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Managers' well-being and perceptions of organizational change in the UK and Australia*

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Abstract

This paper examines the well-being and perceptions of organizational change of 1560 UK and 1414 Australian managers using the frame of psychological contract theory. We hypothesize change, particularly hard change which includes cost-cutting, redundancies and delayering, has the potential to breach relational psychological contracts, thus causing reduced well-being for managers, reduced employee job security and loyalty, and competence loss, reduced effectiveness, profitability and performance for organizations. The results support these hypotheses, and demonstrate all change is difficult, but hard change is most detrimental. Directors are more positive than lower level managers about their job and organization, and are more positive about change. Negative effects of change are strongest in the public sector and Australian managers are more satisfied than UK managers with their job and the organization they work within. The role of the psychological contract, and implications for human resources, are considered.

Keywords: Well-being, organizational change, psychological contract

Organizational change is common and seems to be increasing (Worrall, Cooper and Mather 2007). Furthermore, a consequence of the global financial crisis has been even more change, particularly hard change such as cost reduction, delayering and redundancy. We are particularly interested in the effects of such change upon managers, who are 'simultaneously expected to undertake personal change, help their staff through change, implement changes in their part of the business and keep the business running' (Balogun 2003, 78).

Past research, some of which is reviewed below, suggests change comes at a cost to organizations and employees. Washington and Hacker (2005) put the failure rate as high as 70 per cent of major changes, which is similar to that given by Burnes (2000), who suggests change fails completely or fails to meet expectations half to two-thirds of the time. Moreover, Ferrie et al. (1998) report change is associated with reduced employee well-being. In particular, Doyle, Claydon and Buchanan (2000, S65) write that the effect of change on managers is to create 'self interest, fatigue, burnout, and cynicism, to have damaged

relationships and to have reduced organizational commitment and loyalty' as well as causing work intensification, autocratic control and distrust. Managers are thus both integral to the success of change, but also its potential victims.

However, it is possible that in the years since the cited studies were conducted there has been progress in researching, theorizing and managing organizational change, which has resulted in better outcomes. Additionally, it may be the effects of change are less detrimental in times of relatively full employment when alternatives are available, than in more difficult economic climates. The aim of this paper is therefore to study well-being of managers in two nations, the United Kingdom and Australia, and their perceptions of change. The data were collected in late 2007 (UK) and late 2007 – early 2008 (Australia), before the global financial crisis filtered through to impact upon business conditions and drive further changes, and when the economic mood was positive.

Change, particularly hard change such as cost-cutting, delayering and redundancy, may be associated with negative outcomes. This is the proposition of psychological contract theory (Bellou 2008; Guest 2004; Rousseau 1995), which we believe is a useful tool for understanding and managing change. The psychological contract is an implicit perception of mutual obligations, or reciprocity, between employee (in our case, manager) and employer. Rousseau (1995) separated relational psychological contracts, in which socioemotional resources are exchanged over a long timeframe, from transactional psychological contracts, in which economic resources are exchanged over a shorter, limited timeframe. Traditionally, elements of the relational contract include an expectation of secure employment and entitlement to a position which reflects one's knowledge and skill, given in return for loyalty or a fair day's work.

However, such long-term views of the employment relationship need to be modified to reflect any organizational changes (Sels, Janssens and Van den Brande [check sp: Branse in list of refs]2004). Employees who experience hard change such as reorganization, a merger or downsizing are likely to report that relational psychological contracts are breached as a consequence of the change (Turnley and Feldman 1998). Such a breach is stronger than that caused by soft changes such as culture change or increased use of temporary and agency staff (which are less likely to threaten the employee). If the psychological contract is not modified at the hard change then employees will feel a shock at the breach (Aselage and Eisenberger 2003; Spreitzer and Mishra 2002). Such shocks lead to negative affect, decreased satisfaction, performance, commitment, organizational citizenship behaviour and trust, and increased

turnover intention (Aselage and Eisenberger 2003; Coyle-Shapiro and Kessler 2000; Robinson and Rousseau 1994; Zhou et al. 2007). Ongoing hard change thus leads to an eroding, unstable employment relationship and a transactional or transitional psychological contract (Lester, Kickul and Bergmann 2007) with reduced perceived obligations to the employer. Given individual-level performance deteriorates with breaches of the relational psychological contract, it is probable large-scale hard change will lead to poorer organizational performance (Lester et al. 2002).

An example of the importance of the psychological contract in hard change is found in research by Trevor and Nyberg (2008). They report the mere act of an organization introducing redundancies increased voluntary turnover by 19 per cent, added to which was an increase associated with the number of redundancies. Although the effect of redundancy was reduced by HR practices such as procedural justice and job embeddedness (defined benefits, sabbaticals, childcare, flexitime and hiring for organizational fit), even with best practice there was a strong negative base effect. They argue that theoretically, any redundancy creates a shock to surviving employees which violates held relational psychological contracts and prompts them to leave.

Other forms of hard organizational change such as cost-cutting and delayering are likely to create similar shocks to relational psychological contracts (Sels, Janssens and Van den Brande 2004). They can lead to feelings of resentment and fear, and violate any psychological contracts which include expectations of stability, resulting in reduced satisfaction with the job and organization, reduced trust in senior management, decreased loyalty and security and increased physical and psychological symptoms. Although less researched than hard change, we predict soft changes such as culture change or outsourcing will cause a smaller shock and breach the psychological contract to a lesser extent.

Past research has consistently found negative outcomes for hard changes, particularly for managers. Delayering results in an increased span of control, work intensification, and increased responsibility (Balogun 2003). Managerial career structures also compress; fewer levels mean managers may need to leave the organization to gain promotion (Inkson 1995; Littler, Wiesner and Dunford 2003). We argue these potentially breach the psychological contract. Additionally, delayering programs do not always meet their objectives (e.g, Littler, Wiesner and Dunford 2003; Worrall and Cooper 2001), possibly because of the negative effects upon remaining employees.

