

ORGANIZATIONAL CHANGE DETERMINANTS AND EMPLOYEES BEHAVIOR: A PSYCHOLOGICAL CONTRACT PERSPECTIVE

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Abstract

Organizational change as a strategic tool has influenced psychological contracts and fundamentally changed the nature of employment relationships in contemporary organizations. There is a continuous pressure on organizations to adapt new technologies, be competitive in markets, consider strategic outlook, mergers and acquisitions, globalization etc. for their survival. This study is aimed at examining the relationship between determinants of organizational change (impact of change, type of change, frequency of change, successful changes in the past) and intention to quit. In addition, this study offers a comprehensive proposed conceptual model that considers fulfillment of psychological contract (work content, career development, social atmosphere, organizational policies, work life balance, rewards) as mediator with a situational factor like the availability of attractive job alternatives as a moderator.

Keywords: Organizational Change, Employee Relations, Psychological Contract fulfillment

Introduction

The rapidly changing nature of work environment has become an inevitable part in contemporary organizations. Breakthroughs in information, and industrial revolution have caused a major shift in employment relationships (Herriot and Pemberton 1996). Organizations have been struggling for existence due to economic downturns, increased global competition, rapid growth, and advancements in information technology. It has become likely for these organizations to adapt to the new work place environment and redefine the relationship between employee and employer (Guest 2004; Herriot and Pemberton 1996). Restructuring, downsizing, layoffs, mergers and acquisitions, new processes, advancements in

information technology, etc. are possible options for organizations to chose from and start a new life for proposed or possible survival.

The ideas of motivation, job satisfaction, and loyalty have become effete in modern workplace environment. These change interventions have a significant impact on psychological contract of individuals and employment relationships because organizational change is likely to change what is to be offered by employer and what is expected from employees involved in return (Guest 2004; Freese 2007). According to Robinson (1996) psychological contract plays an important role in looking at employment relationships in the event of organizational change. Some of these changes are extreme level e.g. mergers and acquisitions where employees often feel it as a threat to their job security (Saunders and Thornhill, 2003). By considering these changes, it has become very important to have a closer look in order to redefine the relationship between employees and employer (Guest, 1998; Hendry and Jenkins, 1997; Anderson and Schalk, 1998; Turnley et al., 2003).

Psychological contract and new psychological contract

Psychological contract construct has attained prominent consideration in leading texts related to organizational behavior, organizational psychology, and human resource management discourse. This increasingly important consideration of construct is due to the complexity of managing employee-organization relationships in contemporary large organizations. Since the re-conceptualization of the construct 'Psychological Contract' by Rousseau (1989; 1990), there is a superfluity of research on the topic psychological contract. Psychological contract is referred as a concept of an employee's individual belief regarding terms and conditions of mutual obligations that are developed during his/her relationship with employer (Rousseau 1990). Psychological contract emerges when employees believe that their employer has made promises to their contributions in return for future benefits. These perceptions of promises, obligations, and expectations between employer and employee are based on exchange relationship. Previously, the concept was based on expectations only but re-conceptualization of construct by Rousseau has transformed the concept from expectations to be more focused on promissory side of contract. What employees feel about promises made by their employer? Earlier studies tried to locate a balance between the inputs by employees and the employer but Rousseau emphasized looking into contract violation aspect of the contract.

Old or new psychological contract

Once the already existing psychological contract between employee and employer is replaced due to organizational changes result in what authors called it in literature as 'New Psychological Contract' (Cavanaugh

and Noe, 1999; Hendry and Jenkins, 1997; Martin, Staines, and Pate, 1998; Sims, 1994; Stone, 2000; Sparrow, 1996; Rousseau, 2001) or 'Psychological Contract Changes' (Bellou, 2006), or 'New Deal' (Herriot and Pemberton, 1995; Hiltrop, 1995; Sturges, Conway, and Guest, 2005; Martin, Staines, and Pate, 1998; Hendry and Jenkins, 1997; Anderson and Schalk, 1998; Nadin and Cassell, 2007; Whitener, 1998). Employees are likely to reexamine their relationship with employer when there are planned or major changes in the organization e.g. layoffs/downsizing, HR policies and procedures, mergers and acquisitions etc. which ultimately causes considerable impact on employment relationships (Rousseau and McLean Parks 1993; Bellou, 2006).

Most of the authors have found changes alter the existing psychological contract (Zhao et al., 2007; Turnley et al., 2003; Robinson et al., 1994). According to Bellou (2006) in case of mergers and acquisitions, the already existing psychological 'contract formation ceases to exist' because the new contract is understood to be transformed by acquiring or holding organization (Catwright and Cooper, 1992, 1994; as cited in Bellou, 2006). Considering the situations faced by organizations due to these stated changes, there is greater need to revise the changed psychological contract or 'New Deal' by looking at different factors affecting the employee-organization relationship to further manage the relationship for the existence of acquired or holding company e.g. social and cultural environment, internal and external business factors do affect psychological contract.

