

# IMPACT OF EMPLOYEES PSYCHOLOGICAL AND FINANCIAL PREDICTORS FOR READINESS TO ORGANIZATIONAL CHANGE

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## Abstract

*This study focuses on employees' psychological and financial predictors to know the employees reaction regarding change. One hundred forty one surveys were returned from full time teaching staff working in public sector universities of Pakistan. The findings indicate significant relationships between readiness to change and psychological and financial predictors. First time job involvement, training and skills development, pays/wages/fringe benefits and promotions predictors have been examined for readiness to change. Results indicate no relationship between readiness to change and employees' organizational commitment. However, employees' job involvement, training and skills development pays/wages/fringe benefits, and promotions have positive impact on readiness to change. This study may contribute in the literature on change management particularly for developing countries and may assist the management and practitioners of Human Resources Management (HRM), Human Resources Development (HRD), and Organizational Behaviour (OB) in assessing, designing and evaluating new or existing programs for organisational change.*

**Keyword:** organizational change, psychological and financial predictors, employee readiness

## 1 INTRODUCTION

By getting general competition, instability, mergers, expansion, technology, and internal or external pressures, today, organizations are going to change its strategies, structure, policies, approaches, procedures, and culture. Change might be small or large and quantum or incremental but requires proper attention due to transfer the situation from known to unknown position (Bennett, 2001). This situation can develop peculiar uncertainties, pressures and ambiguities among employees of the organizations. Though, employees develop different thoughts, feelings, and behaviours, which might be involved painful learning and relearning and creates feeling of uneasiness and tensions.

The main focus of management is effective and successful change programs, which is not an easy task because of human involvement. According to Ilgen and Pulakos (1999) human have differences in individual life experiences, motivational levels, socio demographic characteristics, knowledge, attitudes, support systems, values, and behavioural patterns. Thus, getting positive results, organization must know employee's attitudes, behaviours, perceptions and beliefs towards changes. Many researchers i.e. Armenakis *et al.* (1993; 1999), Bernerth (2004); and Bareil *et al.* (2007) emphasized on employees' readiness as an important and dominant factor for promoting effective and successful organizational change programs. In this regard, employees' readiness predictors such as the change agent role, proper process, need for change, organization capability, participation, culture, belief, environment, and commitment have been examined (Cunningham *et al.*, 2002; Eby *et al.*, 2000; Madsen *et al.*, 2005; Armenakis *et al.*, 1999). In addition, Alvi and Ahmed (1987) have reported that

satisfying employees' basic needs i.e. psychological and financial can induce employees' positive attitudes and behaviours towards organizational change programs, particularly in less affluent countries. Regardless, these factors have been found in commitment with organization and career (Penley and Gould, 1988; Goulet and Singh, 2002; Madsen *et al.*, 2005).

Nevertheless, most of the research on organizational change and employee readiness has been undertaken in the developed world or western work settings. There is therefore a need for studying organizational change in different work settings and cultures particularly in developing countries such as Pakistan. The purpose of this study is to examine employees' attitudes and behaviours for organization change programs in Pakistan. The objective is to know the employee's readiness predictors regarding employees' psychological and financial perspectives.

## 2 LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Change is defined by shifting from one stage to another or it is concerned with break down existing structures and create new one (Chonko, 2004). Change is, in fact, an adaptation to the environment of new ideas or behaviours by an organization that can be defined by many ways like transformation of an organization between two points in time (Barnett and Carroll, 1995) or planned or unplanned transformation in the structure, technology and/or people of an organization. Transferring the situation from known to unknown can develop uncertainties and ambiguities for employees because of differences in individual life experiences, motivational levels, socio demographic characteristics, knowledge, attitudes, and behavioural patterns. Indeed, employees have a variety of impacts on change. Successful adjustment to change can provide opportunities for learning and growth, while poor adjustment is characterized by feelings of threats, uncertainty, frustration, alienation, and anxiety. Thus researchers and practitioners are anxious to know employees' attitudes and behaviours for change. According to Arnold *et al.*, (1995, p. 167) "Attitudes reflect a person's tendency to feel, think or behave in a positive or negative manner towards the object of the attitude". Many researchers like Eby *et al.*, (2000); Kotter (1996); Martin (1998) focused on positive attitudes and behaviours to effective change programs.

