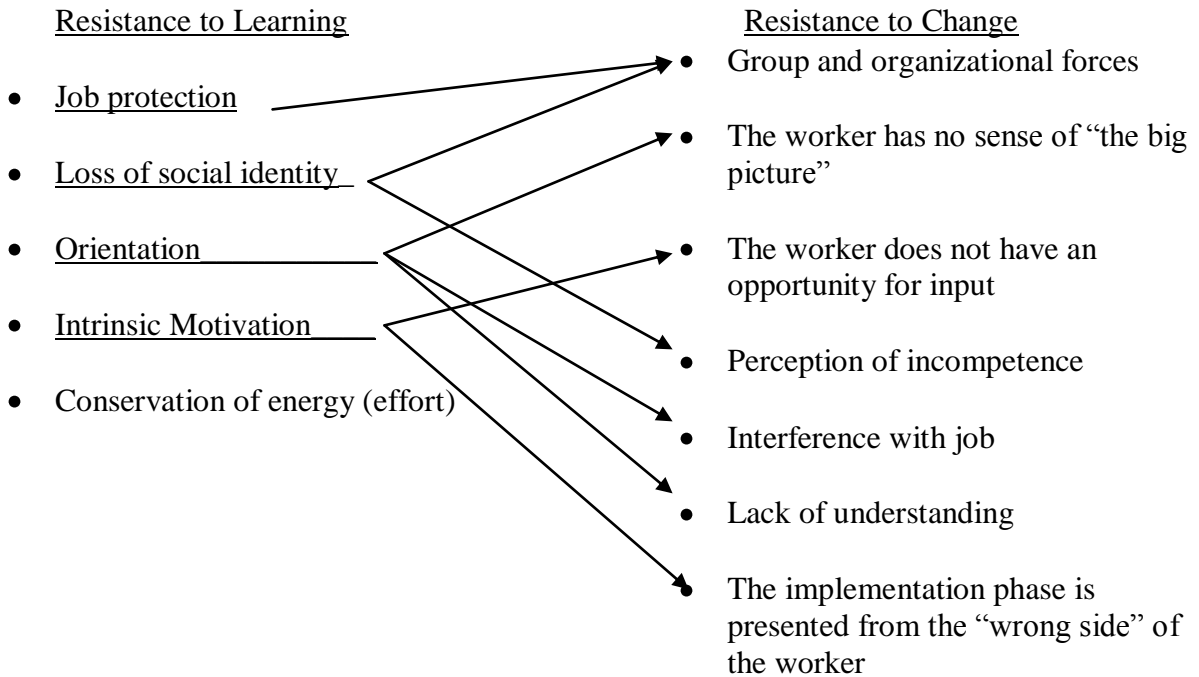
The four authors listed above feel that there are seven main reasons for resistance to change:

- Group and organizational forces
- The worker has no sense of "the big picture"
- The worker does not have an opportunity for input
- Perception of incompetence
- Interference with job
- Lack of understanding
- The implementation phase is presented from the "wrong side" of the worker.

**Interrelationship between resistance to learning and resistance to change**

Resistance to learning and resistance to change although different are closely related. The principal factors listed by the above authors are similar. These factors could be interchanged, but the differences are subtle. Learning resistance is internal where as change resistance is more interpersonal or external

The simple table below, using arrows to those reasons described in their respective section shows those subtleties between the two. The only factor of resistance to learning listed that does not directly connect to a change factor is conservation of energy; this reason could be said that it is related to all of the change factors, but not as directly as the others.



## Resistance within the financial sector

This brings us to how are these forms of resistance apply to the distressed financial markets as we see them today.

In a lecture given before The Economics Society of Basel, Switzerland on October 19, 1987, the day of the New York stock market crash (Black Monday); Charles Kindleberger addresses the similarities between that crisis and the one of the 1930's. He speaks of how in 1987 options trading, swaps and futures "may have accentuated the unprecedented decline in stock prices". He goes on to say that, "asset prices started out close to reality, and became progressively more euphoric and excessive (as in 1929). Expectations of continued prosperity and share price increases reversed themselves, the crash ensued, possibly driven down more than might have been expected because of technical innovations. The banks were "immobilized" trying to replace call money withdrawn from the market (Kindleberger, 1988, 186.).

