The impact of organizational change on the employee’s performance in banking sector of Pakistan

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ABSTRACT: The purpose for this research paper is to analyze the impact of organizational change towards employee performance in the banking sector of Pakistan. In this study Primary and secondary data collection techniques were used for obtaining data. Questionnaires were used for primary data collection. Leadership, Communication, Procedural justice, Employee development, Tolerance to change are the variables considered for this study. The sample size for this research is (n=252) hence descriptive statistics and correlation analysis techniques were used for the analysis of data in SPSS software. The results show that organizational change has a positive significant impact on employee’s performance in banking sector of Pakistan. The study suggests that further research should be conducted in various sectors and also by increasing factors of organizational change in order to observe the overall impact of organizational change towards employee performance.

Keywords: Organizational change, Employee performance, Banking sector, Leadership, Communication, Procedural justice, Employee development, Tolerance to change.

1. INTRODUCTION

Banking sector is the only sector where every deal and transaction accounts for its own progress and also impacts directly on the economy of the country as well. In today’s dynamic and competitive economy, the organizations require more well-qualified, dedicated and capable employees in order to achieve their goals and to prosper in the intense competitive environment. By effectively utilizing the talented people, organizations may achieve successful results and develop a highly productive workforce. (Harrington, 2003)

The success of every organization depends both on Internal and external factors, Workforce is the most essential and imperative for organizations competitiveness. Human resource is the real asset of an organization and plays a major part towards progress of the organizations. (Batool, 2013) It is vital for Banks to fully utilize their resources both liquid and non-liquid resources as well as their workforce. (Kozarevic, Peric, & Delic, 2014).

Usually employees have the feelings of stress, nervousness and lack of confidence when the organization changes like restructuring, downsizing and as well as merging. Although of the fact that change is progress and it is essential to go in its direction in order to attain growth, still people are reluctant to accept it. According to Duck (1993), “change is intensely personal”. The general believe is that most people have resistance towards change. (Dulger, 2009).

On the basis of past empirical studies, Researchers identified few apprehensions regarding employees stress and nervousness due to the changes in the organizations because they are acquainted with the previous organizational environment. Such changes may decrease employee’s morale resulting in the decrease of employee performance. (Ashford et al., 1989) as cited in (Nicolaidis & Katsaros, 2007).
In banking sector customer service is of vital importance. In Banks Employees deals with the clients on daily basis so they are playing the major role in the profitability and reputation of banks. Employees have concerns about their employment and benefit subsequently the change. They are frightened whether organizational changes have positive or negative impact on their employment and benefits. Due to such type of uncertainty employees have lack of interest to work for the growth of the organization. In banking sector employees apprehensions must be removed in order to increase the efficiency and effectiveness of the employees so that banks earn good repute and profitability.

Nowadays, due to the intense competitive environment rapid changes occur in the organizations which increased the competition for gaining revenues and growth. Concept of organizational change concerns mainly with the organizational wide transformation that mainly include the changes in term of mission of the organization, operations of the organization, mergers, major partnerships and others. There are research sayings that organizational change means organization transformation. (Kotter & Schlesinger, Choosing strategies for change, 2008).

In order to practice quality standard, value is the most important which sets the real beliefs in order to attain the performance in teams and to deliver the superior customer service to the clients. When change starts to appear then leaders have the chances to lead their workforce in better perspectives. Though employee’s obligation is necessary in order to move the organization towards growth and progress. (Pierce L., 2003).

1.1 Research Background
The banking sector in Pakistan has changed considerably since the economic crisis of Asia. After getting independence from British, Pakistan faced a lot of problems due to the scarce resources and at that time there was no existence of any Pakistani Bank. After the inauguration of State bank of Pakistan in 1948 the Banking sector starts working and with the passage of time number of Banks increases. Due to the technological advancement employees faces greater workloads because of variation and reorganization. Employees in this sector have the anxiety because of the changes of organizational culture, working conditions and environment finally the organizations management. It is of vital importance that employees in banks are whole heartedly and physically committed with their respective banks so that they can put greater efforts in attaining the goals. It helps to improve the efficiency and effectiveness of banks so that they can achieve their established goals as well as enhances employee’s performance.

1.2 Problem Statement
This research aims to study the impact of Organizational change variables such as leadership, communication, Employee development, Procedural justice, tolerance to change and its effect on Employees performance particularly in the banking sector of Pakistan. This research study therefore helps to improve the understanding of organizational change and its possible effects especially in the banking sector of Pakistan.