Research on downsizing also highlights its problems, such as loss of skills and knowledge, reduced innovation, organizational commitment, career consciousness, perceived promotion opportunities, morale, motivation, job satisfaction, trust and job involvement, and increased uncertainty, insecurity, absenteeism and turnover (Clarke 2005; Littler and Innes 2003; Littler, Wiesner and Dunford 2003; McCann, Morris and Hassard 2008; Michie and Sheehan-Quinn 2001; Trevor and Nyberg 2008; Worrall and Cooper 2001). Also, organizations which downsize have been found to be no more profitable in the longer term (Cascio and Young 2003). We believe this is at least partly due to psychological contract breaches associated with retrenchments.

Based upon the above review, it seems that managers are both central to successful change, and also likely to be negatively affected by change. Despite the ‘good times’ in which this research was undertaken, we believe organization change, particularly hard change such as cost-cutting, redundancy and delayering, may breach relational psychological contract elements related to managerial workload, conditions, career advancement and responsibilities, and have a subsequent negative effect upon manager well-being and organizational effectiveness. Hence, we hypothesize:

Hypothesis 1: Managers’ well-being will be highest in organizations which did not undergo change, less high in organizations which underwent only soft change involving culture change, outsourcing or increased use of temporary and agency staff, and lowest in organizations which underwent hard change involving cost reduction, redundancy or delayering.

Hypothesis 2: In organizations in which change has occurred in the previous year, managers will view the effects of change on organizational performance (effectiveness, outcome, and competence loss) and employees (employee loyalty and job security) more positively when the change does not involve hard change involving cost reduction, redundancy or delayering, and most negatively when change involves cost reduction, redundancy or delayering.

Change and well-being in public and private sector organizations

In the past 30 years the changes to the public sector under the rubric of New Public Management have exceeded those in the private sector. The general aim was – and is – to make public sectors more like private sectors in the way they are managed. This was first attempted through managerialism, in which public sector organizations attempted to balance

centralized control and line-management autonomy by restructuring (Alford 1998, cited in Alford and Hughes 2008, 135[check date: 2007 in list of refs]). Later, New Public Management took the form of contractualism, which attempted to downsize departments and split policy-making and service delivery, usually through outsourcing (Alford and Hughes 2008). There is now a third wave in public sector management – collaborative or ‘joined-up’ governance (Pollitt 2003) built on networks of organizations and partnerships between organizations. This new public governance (Osborne 2006) focuses on relationships and the integration of governance processes across agencies around common policy, techniques or interests.

Each wave brought major change, and redundancies replaced lifetime career paths and caused problems of morale (Hughes 1998). New Public Management has thus been associated with reduced commitment (Boyne 2002), increased stress and reduced social support and job control (Noblet, Rodwell and McWilliams 2006), reduced trust in senior management (Albrecht and Travaglione 2003), work intensification and job insecurity (Morris and Farrell 2007), and deteriorating working conditions (Harenstam et al. 2004). Public sector managers are also less likely to be satisfied with particular aspects of their job such as supervision, autonomy and promotion prospects (Rainey and Bozeman 2000), and are more negative about change than managers in the private sector (Thomas and Dunkerley 1999).

Moreover, research suggests public sector change is more pressured, and more likely to lead to work intensification, burnout, and the loss of valuable knowledge and experience than change in the private sector (Doyle, Claydon and Buchanan 2000). Added to this, there is normally lower pay – McCann, Morris and Hassard (2008, 365–6) report some of the private sector middle managers in their study earned three times the salary of those in the public sector, so ‘the newly intensified nature of working life for public sector middle managers may be, therefore, particularly distressing as they have undergone similar levels of work intensification to the private sector but without requisite increases in financial reward’.

Additionally, Coyle-Shapiro and Kessler (2000) found the majority of public sector employees believe their organization had breached its obligations to employees as represented in their psychological contracts. Taken together, these findings suggest that, despite changing economic conditions, constant change in the public sector may contribute to a breakdown in the psychological contract traditionally held by public sector employees. As a consequence:

Hypothesis 3: Managers in the public sector will have lower well-being than managers in the private sector.

Hypothesis 4: In those organizations which have undergone change in the previous year, public sector managers will view its effects on organizational performance and employees less positively than private sector managers.

The effect of organizational level on well-being and perceptions of change

There is a long tradition of research supporting the demand-control model (Karasek and Theorell 1990; van der Doef and Maes 1999), which highlights how job control allows a person to manage the demands of their job, which in turn lessens strain. We argue an executive's job places workload demands upon them [this switch from singular (executive) to plural (them) is awkward; try: We argue that the job of executives places workload demands upon them], but their position allows them to control the situation, for example by delegating tasks or modifying strategy. In contrast, lower level managers have less control. Following the demand-control model, and based upon the different levels of control, we predict the well-being of executives will be higher than of other managers.

Additionally, change increases demands upon lower level managers and, for many, involves 'the threat of redundancy, increasing hours of work, growing areas of responsibility and intensified competition for promotion' (McCann, Morris and Hassard 2008, 343). It thus has the potential to breach any relational psychological contracts relating to secure employment, working conditions and advancement opportunities. In contrast, executives are likely to initiate change to reflect their understanding of internal and external conditions and necessities (McKinley and Scherer 2000), and use their position to control the change to ensure it does not affect their working lives in the same way as it does the lives of other managers – for example, they are unlikely to increase their own job insecurity. It is thus less likely to breach their psychological contract.

Moreover, demands on lower level managers may be greater than those on executives. They need to understand and communicate the reasons for the change, deal with any anxiety or confusion they and their subordinates may be feeling (Balogun 2003), cope with the extra workload the change may bring, and implement and manage the change. Yet they may not fully understand the change, as managers often have little direct contact with the executives initiating change (Bligh and Carsten 2005). The demand-control model predicts the lower control and higher demands placed upon lower level managers do not allow them to fully deal

with the demands of change. They will therefore be more negative about change than executives. Control is also likely to prevent shocks to the psychological contract. [← this is re which group?] High demands and low control are likely to result in the greatest contract breaches and the greatest strain, and this is more likely to affect lower level managers.