In a speech given at the International Conference of Banking Supervisors, (Ludwig, E., 2008, 1-2), CEO of Promontory Financial Group, points to the place supervision has in preventing or at least moderating the current financial crisis.

Excessively liquid markets and un-(regulated) and under-regulated sectors of the financial services industry have been primary drivers of today's financial turmoil. In fact, serious supervision of the entire financial services marketplace, particularly of the sectors most involved in the crisis, would have at least mitigated the impact of the crisis. One of the great strengths of regulation and supervision is all about facing up to the reality of the situation, calling it accurately as best we see it, without political, theoretical or some other shading. The integrity of the supervisory process allows markets to clear, to remain in operation and to rebuild.

In his article, *Mystique of global crisis unraveled*, Lin (2009) suggests that a historical trust is the basis of the U.S. banking system. He lists four articles of trust:

1. Trust in (U.S.) regulators who have managed crisis exceedingly well in the past.
2. Belief in the viability of modern capital markets which have always been so dependable.
3. Confidence in the credit rating agencies as a reliable compass
4. Trust in the intellectual capital and capital muscle of Wall Street.

Lin goes on to state that trust is now "crumbled". He points out six developments that contributed directly, in his opinion, to the crash or the current lack of trust.

- Forty years ago, a deposit backed 90% of all loans, today it is 60%.
- Regulators require lower capital on loans not backed by deposits.
- In 2004, the SEC removed the leverage cap of 15:1 for investment banks.
- By 2004, the regulatory separation between investment and regular banks had long been removed and leverage took off.
- By the end of 2007, 30:1 was not uncommon, and Lehman's leverage was 40:1 when it collapsed.
- Regulatory and accounting changes (including mark-to market rules) resulted in bank's capital bases eroding much faster than expected.

In an article written in September 2008, Theo Francis of Business Week writes that many people feel that the SEC is at fault for this financial crisis that we are experiencing now. He begins with the SEC's defense:

"The one thing that's clear is that the SEC didn't cause these problems," says former SEC Chairman Harvey Pitt. Rather, Congress, by failing to modernize financial regulation when it deregulated the financial-services industry in the 1990s left the SEC and other regulators without the tools to regulate new markets and securities as they arose. "In essence what we have is a 21st century financial system and a 19th century regulatory system," Pitt said. That's a view shared by Richard Breeden, the SEC chair under President George H.W. Bush. He argues that while "we will have to reexamine how permissive [the agency] had been" about the supercharged levels of leverage, the investment banks have taken on, much of the current mess cannot be laid at the SEC's feet.

Francis continues:

Douglas Holtz-Eakin, the former head of the Congressional Budget Office who is now John McCain's top economics adviser says such arguments let the SEC off far too easily. He says the agency has failed in its most fundamental oversight and surveillance functions. "There is the basic issue of identifying institutions that are at risk," he says. "And the surveillance would appear to be severely impaired because we're having entities show up every day that are in desperate shape without any warning." As to Cox's argument that he didn't have enough authority to adequately regulate the firms as they grew far bigger, and more leveraged, in recent years, Holtz-Eakin is blunt: "Did he ever ask for it?" he says. "The flow-of-funds [numbers] suggest that we have become an incredibly leveraged nation in the eight years of the Bush Administration. Is there anything that suggests an adequate recognition of the increased leverage or rules to support it (Francis, T. 2008)?"

What Ludwig (2008) is saying is that the supervision that should have been provided by the SEC resisted facing up to the reality of the developing / changing crisis (resistance to change) and had they intervened the resulting problems would have been mitigated. Theo Francis echoes this observation by first showing the SEC's statements of defense, but Francis and Holts-Eakin later wonder where was the SEC when the crisis began, and why did they resist asking for the authority to take action (resistance to learning)? Lin's six developments, which contributed to the lack of trust in our financial system, are a result of resistance to change and resistance to learning from the past. The financial system in the US resisted the warnings of their own metrics, as Lin points out, ignored the practices that caused the problems of the thirties and contributed to earlier but minor lessons (resistance to learning).