1.3 Scope of research
This research helps to provide an overview of organizational change and its possible impact on employees’ performance in the banking sector of Pakistan. This study examined the relationship of independent variables on dependant variable. This paper presents a clear picture about the factors of organizational change and the relevant consequences on employees’ performance in the banking sector of Pakistan. The scope of this research paper is broad enough to address maximum aspects regarding employee performance. Consequently this research focuses on the most influential factors regarding employees’ performance in the banking sector of Pakistan.

2. Literature Review
Banking sector is the most essential sector for any country because it executes the major role in the economy of any country. The branches of British banks were dominated in Pakistan before partition of 1947. State bank of Pakistan was
inaugurated in 1st July 1948 after partition; it assumes the same monitory and supervisory power as of central bank of India. With the passage of time the numbers of banks were increased. The period of 1960 was coated the golden period in the economy of Pakistan. The political regime 1974 nationalized all the banks in the country. These banks were merged into 5 nationalized banks. This step takes a contumely for worse towards the economy of Pakistan. During the military rule in 1980’s certain reforms were taken to denationalize these banks in order to create competitive banking environment by giving entry to foreign banks which improves the situation in the banking sector of Pakistan. (Bharathi, 2010). The number of total branches of public and private sector, commercial, Islamic and foreign banks are 10361 according to the data of state bank of Pakistan June 2013.

2.1 ORGANIZATIONAL CHANGE

The concept of the organizational change comes from the nature and environment of the organizations. Change basically means series of events which supports the process of development in organizations. (Kassim, Tahajuddin, Shahzad, Isa, & Mat, 2010). Organizational change generally means rightsizing, new development and change in technologies, rescheduling operations and major partnerships. (McNamara, 2011).

Organizational change includes Mission changes, Strategic changes, Operational changes (including structural change), Technological changes, Changing the attitudes and behaviors of personnel’s, Counter resistance from different employees of companies and align them to strategic directions of the organization.

In today’s dynamic environment organizational change is indispensible for every organization to proceed and prosper in ever changing business environment. A survey conducted by McKinsey on a five year data, 1536 companies were taken for this survey which generally meant for organizational change, the result of the survey shows that 38% organizations were succeeded in achieving high employee performance. (Isern & Pung, 2007). Internal and external factors must be considered in the process of organizational change in order to alter their way of business for organizational growth.

The goals of organizational change are multi faceted however the major one’s are improving the organization merging, crisis intervention and to overcome day to day hauling competition. (Isern & Pung, 2007).

In this research paper, the impact of organizational change towards employee performance in banking sector of Pakistan is measured. According to the data collected from different sources, there are eight variables which are leadership, communication, employee development, tolerance to change, procedural justice, and finally employee performance. In these variables there are five independent variables which are leadership, communication, employee development, tolerance to change, procedural justice, and one dependent variable that is employee performance.

2.2 Employee Performance

Employee performance is vital for the success of every organization and profitability in this dynamic environment. (Chien, 2004). Now a day’s organizations require such type of employees who contribute more than their job scope and far from goals expectations. Most of the organizations coping with contemporary challenges put more emphasis on employee performance. (Gruman & Saks, 2011). According to some authors, service firms like banking sector invests more on their work force in order to maintain long term relationship with them and to increase their performance along with job satisfaction. (Karatepe, Uludag, Menesis, Hadzimehmedagic, & Baddar, 2006). Downsizing, mergers, innovations and restructuring of the organizations usually decrease employee’s performance. In additions to that, task, quantity and quality, changing location and time constraints radically affect the work life of employees. (Tavakolia, 2010).

Nowadays, many companies are facing current challenges and need to put more concentration on increasing employees' performance. Hence, to connect in valuable performance, managers need to let employees to have more power to design their
jobs and roles. Thus, employees will find their jobs more fit between employees' needs, skills and values.(Gruman & Saks, 2011).

The deficiencies of employee performance will be overcome by effective leadership, communication, motivation, employee development, tolerance to change, procedural justice, and organizational culture.

2.3 Leadership

A leader is one whose behavior guides people towards their goal achievement. Leadership influences managers, employees of the organization and organization performance with goal achievement.(Stogdill, 1974).

Different styles of the leader play a vital role towards enhancing employee’s performance in order to achieve their goals.(Wang, Fan, Hsieh, & Menefee, 2009). According to Appelbaum, Hebert; Leroux, (1999) two classical leadership styles emerge, “One is characterized by a more directive, authoritarian style of management that focuses on the task and initiating structure. The other is characterized by sharing of information, participation, consultation, delegation and joint decision making focused on employee orientation and consideration”. (Vecchio & Appelbaum, 1995).