Executives also do not seem to be aware of contract breaches in [? best word? breaches of the contract of lower level empl?] lower level employees caused by their actions. For example, supervisors believe their organization has done a better job of fulfilling the psychological contract of employees than do subordinates themselves (Lester et al. 2002), and executives are more likely to believe change increases trust of management and employee empowerment, and less likely to believe the pace of change 'burns out' middle managers or decreases loyalty and commitment (Doyle, Claydon and Buchanan 2000). This difference seems to be particularly extreme for directors, and those in the boardroom thus seem out of touch with what is happening in the rest of the organization (Worrall, Parkes and Cooper 2004).

Hypothesis 5: Directors will have higher well-being than lower level managers.

Hypothesis 6: For those organizations which have undergone change in the past year, directors will view its effects on organizational performance and employees more positively than will lower level managers.

Change and well-being across cultures: Australia and the UK

As mentioned previously, one of the purposes of this study is to compare the effect of organizational change across two countries, Australia and the UK. Pettigrew, Woodman and Cameron (2001) highlight the importance of using more than one country as the focus of studies of organizational change. The use of two national samples allows us to reflect upon the external validity of our findings, and whether results are affected by national characteristics. In many ways the countries are similar. Both are English-speaking, and use the Westminster system of government. Additionally, Ashkanasy, Trevor-Roberts and Earnshaw (2002) place Australia as part of the 'Anglo cluster' of English-speaking countries which were once part of the British Empire and now share particular organizational cultures. From a cultural perspective, we therefore expect there should be little difference between the countries in well-being or the effects of change.

However, work on the psychological contract by Kabanoff, Jimmieson and Lewis (2000) suggests Australians have a tradition of egalitarianism rather than social power, a

distrust of authority and minimization of privileges, which translates in the workplace into emphasis upon social justice, an ethic of equality, and laws to enforce equal treatment. This contrasts to UK practices of managerial control, budget targets, performance-related pay and low participation (Millwood and Herriot 2000). Similarly, other research (Worrall, Cooper and Lindorff, in press [update if possible]) shows accessible, empowering and innovative leadership styles are more prevalent in Australia than the UK, where bureaucratic, authoritarian and secretive leadership styles predominate. We propose accessible and empowering **leadership leads** [?another verb? to avoid *leadership leads*] to satisfaction with the organization and the job, as well as to greater trust in management, and allows employees to feel informed and involved in any organizational changes. Rousseau and Tijoriwala (1999) report trust in management is associated with how employees interpret the reasons behind, and the legitimacy of, organizational change. As a consequence, we predict managers in Australia are likely to feel less insecure and remain more loyal to the organization after (or during) times of change, and will better understand the outcomes of the change.

Hypothesis 7: Managers in Australia will have higher well-being than managers in the UK.

Hypothesis 8: For those organizations which have undergone change in the past year, managers in Australia will have more positive views of the effects of these changes on organizational performance and employees.

Method

Questionnaire and procedure

The survey was conducted in conjunction with the Chartered Management Institute (UK) (CMI) in late 2007 (UK), and with the Australian Institute of Management (AIM) (Victoria) in early 2008 (Australia). The questionnaire was essentially the same as that used by Worrall, Cooper and Mather (2007) in conjunction with CMI in late 2005.

CMI and AIM (Victoria) members were contacted by their organization via email and invited to connect to the CMI website if they wished to complete the survey. A total of 1560 UK and 1414 Australian responses were received.

Measures

Managers' well-being was assessed with three scales measuring satisfaction with the organization, trust in senior management, and job satisfaction, and two scales measuring

physical symptoms and psychological symptoms. The items were developed through consultation with CMI.¹

- 1 *Satisfaction with the organization* was measured with a 7-item scale asking about the degree to which the manager felt proud to work in the organization, whether the organization was a good employer and committed to the career development and well-being of employees, how well informed and fairly treated they were by the organization, and whether the organization had a clear sense of direction. Responses were on a 5 point scale from strongly disagree (1) to strongly agree (5).
- 2 *Trust in senior management* was measured by two items asking to what degree the manager had trust and confidence in senior management, and thought senior management was managing the organization well. Responses were on the same 5-point scale as *Satisfaction with the organization*.
- 3 *Job satisfaction* was measured by a 4-item scale asking to what degree overall they were satisfied with their job, enjoy their job, get a sense of achievement from their job, and have good morale. Responses were on the same 5-point scale.
- 4 *Physical symptoms* were measured with a 7-item scale asking how frequently in the last three months the manager experienced a list of physical symptoms such as lack of appetite, indigestion, insomnia, or headaches. Responses were on a 4-point scale from not at all (1) to often (4).
- 5 *Psychological symptoms* were measured by a 10-item scale asking how frequently in the same period of time the manager experienced a list of psychological symptoms such as panic or anxiety attacks, constant irritability, or difficulty in making decisions. Responses were in the same format as the *Physical symptoms* scale.

<fo>Perception of the success of organizational change on organizational performance was assessed using three measures used in Worrall, Parkes and Cooper (2004):

- 6 *Effectiveness* was measured with a 4-item scale asking to what degree change in the past year improved accountability, decision-making, participation and flexibility. Responses were on a 5-point scale ranging from strongly disagree (1) to strongly agree (5); reliability $\alpha = .80$ in original (Worrall, Parkes and Cooper 2004).
- 7 *Outcome* was assessed with two items asking how profitability and performance were improved as a result of change in the past year. Responses were on the same 5-point scale; reliability $\alpha = .65$ in original (Worrall, Parkes and Cooper 2004).

- 8 *Competence loss* was measured with a single 5-point item asking to what extent key skills had been lost as a result of change in the past year. Rating was the same as the items above.