### Discussion

Resistance to change and resistance to learning in the financial sectors are indicated through the works of the above authors. It is obvious that there is plenty of "history" that demonstrates what practices should be avoided, yet the lessons of the past were ignored (resistance to learning). Most of the factors listed for resistance to learning, intrinsic motivation, loss of social identity, intrinsic motivation, conservation of energy and orientation do apply, and job security might not. If the activities of your peers are directed in one way then the loss or harm to your social identity is at stake. If your learning orientation is driven in a different direction than what history has taught you, then there will be resistance. If there has been change in the way business is conducted on Wall Street, and you do not understand the changes

or you do not want to look incompetent or are so narrowly focused, then you will resist. If the regulators have no sense of the “big picture” implying “what is happening”, or the change will be too complicated, conservation of energy (effort), there will be resistance. Clearly, the lessons of the 30’s and of the late 80’s were ignored, the resistance was driven not only by greed and incompetence but also by many of the same reasons that a physician, manufacturing worker, student or a bus mechanic resists.

### Overcoming and Implementing Resistance to Learning / Change

We have pointed out several theories as to why workers/people resist learning or change. These theories are both distinctive yet interrelated. Our original problem of why people resist the learning is also related to these theories, as Teaching Professor (2004), Kiselev, A. (2003), Kindred, J., (1997, 4), state, learning takes effort. This form of resistance probably does not apply directly to the financial sector in recent times, but does apply in many other instances where people would rather ignore what they have learned or they, “do it my own way” rather than the prescribed way. It would be prudent to develop an organization that anticipates this resistance in its structure and policies before it becomes a greater problem that affects profitability. Ideally, an organization that welcomes change is the objective. Jack Welsh (2003) in a video speaks about General Electric under his reign, relished change and in essence had a culture of change. Schein, E., (1992) assumes that a learning culture can be managed and is appropriate for humans. He feels that people should be proactive in problem solving and that those activities performed in groups or individually is also appropriate.

Cummings & Worley (2008) state:

Organizations are heavily invested in the status quo, and resist changing it in the face of uncertain future benefits. This requires attention to two related tasks: creating a readiness for change and overcoming resistance to change.

They list three basic steps to building an organization that reduces resistance:

1. Empathy and support
2. Communication
3. Participation and involvement

Schein, E., (1996, 3) in another article for HBR feels that there are three distinct and separate cultures within an organization:

- Operational culture: internal culture base on its operational success
- Engineering culture: the designers and technocrats that drive the core technologies
- Executive culture: CEO’s, because of the nature of their jobs they operate in a global community

All three are very different and two of them operate outside of the organization, according to Schein. He further states that until all three are aligned no learning will take place.

Schein’s three cultures demonstrate that forces that are not internal can influence learning. All three cultures are different and have different agendas that are specific to them. Schein offers the following:

First, we must take the concept of culture more seriously than we have. Instead of superficially manipulating a few priorities and calling that “culture change,” we must recognize and accept how deeply embedded the shared, tacit assumptions of executives, engineers, and employees are.

Second, we must acknowledge that a consequence of technological complexity, globalism, and universal transparency is that some of the old assumptions no longer work

Third, we must create such communication by learning how to conduct cross-cultural “dialogues.”

All four individuals agree that in order for learning to take place the culture of the organization must be aligned with that goal, and if it is not, no learning will take place.

### Future Research

Future research would be advantageous in validating both, the extent of this problem of ignoring the learning, and more importantly possible causes. An empirical study also dealing directly with why people “change the learning” would be unique to the literature and the value in “undoing/re-training” cost is very apparent, and worth pursuing. The fact that several authors in this study use the word “effort” suggests that there is a relationship between changing the learning, and perception of effort, suggesting that it is easier to change the learning than it is to learn.

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