An employee’s autonomy and self responsibility could be reduced by close control from their leader. If an employee feel to be competent and has willpower but managerial behaviors that can restrict their freedom such as observing them all the time or keep on checking their work performance could draw out psychological problems that could affect the performance of the employees and such reaction could bring poor job attitudes, minimum level of efforts by the employee or both.(Brehm, 1972).

The success of organizational change and employee performance depends mainly on leadership commitment and roles. The key to the success of these leaders depends on vision rather than analysis, on learning rather than on knowing because a leader has a strong communication of the vision because this is more important in today's leaders.(Wesley, 1996). A leader has the ability to influence their employees so that they can work efficiently and get the things done in order to achieve organizational goals. (Wang, Law, Hackett, Wang, & Chen, 2005).

The performance of the organization will increase if employees share their ideas and values with each other. A leader is one who can give rewards to his employees, motivate their employees towards task achievement, giving incentives; give moral support so that employees put more effort to their work.(Webb, 2007)

2.4 Communication

Communication is a process through which information, ideas and knowledge can be exchanged. There are many ways through which communication process can be delivered as writing, print or electronic media and through speech. It is a tool by which people can communicate with each other. With effective communication ideas and information can be conveyed.(Wanguri, 1995).

Organizational communication is defined as the method in which language is used as a tool to make different kind of societal structures, such as teams, relationships, and networks.(Eisenberg, Goodall, & Trehewey, 2007).

Organizational communication takes place in many forms which includes supervisor communication, communication climate, horizontal communication, media quality, organizational integration, organizational perspective, personal feedback, subordinate communication as well as top management communication.(Wanguri, 1995).

Communication with workforce is essential in order to lessen the employees negative impact when changes done in the organization. Management needs this strategy to win the trust of the employees through effective communication to enhance employee performance and employees perception about management new styles and trustworthiness.(Nikandrou, Papalexandris, & Bourantas, 2000).

When management changes organizational structure those employees who are career oriented put their extra efforts to groom themselves and make extra commitment to maintain organizational change efforts.(Rashid & Zhao, 2010).
Through effective communication managers of the organization can build strong relationship with peers and subordinates. Those organizations whose have an open policy system encourage their employees to give inputs, share ideas so that organizational performance should be improved. (Dahlberg, 2007).

Communication is more effective to influence the lower level employees because they are directly related to production of the organization and shows positive linkage between communication and productivity. Communication is most important in HR department because they make decisions regarding on hiring stage and performance. (Joseph & Patricia, 1989).

2.5 Employee Development

The process of employee development plays a vital role in developing or letting losing their employees through training and organizational development with the purpose of increasing their performance. The basic purpose of employee’s development is to achieve those units which are human made with the intention of achieving human potential with the purpose of attaining organizational objectives and those skilled personnel’s are advocated of groups, organizational credibility and work procedure. (Hassan, 2007).

Employee development is necessary for every organization, when these activities are performed it indicates that organization wants to improve the performance of their employees. Now a day’s organizations are investing much on employee development programs, the employees utilize their full skills, work hard and want to achieve organizational goals. This indicates that employee development programs indicate those employees who are willing to learn and when they show willingness to learn they show interest in the development activities, as a result they are satisfied with their job which will ultimately lead to increase employee performance. (Elena, 2000).

When organizations invest on employee development sessions this will improve employee’s skills, they have better career growth and in this way cultural, economical growth will be enhanced on the society level. (Champathes, 2006).

Organizations such as banks, healthcare sectors find that sales personnel’s training is necessary for the performance of a sales person. In the end the sum of benefits of training must be greater than the sum of costs. (Attia, Honeycutt, & Attia, 2002).

2.6 Procedural Justice

Procedural justice means that all employees should be treated on equal footing, there should be no discrimination in job distribution procedures and employees perception how fairly they will be treated in their jobs skills and performance. (Aryee, Chen, & Budhwar, 2004).

Procedural justice is related to the organization outcome which can be associated with employee performance, job satisfaction and organizational commitment. (Hon & Lu, 2010).

In this way employees are satisfied that their leaders are able to assist and guide them in their work efforts and assess them in a fairly manner. On the other hand procedural justice will lead the employees in cross functional teams to bring positive effect on their performance and improve team quality. Those teams who follow procedural justice have high level of work performance than those with low level procedural justice. (Hon & Lu, 2010).