Also following Worrall, Parkes and Cooper (2004), two scales of the impact of changes on employees were used:

- 9 *Employee loyalty* was measured by three items asking how much change in the past year had affected employee loyalty, morale and motivation. Responses were on a 5-point scale from strongly decreased (1) to strongly increased (5); reliability $\alpha = 0.66$ in original (Worrall, Parkes and Cooper 2004).
- 10 *Employee job security* was assessed by a single item asking whether employee perceptions of job security had strongly decreased to strongly increased on the same 5-point scale.

Scale means, standard deviations, intercorrelations and reliabilities for this study are shown in Table 1. Internal reliabilities range from 0.71 to 0.93, which are better than the originals in many cases, and acceptable.

Insert Table 1 about here

Type of organizational change

Measured by adding an additional item to the seven used in the Worrall, Parkes and Cooper (2004) study. Managers were asked to indicate the form any change had taken from the list cost reduction, delayering, redundancy (considered to be hard changes), culture change, outsourcing, offshoring, increased use of temporary or agency staff, and merger or acquisition (considered to be soft change if not associated with one or more of the hard change strategies).

To test the effect of type of change, respondents were grouped into five categories according to the type of change their organization had undergone:

- 1 *Cost reduction plus* either redundancy or delayering (CRRD) with or without other forms of change, n = 549.
- 2 *Cost reduction without* either redundancy or delayering (CRWROD) with or without other forms of change, n = 305.
- 3 *Redundancy or delayering* without cost reduction (RDWCR) with or without other forms of change. n = 218.

4 *Soft change (SOFTCH)*, change involved one or more of culture change, outsourcing, offshoring, increased use of temporary or agency staff, or mergers or acquisition, but did not involve cost reduction, delayering or redundancy, $n = 614$.

5 *No change was reported (NC)*, $n = 1224$.

Sample characteristics

Most respondents were employed full-time (94% in the UK and 93% in Australia) and on a permanent contract (93% in the UK and 91% in Australia). More Australian participants were female (45% compared to 35% in the UK), and Australian participants tended to be younger (17.2% were under 30 compared to 8.2% in the UK; 29.1% were aged 30–39 compared to 19.6% in the UK; and 24.7% were aged over 50 compared to 40.6% in the UK) although their level in the hierarchy was similar (director, 14.8% Australia, 14.5% UK; senior manager 29.8% Australia, 29.3% UK; middle manager 35.6% Australia 37.5% UK; junior manager 19.8% Australia, 18.7% UK). UK respondents tended to work in larger organizations (33.9% of Australians worked in companies employing fewer than 100 persons, compared to 23.1% of UK respondents; 24.5% Australians in companies employing 100 to 499 compared to 20.2% of UK; 25.9% of Australians worked in companies employing 500 to 4999 compared to 27.9% of UK; and 15.8% of Australians worked in companies employing over 5000 employees compared to 28.3% of UK).

Results

The effects of change, sector, level, and country on managers' well-being

The first group of hypotheses (hypotheses 1, 3, 5 and 7) relate to the effect of organizational change, sector, organizational level and country on managers' well-being. They were tested with a MANOVA using the dependent variables satisfaction with organization, trust in senior management, job satisfaction, physical symptoms and psychological symptoms, and with type of change (CRRD, CRWROD, RDWCR, SOFTCH and NC), organizational sector (public or private), management level (director or non-director), and country (Australia or UK) as factors. Two-way interactions were included. An alpha level of 0.05 was used for the MANOVA and follow-up ANOVAs.

The MANOVA yielded significant main effects for all factors: type of change, $F(20, 9489.81) = 3.37, p = 0.000$, Wilks' Lambda = 0.977, $\eta^2 = 0.006$; sector, $F(5, 2861) = 2.25, p = 0.047$, Wilks' Lambda = 0.996, $\eta^2 = 0.004$; managerial level $F(5, 2861) = 6.86, p = 0.000$, Wilks' Lambda = 0.980, $\eta^2 = 0.020$; and country, $F(5, 2861) = 3.96, p = 0.001$, Wilks'

Lambda = 0.993, $\eta^2 = 0.007$. In addition, the interaction for type of change x country $F(20, 9430.11) = 1.87, p = 0.011$, Wilks' Lambda = 0.987, $\eta^2 = 0.003$ was significant. These results allowed a review of the ANOVAs for all the planned comparisons, and an examination of the interactions. Significant univariate results are summarized in Table 2.

Insert Table 2 about here

Hypothesis 1 predicts lower well-being for managers in organizations where change involves cost reduction, delayering or redundancy. The univariate ANOVAs show the type of change effects all measures well-being: satisfaction with the organization $F(4) = 11.59, p = 0.000, \eta^2 = 0.016$; trust in senior management $F(4) = 11.58, p = 0.000, \eta^2 = 0.016$; job satisfaction $F(4) = 5.98, p = 0.000, \eta^2 = 0.008$; physical symptoms $F(4) = 4.62, p = 0.001, \eta^2 = 0.006$; and psychological symptoms $F(4) = 3.29, p = 0.011, \eta^2 = 0.005$.

The means are shown in Table 3, and results of the post hoc Scheffe tests summarized in Table 2. These show managers in organizations where there is no change are most satisfied with the organization and their job, have most trust in senior management, and have fewer physical or psychological symptoms than those who have soft change (who had moderate levels of well-being), or where there is hard change involving cost reduction with either redundancy or delayering (who had the lowest levels of well-being). Hypothesis 1 is therefore supported, with the negative effects of hard change showing strongly and consistently across all measures of well-being.

Insert Table 3 about here

Hypothesis 3 predicts managers in the public sector will have lower well-being than managers in the private sector. Following the significant finding in the MANOVA the follow-up ANOVAs were examined. None reached statistical significance at the 0.05 level (see Table 4 for means and standard deviations), so the hypothesis is not supported.