In change domain employees' readiness has been associated with individual attitudes and behaviours that may be as support or resistance (Armenakis and Bedeian, 1999). Bernerth (2004) describes that readiness is state of mind during the change process that reflects a willingness or receptiveness to changing the way one thinks. Since last few decades many predictors have been found so for relating with employees readiness. By applying survey questionnaire Miller *et al.*, (2006) focused on employees' readiness to change by influencing three workplace factors-management/leader relationships, job knowledge and skills, and job demands found significant influence on employees' readiness for change. Hanpachern *et al.*, (1998) found that margin in life and demographic variables of employees are related to readiness for change including job knowledge and skills, social relations in the workplace, organizational culture, and management leadership relationships have significant relation with readiness to change. Cunningham *et al.*, (2002) examined logistical and occupational risks of change, ability to cope with change and to solve job related problems, social support, active vs. passive job construct to influence readiness for healthcare organizational change. First time, Madsen *et al.*, (2005) found significant relationships between employee readiness, organizational commitment and social relationships at the workplace. Current research study conducted by Holt *et al.*, (2007) found that readiness for change is influenced by employees' beliefs of self-efficacy, appropriateness, management support, and personal valence.

Relationships between employee and employer develops on the basis of work environment and mutual exchanges that can galvanize the individual's to utilize his or her abilities, efforts, experiences and skills. Organizational work environment and exchanges quite support to employees developing commitment with the organization because he or she perceives to accomplish desires, needs and future expectations. Thus academic researchers and practitioners try to explore the factors, which may

support to employees for developing mind against their services. This could be possible by analyzing the factors related with employees psychological and financial. These factors are mostly applied to know individual's cognition level towards the organization. Many researchers like Goulet and Singh, 2002; Yoon and Thye, 2002; Oliver, 1990; Madsen *et al.*, 2005 worked on employees attitudes and behaviours in the connection of employees career, identification, morals, work, job involvements, turnover, job satisfaction, and readiness behaviours. This study also focuses on the employees' basic needs i.e. psychological and financial in developing positive attitudes and behaviours. This research would be conducted in the developing country where psychological and financial factors have more importance than to others for developing employees' attitudes and behaviours (Chang, 1999; Alvi and Ahmed, 1987). Thus, research focuses on elements, which can provide active and supportive role to develop individuals' positive role (figure).

#### INSERT FIGURE 1 ABOUT HERE

Employees in organization develop their attitudes and behaviours on the basis of psychological and financial needs (Chang, 1999). Psychological aspects of employees connected with attitudinal approach, which seeks the nature and quality of relationships between employee and an organization (Oliver, 1990). This approach quite shows the individual's attachment in order to beliefs, willingness, and desires to maintain membership of the organization. In literature psychological perception has largely been revealed in the form of job involvement, job satisfaction, organizational commitment, and training and skills development (Morrow, 1993; London, 1983; Goulet and Singh, 2002).

To develop individual's perception, employees' personal variables can affect individual attachment with the organization. These variables are organizational commitment, job involvement and training and skills development, which found in psychological aspects (Morrow, 1983; Goulet and Singh, 2002). Employees' commitment with the organization has been treated as active and positive behaviours and attitudes towards organization. Mowday *et al.*, (1979) define the term as an individual identification, involvement and loyalty, which is characterized by beliefs, willingness, and membership in the organization. It has been used as a multidimensional concept like absenteeism, turnover, and organizational citizenship behaviour (Sagie, 1997; Price and Mueller, 1986). In literature it has been positively related with job performance (Mowday *et al.*, 1974) and inversely related with absenteeism and turnover (Steers, 1977; Weiner and Vardi, 1980). Job involvement is concerned with employees' attachment with job (London, 1983). In job involvement, employees can be identified by his or her job, which shows the importance of job relating with individual's life. This factor is involved with individual's psychological behaviour, which can show individual's attitudes, and behaviours. In literature training is reported as investment in current and future employees' performance (Gaertner and Nollen, 1989), which can show employees attitudes and behaviors. Gaertner and Nollen (1989) emphasized on training of employees to develop skills as to enhance employees beliefs. Thus training and skills of employees followed to competence and development in the organization. By applying predictors i.e. organizational commitment, job involvement, and training and skills development present study examines the following hypotheses to examine the employees' attitudes and behaviours in organizational change programs.