2.7 Tolerance to Change

When organizational change process starts, those employees who are not in favour of change can express their anxiety of adopting new ways of skills and knowledge. Those employees who feel no significance in new organizational settings results the decrease in organizational as well as employee performance. (Nikandrou, Papalexandris, & Bourantas, 2000).

The drawback of tolerance to change is that those employees who have low tolerance to change assume that it would not benefit them and therefore they resist as they have perception that it would increase their burden and anxiety by doing their jobs in new ways which are not acceptable by them. (Lund & Zhang).
Employees regarding banking sector have different tolerance level to change for innovation. This is because they do less investment on internal training for their employees. (Hamid, Amin, & Lada, 2007) Banks have different legal entities in different countries and have different country requirements. They require different cultural norms and languages to operate, so it is very difficult to rotate the staff or do cross training. (Watkins & Wiley, 2009).

Tolerance to change is that those managers whose inability creates obstacles for organizational growth is their attitude and behavior. Sometimes they intellectually understand that organization needs to be changed. But sometimes they are unable to make changes because they know employees limited tolerance to change as they resist a change despite of knowing that change is good for them. (Kotter & Schlesinger, 2008). Research states that in tolerance to change individuals who are creative and who has ability to change are more likely to be risk taking and are successful in their organizations. (Phillips, Hellweg, & Tubbs, 1983). Research indicates that those employees who have high level of tolerance for change will be flexible, creative and handle complex situations in a very effective way. (Kotter & Schlesinger, 2008).

2.8 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
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<tbody>
<tr>
<td>Communication</td>
<td>Employee Performance</td>
</tr>
<tr>
<td>Leadership</td>
<td></td>
</tr>
<tr>
<td>Procedural Justice</td>
<td></td>
</tr>
<tr>
<td>Employee Development</td>
<td></td>
</tr>
<tr>
<td>Tolerance to Change</td>
<td></td>
</tr>
</tbody>
</table>

This model serves as a basis for this research. The purpose of this research paper is to find the relationship between six variables which are leadership, communication, employee development, procedural justice, and tolerance to change and finally employee performance in the banking sector of Pakistan.

There are five independent variables which are leadership, communication, employee development, procedural justice, tolerance to change and one is dependent variable which is employee performance. With the help of this model it helps to develop hypothesis to check the significant relationship between organizational change and employee performance.

2.9 Hypothesis Development

In this research paper five hypotheses are being developed to study the impact of organizational change towards employee performance in banking sector of Pakistan.
H1: There is significant relationship between “Leadership” and “Employees performance”
H2: There is significant relationship between “Communication” and “Employees performance”
H3: There is significant relationship between “Employee Development” and “Employees performance”
H4: There is significant relationship between “Procedural Justice” and “Employees performance”
H5: There is significant relationship between “Tolerance to change” and “Employees performance”

3. RESEARCH METHODOLOGY
This research paper aim is to judge the impact of organizational change towards employee performance in banking sector of Pakistan. For this research, organizational change factors are supposed to be independent variables and employee performance is taken as dependent variable. In this research paper nominal and Likert scales were used in the questionnaire. Nominal scale shows the demographic profile of respondents while the likert scale measures the impact of organizational change towards employee performance in banking sector of Pakistan. Population for this research were the employees of various banks in Pakistan i.e. Alfalah bank, Habib bank, MCB, ABL, UBL, Askari bank, Mezan bank, NBP, BOP, Bank Islami, Faysal bank etc.
The sample chosen for this research paper comprises of 400 questionnaires out of which 252 were fit for study, so the sample size for this research paper is 252. The data gathered from the questionnaires were entered into SPSS where Descriptive statistics and Correlation analysis has been applied to explore the relation between of organizational change towards employee performance in banking sector of Pakistan.

4. FINDINGS AND DISCUSSION
Data presentation and statistics

4.1 Gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>103</td>
<td>70.2</td>
</tr>
<tr>
<td>Female</td>
<td>75</td>
<td>29.8</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In this survey female respondents are 29.76% or 75 and male respondents are 70.23% or 177 which is the highest percentage in this survey with respect to female.

4.2 Marital Status

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>103</td>
<td>40.9</td>
</tr>
<tr>
<td>Married</td>
<td>149</td>
<td>59.1</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.0</td>
</tr>
</tbody>
</table>

This table shows that 59.12% or 149 are married which is the highest response rate and single respondents are 40.87% or 103.

4.3 Age
Age range below 25 shows 15.1% or 38 which is the lowest percentage of respondents, age between 26-30 is 42.1% or 106 which is the highest percentage of respondents.