Insert Table 4 about here

Hypothesis 5 which predicts directors will have higher well-being than non-directors was followed up next. An examination of the ANOVA univariate tests and means (Table 5) supports the hypothesis across the cognitive measures of well-being. Directors are significantly more satisfied with the organization $F = 24.53, p = 0.000, \eta^2 = 0.009$; have more trust in senior managers $F = 29.45, p = 0.000, \eta^2 = 0.010$; and have higher job satisfaction $F = 21.76, p = 0.000, \eta^2 = 0.008$. However, there is no difference in physical or psychological symptoms.

Insert Table 5 about here

Hypothesis 7 which predicts Australian managers will have different levels of well-being was tested. Managers in Australia (Table 6) have higher cognitive well-being: they are more satisfied with their organization $F = 6.15, p = 0.000, \eta^2 = 0.005$; have higher trust in senior management $F = 9.62, p = 0.002, \eta^2 = 0.003$; and have higher job satisfaction $F = 9.66, p = 0.002, \eta^2 = 0.003$. However, there is no difference in physical or psychological symptoms. The hypothesis for difference in well-being across countries is therefore supported for the cognitive measures, but not for the physical and psychological dimensions.

Insert Table 6 about here

The follow-up ANOVAs for the significant multivariate interaction type of change x country were then viewed. They showed a significant interaction for psychological symptoms $F = 2.68, p = 0.030, \eta^2 = 0.004$. Australian managers report fewer symptoms than UK managers when there is cost reduction alone or change without cost reduction, redundancy or delaying, but more symptoms for redundancies and delaying. Thus it seems redundancies and delaying psychologically affect Australian managers more than UK managers.

The effect of change type, sector, level, and country on perceptions of the success of change

The second group of hypotheses relate to the effect of type of change, sector, organizational level and country on perceptions of the success of the change (hypotheses 2, 4, 6 and 8). This set of hypotheses was tested with a second MANOVA which contained the same three dependent variables for organizational performance and two for employee outcomes. Country, organizational sector, management level, and type of change were factors. An alpha level of 0.05 was again used for the MANOVA and follow-up ANOVAs.

Overall, the MANOVA was again significant for all factors: type of change, $F(15, 4569.13) = 6.91, p = 0.000$ Wilks' Lambda = 0.940, $\eta^2 = 0.020$; sector, $F(5, 1655) = 4.16, p = 0.001$, Wilks' Lambda = 0.988, $\eta^2 = 0.012$; managerial level, $F(5, 1655) = 9.06, p = 0.000$ Wilks' Lambda = 0.973, $\eta^2 = 0.027$; and country, $F(5, 1655) = 7.68, p = 0.000$ Wilks' Lambda = 0.977, $\eta^2 = 0.023$. There were also significant interactions between type of change x sector, $F(15, 4569.13) = 1.80, p = 0.030$, Wilks' Lambda = 0.984, $\eta^2 = 0.005$; and sector x country, $F(5, 1655) = 2.26, p = 0.046$, Wilks' Lambda = 0.993, $\eta^2 = 0.007$. Significant univariate results are summarized in Table 2.

Follow-up of hypothesis 2 by ANOVAs show type of change has a significant effect on all the organizational outcomes: effectiveness $F(3) = 8.82, p = 0.000, \eta^2 = 0.016$; outcome $F(3) = 4.84, p = 0.002, \eta^2 = 0.009$; competence loss $F(3) = 15.75, p = 0.000, \eta^2 = 0.028$;

loyalty $F(3) = 23.17, p = 0.000, \eta^2 = 0.040$, and perceptions of job security $F(3) = 18.30, p = 0.000, \eta^2 = 0.032$. Inspection of the means (Table 3) shows hard change involving cost reduction with either redundancy or delayering is least successful across all the measures, and soft change is most successful. However, perhaps more concerning, the mean for each change type, including soft change, is seldom on the positive outcome side of 3 (the midpoint) on the 5-point scales for all the measures. Managers thus believe any change, on average, decreases employee loyalty, morale and motivation (loyalty) and job security, but hard change has worse effects. They also believe hard change reduces effectiveness (accountability, decision-making, participation and flexibility), does not have a positive outcome (profitability and performance), and results in the loss of key skills compared to other types of change.

Hypothesis 4, that change will be less successful in the public sector than the private sector, is also fully supported. Public sector managers are more negative across all outcome measures (Table 4): organizational effectiveness $F = 4.78, p = .003, \eta^2 = 0.003$; outcome $F = 15.56, p = 0.000, \eta^2 = 0.009$; competence loss $F = 6.57, p = 0.010, \eta^2 = 0.004$; loyalty $F = 12.06, p = 0.001, \eta^2 = 0.007$, and perceptions of job security $F = 4.10, p = 0.043, \eta^2 = 0.002$.

Directors are also more positive about change than non-directors (Hypothesis 5 [H5 is covered in the section above; 6?]). All univariate ANOVAs are significant – effectiveness $F = 32.28, p = 0.000, \eta^2 = 0.019$; outcome $F = 11.09, p = 0.001, \eta^2 = 0.006$, competence loss $F = 9.23, p = 0.002, \eta^2 = 0.006$; loyalty $F = 39.23, p = 0.000, \eta^2 = 0.023$; and perceptions of job security $F = 20.43, p = 0.000, \eta^2 = 0.012$ (Table 6).

There is also a significant difference in the perceptions of managers in the UK and Australia (Hypothesis 8) regarding loyalty $F = 14.65, p = 0.000, \eta^2 = 0.009$; and perceptions of job security $F = 31.45, p = 0.000, \eta^2 = 0.019$. The hypothesis is therefore partly supported. Australian managers (Table 6) are more likely to believe employee loyalty and job security have been retained after change; there is no significant difference between countries for effectiveness, outcome or competence loss.