**H1:** Employees' psychological attachment with the organization has positive impact on employees readiness in organizational changes.

**H1a:** Employees' commitment with the organization has positive impact on employees readiness in organizational changes.

**H1b:** Employees' job involvement has positive impact on employees readiness in organizational changes.

**H1c:** Employees who believe the organization is doing well in training and skills development will be more open and ready for organizational changes.

Apart of psychological attachment with the organization employees can be induced by financial

support of organization to exchange his or her ability, skills, and energies. In literature this approach is concerned with employees' behavioural approach which is based on individuals' sense of attachment not an organization but to their action (Oliver, 1990). In this approach individuals maintain their relationships on the basis of salary/wages/fringe benefits, tenures, promotions or any other financial benefits relating with losing if member leaves the organization. Indeed this concept largely support to individual and organizational financial states which can be resolved by mutual understanding of need of employees and organization. Domain researchers and practitioner have advocated for financial factors as an essential for gauging the relationship between employee and organization. Various researchers have applied this dimension of employees to know the employee's attitudes and behaviors to forge relationship with the organization (Allen and Meyer, 1990; Cohen, 1996). With the help of financial predictors, this study has developed the following hypotheses to examine the employee attitudes and behaviors to organizational changes.

*H2: Employee's financial attachment with the organization has positive impact on employee readiness in organizational changes.*

*H2a: Employee's pay/wages/fringe benefits have positive impact on employee readiness in organizational changes.*

*H2b: Employee's who believe the organization is pursuing promotions within will be more open and ready for readiness in organizational changes.*

### 3 RESEARCH METHODOLOGY

This research study attempts to examine the relationships of independent variables with dependent variables by applying self-administered survey questionnaire. Many researchers like Madsen *et al.*, (2005); Miller *et al.*, (2006); Rafferty and Simons (2006) focused on employees' readiness to change with different variables i.e. management/leadership relationships, job knowledge skills, job demands, organizational commitment and social relationships by applying survey questionnaires.

#### Procedures

The data for this research study were gathered via a survey questionnaire. The survey was administered to the participants through email and personal visits. Before sending questionnaire to participants, researchers contacted for their willingness to take part in the study. After getting their affirmative response, survey questionnaire along with a formal consent form and covering letter mentioning the purpose of the study and instruction how to complete the survey instrument were sent to each participant. In the response of no response from the study participants after two weeks of sending them the survey pack, a reminder were issued requesting them for return of completed survey questionnaire.

#### Participants

The participants in the study were academics who were full time employees of different public sector higher educational institutions of all four provinces of Pakistan. A sample of faculty members were selected randomly from various levels of academic i.e. professors, associate professors, assistant professors, and lecturers working at different public sector universities.

#### Measurement Scales

Survey questionnaire has been developed on the basis of what kind of information needed. In this research study, independent variable i.e. readiness for change and dependent variables such as psychological and financial variables were used to examine the employees' attitudes and behaviours. All variables have been carried out with many options of Likert Scales for the variety of choice of individuals.

#### *Readiness for change*

Fourteen items applied by Madsen *et al.*, (2005) based on Hanpachern's original Scale (with slightly alterations), which is based on McNabb and Sepic (1995). Participants were asked to tick one of seven numbers on a Likert scale (1 = Very Unlikely and 7 = Very Likely).

#### ***Employee's Commitment with the Organization***

The well-known nine item five point Likert Scale (Strongly Disagree to Strongly Agree) Cook and Wall's British Organizational Commitment Scale were used to examine the employee's commitment with the organization.

#### ***Job involvement***

By using Blau (1985) five items scale based on Kanung's (1982) study were used to measure the job involvement with five point Likert Scale (Strongly Disagree, Strongly Agree)

#### ***Training & Skills Development***

This variable was measured by three items applied by Chang (1999) based on Mobley *et al.*, (1978) with five point Likert Scale (Strongly Disagree, Strongly Agree).

#### ***Pay/wages/Fringe Benefits***

This variable was measured by applying a six items scale with five Likert Scale (Strongly Disagree to Strongly Agree) from Price a Muller (1986) modified by Yoon and Thye (2002).

#### ***Promotion***

Three items with five points Likert Scale (Strongly Disagree, Strongly Agree) were used by Chang (1999) based on Gartner and Nollen (1989) study used to measure the employee's perception about promotion within the university.