### 4.4 Education

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelor</td>
<td>58</td>
<td>23.0</td>
</tr>
<tr>
<td>Master</td>
<td>182</td>
<td>72.2</td>
</tr>
<tr>
<td>MPhil</td>
<td>9</td>
<td>3.6</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.0</td>
</tr>
</tbody>
</table>

According to this table 72.2% is the highest percentage under master level, the second highest percentage in qualification is bachelor and 1.12% is the lowest percentage in others qualification.

### 4.5 Work Experience

<table>
<thead>
<tr>
<th>Experience Period</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>101</td>
<td>40.1</td>
</tr>
<tr>
<td>4-6</td>
<td>71</td>
<td>28.2</td>
</tr>
<tr>
<td>7-9</td>
<td>41</td>
<td>16.3</td>
</tr>
<tr>
<td>10-12</td>
<td>25</td>
<td>9.9</td>
</tr>
<tr>
<td>Above 12</td>
<td>14</td>
<td>5.6</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Work experience from 0-3years are 40.1% or 101 respondents which is the highest percentage, above 12 years work experience respondents are 5.6% or 14 which is the lowest percentage of respondents working in banking sector.

### 4.6 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>3.78</td>
<td>.638</td>
</tr>
<tr>
<td>Leadership</td>
<td>3.68</td>
<td>.692</td>
</tr>
<tr>
<td>Procedural justice</td>
<td>3.57</td>
<td>.749</td>
</tr>
<tr>
<td>Employee development</td>
<td>3.72</td>
<td>.672</td>
</tr>
<tr>
<td>Tolerance to change</td>
<td>3.85</td>
<td>.584</td>
</tr>
<tr>
<td>Employee performance</td>
<td>3.82</td>
<td>.726</td>
</tr>
</tbody>
</table>
The above table shows that the average and standard deviation of the predictor variables are described as Communication ($\mu=3.78$, $\text{Sd}=0.638$), Leadership ($\mu=3.68$, $\text{Sd}=0.692$), Procedural justice ($\mu=3.57$, $\text{Sd}=0.749$), Employee development ($\mu=3.72$, $\text{Sd}=0.672$), Tolerance to change ($\mu=3.85$, $\text{Sd}=0.584$), Criterion variable (Employee performance) has a mean 3.82 and standard deviation 0.726.

### 4.7 Correlations between Organizational Change Factors and Employee Performance.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Communication</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Leadership</td>
<td>0.671</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Procedural justice</td>
<td>0.565</td>
<td>0.705</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Employee development</td>
<td>0.608</td>
<td>0.694</td>
<td>0.698</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Tolerance to change</td>
<td>0.563</td>
<td>0.560</td>
<td>0.421</td>
<td>0.481</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>6. Employee performance</td>
<td>0.389</td>
<td>0.408</td>
<td>0.289</td>
<td>0.362</td>
<td>0.579</td>
<td>1</td>
</tr>
</tbody>
</table>

The relationship between communication and Employee performance shows that p-value is 0.000 which is less than significant level ($p < 0.01$). It shows that $H_0$ is rejected and hence $H_1$ is accepted. Therefore there is positive relationship between communication and employee performance. Pearson’s correlation analysis shows the (r value) is 0.389 or 38.9%, which falls in range 0.3 to 0.7 and having a moderate effect. This shows that there is positive relationship between communication and employee performance in other words increasing communication will simultaneously increase employee performance.

Leadership has positive relationship with employee performance. Correlation analysis shows the (r value) is 0.408 or 40.8%, which falls in range 0.3 to 0.7 and having a moderate effect. Procedural justice has positive relationship with employee performance having a weak relationship. In addition, the relationship between Employee Development and employee performance is positive and their effect is moderate. Furthermore, from the table, this shows that the relationship between Tolerance to change and employee performance is positive and their effect is moderate.

### 5. CONCLUSION AND FUTURE RECOMMENDATION

In this research paper an investigation of Organizational change towards employee performance in banking sector of Pakistan was conducted. This study explored the relationship of Employee performance and several factors of Organizational change such as Communication, Leadership, Procedural Justice, Employee Development and Tolerance to change.

The results of the analysis shows that the strongest influential factor toward employee performance in banking industry is tolerance to change while the lowest influential factor affecting the employee performance in banking industry is procedural justice. Consequently understanding of all the factors that affect employee’s performance will help the organization to discover and improve employee’s performance.
In this research paper the data was collected from various banks in Pakistan. Similarly researchers can choose various sectors and with increasing the sample size that will increase the validity and generalize-ability of research findings.

REFERENCES