Follow-up ANOVAs for the significant interactions first shows the change type x sector interaction occurred for the dependant [dependent?] variable perceptions of job security $F = 3.54, p = 0.014, \eta^2 = 0.006$. An examination of the interaction graph shows security is highest in both sectors when change does not involve cost reduction, redundancy or delayering and lowest when it involves cost reduction with either redundancy or delayering, and security is higher in the private sector than the public sector.

The follow-up ANOVAs for the country x sector interaction show there are significant differences for effectiveness $F = 5.43, p = 0.020 \eta^2 = 0.003$, and competence loss $F = 4.53, p = 0.034 \eta^2 = 0.003$. An examination of the interaction graph for effectiveness shows change in the public sector is less effective than in the private sector in both countries, but especially in Australia; the Australian private sector is most effective in managing change, and the Australian public sector is worst. Similarly, more skills and experience have been lost in the public sector than the private sector in both countries, with the public sector loss in Australia the greatest, and the private sector loss in Australia the least. This suggests Australian private sector is best managing issues of effectiveness such as accountability, participation and flexibility and the loss of key skills and experience, whereas the Australian public sector is managing most poorly.

Discussion and implications

Our first finding verifies the negative effects of change, even in ‘good’ times, particularly hard change involving cost reduction, redundancy or delayering. As hypothesized, we found change results in lower well-being for managers (job satisfaction and satisfaction with the organization, trust in senior management, and increased physical and psychological symptoms), perceptions of reduced organizational effectiveness (accountability, decision-making, participation and flexibility), poorer outcome (profitability and performance) and lower employee loyalty and job security.

We believe psychological contract theory (Rousseau 1995) can be used to explain these results, and to manage change more effectively. It posits organizational change, particularly hard change, creates shocks to employees. These breach any held psychological contracts which include expectations of stability. This then leads to reduced satisfaction with the job and organization, reduced trust in senior management, decreased loyalty and security and increased physical and psychological symptoms. The compound effect of psychological breach across a whole organization results in reduced effectiveness, poor outcomes, and lost skills and experience. Soft changes cause a smaller shock and violate relational psychological contracts to a lesser extent, but also bring increased workload and the need to understand new policies and procedures, which lead [?>workload and need to understand = 2 separate ‘things’?] to dissatisfaction and increased physical and psychological symptoms.

Psychological contract theory can also be used to assist organizations and HRM managers to better manage change. The psychological contract is influenced by the

organization's communications about change and whether it wishes a long-term or short-term relationship with an individual (Shore and Tetrick 1994). Communication which emphasizes the long-term relationship reduces uncertainty, allows managers to feel informed and involved, increases sense of control, and prevents relational contract breaches (Bellou 2008; Bordia et al. 2004). Adequate communication of change is also associated with more relational psychological contracts (Lester, Kickul and Bergman 2007).

Additionally, psychological contract theory predicts that employees feel obliged to recompense, or reciprocate, advantageous treatment (Eisenberger et al. 2001). Practically, 'high investment' HR practices such as sabbaticals, flexitime or on-site childcare build up relational psychological contracts based on long-term employee commitment (Shore and Tetrick 1994) and lead to reciprocation and reduce the negative effects of change (Trevor and Nyberg 2008).

Other evidence from the literature suggests other HR practices reduce relational contract breaches, and supports [subject is 'evidence'?] clarification of the organization's obligations through realistic job previews, training and ongoing interaction (Sims 1994; Zhou et al. 2007), using counselling programs to deal with employee stress (Zhou et al. 2007), personal engagement in the change on an everyday basis by senior management (Sahdev 2004), sufficient emotional and material support and resources (Bligh and Carsten 2005), empowerment and employee involvement (Niehoff et al. 2001; Shield, Thorpe and Nelson 2002), and career development of employees (Lips-Wiersma and Hall 2007). [←a very long sentence! 96 words.] Organizations should also identify the employer obligations held by employees [awkward: can employees 'hold' empl obligations? perceive? expect?], and, where possible, attempt to meet them (Zhou et al. 2007).

The first two implications of this research are therefore, first, that organizations should recognize the negative effects of organizational change, especially hard change such as cost-cutting, redundancy and delayering, and limit its use. Even in good times such change appears counterproductive – in hard times we predict it will be worse. Our research supports other findings that change effects not only the well-being, loyalty, and job security of employees, but leads to loss of organizational competence, reduced accountability, decision-making, participation, flexibility, profitability and performance. The second implication is that organizations should use psychological contract theory to explain, and manage, the negative effects of change. Our results suggest managers hold relational psychological contracts and

seek stability rather than change, and do not wish for more temporary, transactional relationships with their organization (Sims 1994).

The second major contribution [you haven't clearly named the first maj contrib; the first part of this section discusses a finding.] of this research is to reinforce evidence on the more negative effects of change in the public sector. This finding is consistent with the research of others (e.g. Albrecht and Travaglione 2003). Although Boyne (2004) cheerfully [?] argues that to be more effective and efficient the public sector just needs more of the '3Rs' practised in the private sector – retrenchment, repositioning and reorganization, our evidence suggests such strategies achieve the opposite. We suggest ongoing public sector change has caused constant shocks to any relational psychological contracts held by employees, and they respond with greater negativity, reinforcing the earlier findings of Worrall, Cooper and Campbell (2000). We believe the implications are that the public sector needs to focus on developing clear mutual obligations, and fulfilling its half of the bargain. [the way the last sentence is structured indicates only one implication: the pub sector needs to focus on x and y. Need to re-word sentence.]