Jean-Marie Hiltrop's work (1995) "The Changing Psychological Contract: The Human Resource Challenge of the 1990s" is considered a seminal work in comparing 'Old' v 'New' psychological contract conception. However, it is worth mentioning that this study did not provided any empirical evidence about New psychological contract. According to Hiltrop (1995) p. 289, *"There is no job security. The employee will be employed as long as he or she adds value to the organization, and is personally responsible for finding new ways to add value. In return, the employees has the right to demand interesting and important work, has the freedom and resources to perform it well, receives pay that reflects his or her contribution, and gets the experience and training needed to be employable here or elsewhere."* The consistency in literature can be found most frequently regarding different studies on changing nature of workplace environment, organizational changes, development of psychological contract from pre-Rousseau to post- Rousseau, and later on dynamics of psychological contract construct (De Vos et al., 2003; 2005). According to Levinson et al., 1962, "The contract changes over time, similarly, as the expectations and needs of employees and organization change." There is a general consensus about contract being a dynamic construct (Freese, 2008).

Proposed Conceptual Model of study

The central question in this proposed research is: How organizational change determinants cause change in behavioral responses of employees e.g. intention to quit? Most of the research in the context of psychological contract and organizational change focused on how the content, feature, or state of psychological contract is changed in the event of major organizational change or the relationship between employees and employer is affected.

The contribution of this scientific study is many fold. Firstly, this study aims to examine how determinants of organizational change affect fulfillment of psychological contract. Organizational change is the cause of change in psychological contract. Looking at both determinants of organizational change and content of psychological contract fulfillment i.e. perceived organizational obligations as a result in intention to quit will be examined. The influence of type of organizational change, personal impact of change, frequency of change, and successful changes in the past will be examined. Secondly, the present study will use intention to quit as consequence in the study and change in psychological contract. Specifically, to examine exit response of employees when it is perceived that their psychological contract is changed overtime.

Finally, the study aims at investigating the affects of situational factor proposed to moderate the relationship between psychological contract fulfillment and intention to quit. Some authors have previously examined direct effects of situational variables (see e.g. Turnley & Feldman, 1998), while others (e.g. Robinson, 1996; Rousseau, 1995) have suggested that moderating factors such as the availability of attractive job alternatives may moderate employees' reactions to psychological contract. However, there has been no empirical study whether situational factors actually moderate the relationship between behavioral responses of employees and psychological contract. The proposed conceptual model concentrates on the availability of attractive job alternatives as moderating variable.

The proposed conceptual model of this study points out how organizational change causes change in psychological contract and behavioral responses of employees involved as consequences of this change. Psychological contract is influenced by both employees and employers due to changing nature of obligations, promises, and expectations. This study will be more focused on how psychological contract non-fulfillment occurs due to major organizational change implementation by employer that further changes the overall already established psychological contract. The proposed conceptual model of this study widens the scope towards psychological contract theory by looking at different angles at the same time. None of the previous studies have examined this setting of variables by looking at

psychological contract fulfillment as content, determinants of organizational change as cause and behavioral responses of employees as consequences such as intention to quit, altogether. Most of the previous researchers have studied single cohort of fresh MBAs, or managerial level employees as participants of their study but in this study non-managerial employees will be examined how they behave during circumstances of major organizational change because somehow, managerial level employees are part of major organizational changes and least affected group e.g. participation, involvement, engagement and decision making etc. However, non-managerial employees do not have such privileges. So there is greater need to study non-managerial employees in order to find out why employees behave so differently in the circumstances of major organizational changes. This sample allows for a closer investigation of differences in the degree of psychological contract fulfillment and the specific contract elements across these non-managerial level employees within these selected organizations.

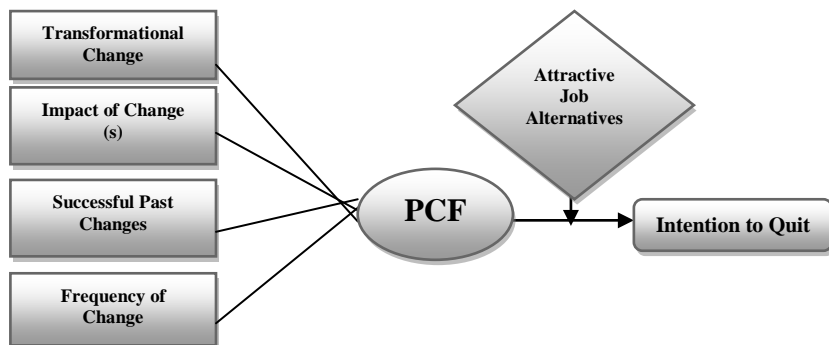


Figure 1: Conceptual Model

According to Freese (2007) "organizational change often causes non-fulfillment of psychological contract". Due to organizational change the content or features of psychological contract results in violation and employees become more transactional focusing on financial side of relationship with their employer. The relational side of contract formation comes to an end with the implementation of organizational changes, new promises, obligations, and expectations are introduced or comes into practice. Although, this change in values may come through both sides, employee as well as employers. For example, the attitude of employees towards training, career development, promotion, flexibility in working hours, job satisfaction, motivation, trust, rewards, career development by employees may result in changing the content, or feature of psychological contract by the employer side.