#### ***Demography***

Demographics included gender, age range, marital status, present employment status, highest educational level, number of dependent, years on their present job and years with present employer.

## **4 RESULTS**

By personal visits, emails and post two hundred surveys distributed among the faculty members from fifteen different public sector universities in all four provinces of Pakistan, one hundred forty one were returned. This showed a response rate of 70.5%. Details of the participants (Table 1) show that 70.9% (n=100) participants were male and 40.4 % (n=57) were between 31 to 40 years of age. Majority (65.2%, n=92) of the participants were married. The majority of respondents comprised lecturers (50.4%, n=71) and assistant professors (30.5%, n=43). Fifty Nine percent (n=84) had master's degree as the highest educational qualification. Majority of respondents (29.1%, n=41) had remained on the present job for 1 to 5 years and most of them (31.2%, n=44) were working with the present employer for the same period.

INSERT TABLE 1 ABOUT HERE

### **Relationships between Readiness for Change and Employees' psychological and financial attachment**

In this study, overall, participants perceived themselves as generally open and ready for change with a statistical mean (M) of  $5.44 \pm 0.68$  on a seven point Likert scale of Very Unlikely (1) to Very Likely (7). The participants appeared to be fully committed by psychological ( $M = 3.57 \pm 0.44$ ) and financial ( $M = 3.43 \pm 0.26$ ) on a five point Likert scale of Strongly Disagree (1) to Strongly Agree (5).

By using Pearson's Correlations analysis, a significant correlations between the scales were determined at two levels i.e.  $p = 0.05$  and  $p = 0.01$  (Table 2). In this study, psychological and financial attachment scales are found to be significantly and positively correlated with readiness to change scale at the level of  $P < .01$ .

INSERT TABLE 2 ABOUT HERE

Thus, the first hypothesis (H1: Employee's psychological attachment with the organization has positive impact for readiness in organizational change) predicted was found to be true. However, results of sub scales i.e. organizational commitment, job involvement and training and skills development are different. Organizational commitment is not correlated with readiness to change scale at any level ( $r = .111$ ). Thus, hypothesis (H1a: Employees' commitment with the organization has positive impact on readiness in organizational changes) was not found to be true as predicted. Nevertheless, job involvement is significantly ( $P < .05$ ) and positively correlated with readiness to change. This showed hypothesis (H1b: Employees job involvement has positive impact on readiness in organizational changes) was true as predicted. Results of training and skills development variable is significantly and positively correlated with the change readiness at the level ( $r = .228$ ;  $P < .01$ ), thus hypothesis (H1c: Employees who believe the organization is doing well in training and skills development will be more open and ready for organizational changes.) predicted was found to be true.

Financial scale is found to be significantly and positively correlated with readiness to change scale at the level of  $P < .01$ . Thus, the hypothesis (H2: Employees financial attachment with the organization has positive impact on readiness in organizational change) was found to be true. Results of financial attachment's two sub scales i.e. pays/wages/fringe benefits and promotions are significant and positively correlated with the change readiness. Pays/wages/fringe benefits are correlated with readiness to change scale at the level ( $r = .188$ ;  $P < .05$ ). Thus, hypothesis (H2a: Pays/wages/fringe benefits have positive impact on employee readiness in organizational changes) was true as predicted. Promotions are significantly ( $P < .01$ ) and positively correlated with the organizational change. This showed hypothesis (H2b: Employee's who believe the organization is pursuing promotions within will be more open and ready for readiness in organizational changes.) was truly predicted also.

## 5 DISCUSION

This research study is related to examine the employees' attitudes, beliefs, and behaviours for readiness to organizational change. The conceptual model of the paper was developed on the study basis of Madsen *et al.*, (2005); Penely and Gould (1988); Yoon and Thye (2002) and Chang (1999). The relationship between psychological and financial attachment to readiness including organizational commitment, job involvement, training and skills development, pays/wages/fringe benefits, and promotion is the focus of the research. By applying survey questionnaire, overall results of the scales were found reliable, as indicated by Cronbach's alpha ( $\alpha = .798$ ), which shows high internal consistency among various scales included in this survey questionnaire. However, reliability of individual scales was different from each other (Table 2).