Another important finding [now you're back to a finding. So you see 'contribution' as the same as 'finding'?] is the discrepancy in attitudes toward change and well-being of directors and other managers. Consistent with the demand-control model (Karasek and Theorell 1990), we argue the control directors have enables them to deal with the demands of their job, and any felt strain. Thus they are more satisfied with their job and organization, and have higher trust in senior management. [not clear in this para. who you are comparing the directors to when you say they are 'more satisfied' and 'have higher trust']

Additionally, this control prevents shocks to the directors' relational contracts and enables them to manage the demands of change in a way not possible for other managers. Directors, like others, also manage change in a manner consistent with their ideological foundations (Rust et al. 2005). For example, other research suggests an ideological foundation in which top managers underestimate lower level managers (van der Velde, Jansen and Vinkenburg 1999), viewing them as 'slack' to be removed through delayering or redundancies (e.g. Huy 2002; Balogun 2003). Lower level managers may feel shock they are being delayered or other staff made redundant, whereas such actions are consistent with the ideological foundations of the directors. Directors therefore feel more positive about the change.

The implications for organizations of this worrying difference in perception are strong. Unless checked, directors may continue to take actions which harm both other employees and their organization. Constant 'reality checks' may therefore be needed, and feedback loops instituted to ensure clear communication from lower levels.

Finally, what can account for the higher organizational and job satisfaction and managerial trust in Australia, the stronger perceptions of change effectiveness and absence of competence loss after change in the Australian private sector, and the better overall employee loyalty and job security compared to the UK? Bommer, Rich and Rubin (2005) report transformational leadership behaviours such as identifying and articulating a vision and providing individualized support are associated with reduced cynicism toward change. It is therefore likely the accessible and empowering leadership reported in Australia (Worrall, Cooper and Lindorff, in press [update if poss]) has two outcomes. The first is a more relational psychological contract, which is associated with greater satisfaction with the organization and the job, and higher trust in management. The second is better communication about change. At least in the private sector, this leads to improved decision-making, participation and flexibility (our measure of effectiveness). The public sector may have systemic constraints which limit these positive outcomes.

In summary, the managers in this study believed organizational change was not handled well, particularly in the public sector, and the impact of hard change such as cost-cutting, redundancy and delayering is severe. It came at personal cost, reduced employee loyalty and job security, and led to loss of organizational competence, reduced accountability, decision-making, participation, flexibility, profitability and performance. As this research was conducted before the global financial crisis it is likely that these negative effects of change are now damaging many organizations, particularly those outside Australia. Directors' views of change were also more positive than those of other managers, suggesting their strategies may be out of touch with the realities of change on their employees. The more positive findings in Australia, particularly in the private sector, suggest it is possible to improve the way change is managed by focusing on the relationship between leadership, the psychological contracts of subordinates, trust, communication, and change. A limitation of this research is we did not test these relationships directly. We commend this area to other researchers.

Notes

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¹ A copy of the full survey may be obtained from the second author.

[please supply short bio notes on each of the authors (max 100 words each)]

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<all cols with numbers to align on decimal or last digit; numbering of variables to align on last digit>

Table 1. Means, standard deviations, and zero-order correlations of variables, Cronbach-alpha on diagonal.

| | M | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----------------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----|
| <i>Manager well-being</i> | | | | | | | | | | | | |
| 1 Satisfaction with organization | 3.62 | .82 | (.91) | | | | | | | | | |
| 2 Trust in senior management | 3.53 | .91 | .85* | (.89) | | | | | | | | |
| 3 Job satisfaction | 3.75 | .85 | .67* | .67* | (.90) | | | | | | | |
| 4 Physical symptoms | 2.23 | .73 | -.25* | -.24* | -.31* | (.84) | | | | | | |
| 5 Psychological symptoms | 1.90 | .70 | -.32* | -.30* | -.41* | .73* | (.93) | | | | | |
| <i>Organizational outcomes</i> | | | | | | | | | | | | |
| 6 Effectiveness | 3.03 | .77 | .65* | .64* | .55* | -.20* | -.24* | (.83) | | | | |
| 7 Outcome | 3.16 | .77 | .50* | .53* | .45* | -.19* | -.20* | .60* | (.71) | | | |
| 8 Competence loss | 3.35 | 1.10 | -.38* | -.41* | -.34* | .14* | .17* | -.41* | -.36* | - | | |
| 9 Employee loyalty | 2.56 | .85 | .61* | .63* | .57* | -.24* | -.27* | .67* | .55* | -.51* | (.92) | |
| 10 Employee job security | 2.48 | .92 | .45* | .45* | .42* | -.20* | -.23* | .47* | .44* | -.43* | .69* | - |

Note: * p = .000 in all cases; Row 1–5 n = 2958; Row 6–10 n = 1738.

Table 2. The effect of organizational change, sector, managerial level and country on manager well-being and organizational outcomes: Significant results of MANOVAs and post hoc tests

| Outcome | Type of change | Sector | Managerial level | Australia/UK |
|----------------------------------|----------------------------------|-----------------|------------------|--------------|
| <i>Manager well-being</i> | | | | |
| 1 Satisfaction with organization | NC, SOFTCH, RDWCR>CRWROD, CRRD* | | DIR>NONDIR | AUS>UK |
| 2 Trust in senior management | NC, SOFTCH>RDWCR, CRWROD > CRRD* | | DIR>NONDIR | AUS>UK |
| 3 Job satisfaction | NC, SOFTCH> RDWCR> CRWROD, CRRD* | | DIR>NONDIR | AUS>UK |
| 4 Physical symptoms | NC<SOFTCH, RDWCR<CRRD, CRWROD* | | | |
| 5 Psychological symptoms | NC<SOFTCH, RDWCR,CRWROD, CRRD* | | | |
| <i>Organizational outcomes</i> | | | | |
| 6 Effectiveness | SOFTCH, RDWCR>CRWROD, CRRD* | PRIVATE>PUBLIC | DIR>NONDIR | |
| 7 Outcome | SOFTCH>RDWCR, CRWROD, CRRD* | PRIVATE>PUBLIC | DIR>NONDIR | |
| 8 Competence loss | SOFTCH<RDWCR, CRWROD< CRRD* | PRIVATE< PUBLIC | DIR < NONDIR | |
| 9 Employee loyalty | SOFTCH>RDWCR>CRWROD >CRRD* | PRIVATE>PUBLIC | DIR>NONDIR | AUS>UK |
| 10 Employee job security | SOFTCH>RDWCR,CRWROD >CRRD* | PRIVATE>PUBLIC | DIR>NONDIR | AUS>UK |