Different aspects of organizational change have been studied so far that examined effects of organizational change (Freese, 2008; 2011), attitude

towards changes (Smissen et al., 2013), coping with change (Judge et al., 1999; Bellou, 2006), downsizing (Raffert and Griffin, 2006), mergers and acquisitions (Bellou, 2006). The current study contributes to the existing literature by examining the effects of determinants of organizational change mediated by psychological contract fulfillment (perceived content of employer obligations) on intention to quit as a consequence of major organizational change i.e. merger and acquisition. The study uses the literature review by Oreg et al., 2011 "Change recipients' reactions to organizational change: a 60-year review of quantitative studies", the determinants of change outlined by authors in this study are as under:

1. *Content of Change*
2. *Perceived benefit/harm*
3. *Internal Context*
4. *Process of Change*
5. *Change recipients' characteristics*

These items are linked to reactions of employees due to organizational change event. This study uses all these determinants of change but the fourth i.e. change process (how change was implemented). It is always difficult to examine how change is implemented by organizations.

The other items are considered by looking at type of change i.e. transformational change e.g. mergers and acquisitions (Bellou, 2006). Many prominent authors in this field have found the significant impact of type of change (e.g. Morrison and Robinson, 1997; 2000; Robinson et al., 1994; Rousseau, 1995; Bouckenooghe, 2010). Perceived benefit or harm is considered by looking at the personal impact of change on employees. This is one of the most important antecedent of organizational change. Internal context involves two elements : a) change history, b) frequency of change.

Change recipients' characteristics are studied as controlled variables (age, experience, education etc.). Smissen et al., 2013, carried out research amid "Do organizational change factors affect psychological contract fulfillment and the employees' attitude towards change?". The results of the study show that personal impact of change and previous change history has considerable influence on employees' attitude towards change. However, frequency of change and history of organizational changes in the past had an impact on fulfillment of psychological contract (Smissen et al., 2013). It is expected that out of change determinants personal impact of change, transformational change (Change type), change frequency will have a negative effect on perceived fulfillment of organizational obligations towards employees and successfulness of changes in the past will have a positive effect result in the following proposition:

Proposition 1: Transformational changes (major changes), more frequent changes, high impact changes have negative effect on PCF but a positive effect on PCF with successful changes in the past.

The introduction of organizational change changes either entirely or partially the fulfillment of psychological fulfillment. These changes likely to affect organizational values and have a major impact on perceived organizational obligations towards its employees. Many researchers have studied the relationship of in-role and extra role behaviors of employees towards fulfillment of psychological contract (Turnley and Feldman 1999, Suazo, 2009, Robinson and Morrison, 1995).

Proposition 2: Transformational changes, high impact changes, and more frequent changes leads to higher intention to quit. Successful changes in the past leads to lower intention to quit.

Proposition 4: PCF mediates the relationship between organizational change determinants (type, frequency, personal impact of change and successful changes in the past) and intention to quit.

Proposition 5: The availability of attractive job alternatives will moderate relationship between lower fulfillment of psychological contract and intention to quit. The higher the availability of attractive job opportunities the higher will be exit.

Conclusion

It is expected that the relationship between organizational change determinants on intention to quit is mediated by content of psychology contract fulfillment (perceived fulfillment of organizational obligations towards its employees) and will be moderated by the availability of attractive job alternatives to employees. According to Turnley et al., (2003) 'the relationship between psychological contract fulfillment and attitudes of employees at work is well established in literature but research on work behaviors related to psychological contract breach needs to be further examined'. There is lack of empirical research in this area of study.

This paper reviews selected papers on organizational change, psychological contract, employees behavioral responses literature to further develop understanding and importance of employment relationships in a changing nature of workplace environment. The proposed conceptual model highlights the effects of determinants of organizational on perceived fulfillment of organizational obligations and intention to quit. More organizational changes leads to more negative judgment towards employment relations and more frequent changes lead to lower fulfillment of psychological contract of individuals. Organizational change process is a continuance process, there is greater need to incorporate longitudinal research or other multi-method research to find out interesting results in this

area of research. Furthermore, there is need to look at the importance of employee and employer relations before considering major organizational changes and their implementation process.

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