### **Employees Psychological Attachment with Organisation**

Employees' psychological attachment with the organization scale was found reliable which reveals that this scale has internal consistency. This finding is in agreement with previous studies (Madsen, *et al.*, 2005; Chang, 1999; Alvi and Ahmed, 1987). Statistical mean of this scale also showed employees' openness and readiness for change.

The first psychological factor is employees' commitment to organization, which is related with attitudes and behaviours of employees (Madsen *et al.*, 2005; Gaertner and Nollen, 1989; Gautam *et al.*, 2001). The notable finding of this study is that employees' commitment with the organization scale is not significantly and positively correlated with readiness to change. However, it is correlated with the job involvement, financial attachment, and promotions. This suggests that this scale has no impact on developing employees' attitudes and behaviours regarding change. This finding in our study is thus different from previous studies like Madsen *et al.*, (2005) and Chang (1999).

The second factor is job involvement, which applied researchers such as Goulet and Singh, (2002) and Chang, (1999) to know individual's intentions and beliefs for organization. We also used this scale

and found correlated with readiness to change. This suggests that employees can be attached to organization when they perceive job involvement into the organization. In addition, finding of this research is confirmed the previous studies like Goulet and Singh (2002) and Chang (1999).

The third psychological factor is training and skills development, which applied by Gaertner and Nollen, (1989); Chang (1999) as a psychological factor to develop employees' beliefs and perception regarding organization. This research also used the scale and found highly correlated with readiness to change. This has been confirmed in this study that organization-provided training and skills may develop employees' attitudes and behaviours for change.

### **Employees Financial Attachment with the organization**

Employees' financial attachment with the organization scale was found reliable which reveals that this scale has internal consistency. This finding is in agreement with previous studies like Judges, *et al.*, (1995); Goulet and Singh, (2002); Poon (2004). In addition, the statistical mean of this scale ( $M = 3.43 \pm 0.26$ ) also showed that employees of organizations can be ready and open for any change when organization fulfil employees' financial needs. According to Penely and Gould, (2002); Aghos, *et al.*, (1991) employees' can develop positive attitudes and behavior for organization on the basis of financial support. We have found that financial attachment has significant and positive correlated with readiness to change, which shows that this scale is important to examine the employees' attitudes and behaviours to organizational change.

In this scale we surveyed participants' responses regarding two subscales i.e. pays/wages/fringe benefits and promotions. This has been confirmed in the study that pays/wages/fringe benefits and promotions have positive impact on employees' attitudes and behaviour in change situation. Gaertner and Nollen, (1989) confirmed that the employees of the organization are more committed when they believe their proper reward and timely promotion from within policy. This study also confirmed that argument which is likely to increase employees' willingness and openness (Wholey, 1985).

The present research suggests that the employees' psychological and financial states may change according to one's attitudes and behaviours towards readiness for change. Employees highly attached to their basic needs may bring greater level of expectations or desires into the organization. When their expectations or needs are fulfilled by the organization, they would be more motivated for organizational change.

## **6 LIMITATIONS AND IMPLICATIONS**

This research study has three limitations. First limitation is the use of single source data. According to Rafferty and Simons (2006, p-346) when measures come from a single source may defect in the source contaminate both measures, presumably in the same fashion and in the same direction. Thus a questionnaire survey may not provide deeper opinions and feelings of employees. The second limitation is limited antecedents and determinants examined for readiness to change. The third limitation is small sample of population.

This study contributes to organizational behaviour, human resource development, organizational development, and change literature. According to Hanpachern, *et al.*, (1998), that HRD and OD practitioners focused on employees' work life satisfaction and well-being. Thus, this study revealed on employees' readiness to change in order to satisfaction his/her financial and psychological needs. This study can support to management, change agents, and practitioners in assessing, designing, and evaluating new and existing organizational change programs.