* Scheffe comparison, $p < 0.05$

Table 3. Means and standard deviations for the effect of type of change on manager well-being and organizational outcomes

| | Change type | | | | | | | | | |
|---|-------------|------|--------|------|-------|------|--------|------|------|-----|
| | CRRD | | CRWROD | | RDWCR | | SOFTCH | | NC | |
| | M | SD | M | SD | M | SD | M | SD | M | SD |
| <i>The effect of organizational change or no change on manager well-being</i> | | | | | | | | | | |
| 1 Satisfact with organization | 3.30 | .80 | 3.43 | .82 | 3.65 | .77 | 3.72 | .76 | 3.77 | .80 |
| 2 Trust in senior management | 2.93 | .56 | 3.10 | 1.06 | 3.31 | 1.08 | 3.50 | .97 | 3.60 | .98 |
| 3 Job satisfaction | 3.49 | .88 | 3.57 | .93 | 3.74 | .85 | 3.83 | .81 | 3.89 | .81 |
| 4 Physical symptoms | 2.36 | .75 | 2.40 | .72 | 2.29 | .72 | 2.21 | .72 | 2.13 | .72 |
| 5 Psychological symptoms | 2.02 | .70 | 2.01 | .69 | 1.95 | .74 | 1.87 | .69 | 1.82 | .67 |
| <i>The effect of change type on organizational outcomes</i> | | | | | | | | | | |
| 6 Effectiveness | 2.82 | .79 | 2.91 | .77 | 3.16 | .72 | 3.21 | .70 | | |
| 7 Outcome | 3.02 | .78 | 3.09 | .79 | 3.15 | .74 | 3.31 | .72 | | |
| 8 Competence loss | 3.78 | 1.00 | 3.44 | 1.07 | 3.37 | 1.09 | 2.95 | 1.05 | | |
| 9 Employee loyalty | 2.18 | .74 | 2.42 | .78 | 2.68 | .84 | 2.91 | .82 | | |
| 10 Employee job security | 1.98 | .77 | 2.42 | .84 | 2.52 | .86 | 2.92 | .86 | | |

Table 4. Means and standard deviations for the effect of organizational sector on manager well-being and organizational outcomes

| | Private | | Public | |
|--|----------|-----------|----------|-----------|
| | <i>M</i> | <i>SD</i> | <i>M</i> | <i>SD</i> |
| <i>The effect of sector on manager well-being</i> | | | | |
| 1 Satisfaction with organization | 3.68 | .83 | 3.50 | .77 |
| 2 Trust in senior management | 3.49 | 1.04 | 3.11 | 1.01 |
| 3 Job satisfaction | 3.80 | .85 | 3.65 | .85 |
| 4 Physical symptoms | 2.18 | .74 | 2.29 | .75 |
| 5 Psychological symptoms | 2.02 | .68 | 2.00 | .76 |
| <i>The effect of sector on organizational outcomes</i> | | | | |
| 6 Effectiveness | 3.08 | .78 | 2.89 | .73 |
| 7 Outcome | 3.28 | .78 | 2.91 | .68 |
| 8 Competence loss | 3.27 | 1.12 | 3.55 | 1.01 |
| 9 Employee loyalty | 2.69 | .88 | 2.29 | .73 |
| 10 Employee job security | 2.59 | .95 | 2.24 | .78 |

Table 5. Means and standard deviations for the effect of managerial level on manager well-being and organizational outcomes

| | Director | | Non-director | |
|---|----------|-----------|--------------|-----------|
| | <i>M</i> | <i>SD</i> | <i>M</i> | <i>SD</i> |
| <i>The effect of level on manager well-being</i> | | | | |
| 1 Satisfaction with organization | 4.06 | .81 | 3.55 | .80 |
| 2 Trust in senior management | 3.94 | .93 | 3.28 | 1.03 |
| 3 Job satisfaction | 4.21 | .71 | 3.68 | .85 |
| 4 Physical symptoms | 2.00 | .70 | 2.27 | .73 |
| 5 Psychological symptoms | 1.71 | .63 | 1.92 | .70 |
| <i>The effect of level on organizational outcomes</i> | | | | |
| 6 Effectiveness | 3.47 | .78 | 2.97 | .75 |
| 7 Outcome | 3.48 | .79 | 3.12 | .76 |
| 8 Competence loss | 2.90 | 1.15 | 3.42 | 1.08 |
| 9 Employee loyalty | 3.09 | .92 | 2.50 | .82 |
| 10 Employee job security | 2.85 | .94 | 2.43 | .90 |

Table 6. Means and standard deviations for the effect of country on manager well-being and organizational outcomes

| | UK | | Australia | |
|---|----------|-----------|-----------|-----------|
| | <i>M</i> | <i>SD</i> | <i>M</i> | <i>SD</i> |
| <i>The effect of country on manager well-being</i> | | | | |
| 1 Satisfaction with organization | 3.51 | .84 | 3.76 | .77 |
| 2 Trust in senior management | 3.19 | 1.05 | 3.58 | .99 |
| 3 Job satisfaction | 3.66 | .87 | 3.86 | .80 |
| 4 Physical symptoms | 2.24 | .75 | 2.21 | .71 |
| 5 Psychological symptoms | 1.89 | .70 | 1.90 | .69 |
| <i>The effect of country on organizational outcomes</i> | | | | |
| 6 Effectiveness | 2.91 | .76 | 3.14 | .75 |
| 7 Outcome | 3.04 | .75 | 3.30 | .76 |
| 8 Competence loss | 3.50 | 1.06 | 3.20 | 1.11 |
| 9 Employee loyalty | 2.35 | .80 | 2.80 | .84 |
| 10 Employee job security | 2.25 | .86 | 2.74 | .91 |