## 7 CONCLUSIONS

Review of literature on change management has revealed that employees' attitudes, beliefs, support, and behaviours are influenced by psychological and financial factors. A conceptual approach has been developed which encompasses a number of factors i.e. employees' commitment with the organization, job involvement, trainings and skills development, pay/wages/fringe benefits, and promotions. This research study demonstrates the impact of these factors for readiness to change. Results showed positively significant correlations between scales, which makes known that employees' could develop their attitudes and behaviours on the basis of fulfilment of expectations or needs. This study reports employee readiness for change with psychological and financial factors. However, employees' commitment with the organization factor was not found correlated with readiness to change. This finding highlights that employees do not believe and support to change by organizational commitment in developing country. In addition, there were higher correlations between job involvement, training and skills development and readiness to change. Regarding the effect of financial attachment, this study found that employees might be more open and ready to accept change when they perceive financial support from the organization. This study found financial subscales such as pays/wages/fringe benefits and promotions positive and significant correlation with readiness to change. This higher correlation highlights the need to promote employees within policy provide appropriate financial rewards. Of particular interest is the finding that employees' commitment with the organization despite satisfactory coefficient alpha reliability may not be significantly correlated with the readiness of organizational changes a revealed in this study.

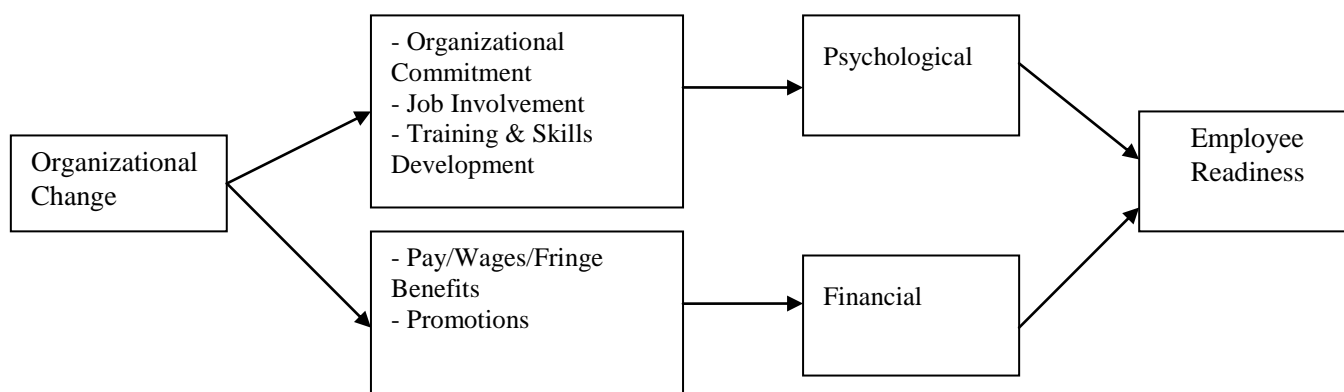
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**Figure 1 Conceptual Framework****Table 1. Demographic characteristics of participants (n=141)**

Demographic	Category	Frequencies
Gender	Male	100
	Female	41
Age	< 21 years	1
	21-30	44
	31-40	57
	41-50	23
	51-60	15
	> 60	1
Marital Status	Single	47
	Married	92
	Divorce/Widows	2
Present Employment Status	Lecturer	71
	Assistant Professor	43
	Associate Professor	12
	Professor	15
Highest Educational Level	Masters Degree	84
	MS/M. Phil Degree	32
	Ph. D Degree	15
Number of Dependents	1-2	31
	3-4	36
	5-6	24
	7+	20
	None	30
Years on present job	< 1 year	22
	1-5 years	41
	6-10 years	29

	11-15 years	13
	16-20 years	19
	21 and more	17
Years with present employer	< 1 year	20
	1-5 years	44
	6-10 years	27
	11-15 years	16
	16-20 years	17
	21 and more	17

**Table 2 Cronbach's Coefficient Alphas and Correlations of scales**

S. No.	Variable	Co-efficient								
		Alpha	1	a	b	c	2	a	B	3
1.	Psychological	.629	----							
a.	Organizational Commitment	.521	.773**	----						
b.	Job Involvement	.553	.671**	.354**	----					
c.	Training & Skills Development	.519	.589**	.100	.137	----				
2	Financial	.803	.441**	.244**	.280**	.391**	----			
a.	Pays/Wages/Fringe Benefits	.816	.354**	.204*	.200*	.325**	.927**	----		
b.	Promotions	.582	.420**	.218**	.314**	.352**	.726**	.416**	----	
3.	Readiness to Change	.696	.258**	.111	.211*	.228**	.261*	.188p*	.288**	---

Notes: Total N = 141; \*p < .05; \*\*p < .01 (two-tailed)