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Article

The role of organizational change on improving organizations financial and economic performance : (case study: Bank Shahr)

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The Role of Organizational Change on Improving Organizations Financial and Economic Performance (Case Study: Bank Shahr)

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Abstract: The present research investigates the impact of organizational change on improving Bank Shahr financial and economic performance. For this purpose, the impact of organizational change components on Bank Shahr financial and economic performance have been studied based on Weisbord Six-Box Model. Research method is descriptive-correlation. Population includes 150 staff managers and experts of Bank Shahr central office. 108 of them were selected as sample based on Cochran formula. Data collection tool is a questionnaire including 38 items in two organizational change and financial-economic performance sectors. After measuring its validity and reliability, the questionnaires were distributed among managers and experts with simple random sampling method. Collected data were analyzed based on structural equation analysis. The results indicated that 1. The model has a good fitness. 2. Organizational change has a significant impact on financial-economic performance of Bank Shahr. 3. The components of organizational change i.e. goals, structure, leadership, communication, reward, and ways to help have significant impact on financial-economic performance of Bank Shahr. 4. The prioritization of organizational change components are ranked in terms of degree of impact on financial-economic performance of Bank Shahr, leadership, ways to help, goals, communication, structure, and reward respectively.

Keywords: Organizational change, Weisbord model, financial-economic performance, Bank Shahr

JEL Classification: C54, L32, M12, G21

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1- Introduction

Today, organizational change is one of the most important concepts in management. In order to achieve a more favorable performance, organizations should adopt themselves with organizational changes. Organizational change empowers organizations to confront with the problems and demands of external and internal environment. Change is a stimulus engine of the world successful companies and change management assist organizations to attain favorable success and performance (Arabi, et.al, 2010). In fact, organizational change aims to adopt with the environment and performance improvement (Pardo del Val & Martínez Fuentes, 2003).

Today's world and organizations of the third millennium enjoy certain features including rapid changes, excessive movement in power, increasing competition, and fast scientific and technological progress. Performance-based economy depends more on focusing on the environment and its changes than the value of physical resources and its tangible and objective assets and capital. Today, given changing external environment, all organizations should transform their performance for survival and progress in order to adopt or contrast against changes. An organization with superior performance is one that to achieve better results than its similar ones in long run via ability to adopt appropriately with changes, rapid reaction to these changes, create a coherent and targeted management structure, improve key capabilities continuously, and behave suitably with employees, as main asset (BakhshChenari et.al, 2015).

In this regard, change leaders forecast resistance against change and they take timely steps in order to minimize its unfavorable results (Hathaway, 2009).

Organizational performance has a crucial role in economy and it is counted as a useful tool to attain economic growth and organization's benefits. In the most of the world organizations, organizational managers and leaders try to promote and improve organizational performance (Talebi & Bahamir, 2012). Different studies have indicated that several factors influenced on organizational performance. Zeynalipoor & Mirkamali (2008) argued that there was a direct relationship between leadership, culture, organizational atmosphere, and organizational performance. Zheng et.al, (2010) indicated that organizational culture, structure, and strategy affected organizational performance significantly. Steyrer et.al, (2008) believed that leadership had significant relationship with employees' organizational commitment and it had positive relationship with organizational performance.

Among different organizations, banks have important role in promoting work and living conditions of people in the form of different social and economic classes and groups. They are important and influential organizations in society that are always exposed to environmental changes. This prepares the ground for changes in banks and their staff and it brings problems for them (Mohammadpour Zarandi, et.al, 2014). On the other hand, the role and performance of banking system, as one of the most important economic sectors in the society, in relation to providing services to people and clients, active people's partnership in organization, attracting and guiding financial resources in socio-economic development of a country are obvious. Thus, this research tries to answer whether organizational change and its

components affect financial and economic performance of Bank Shahr.

2- Literature Review

a) Foreign Researches

Yilmaz & Ergan (2008) studied the impact of Denison's organizational culture model on organizational performance and concluded that mission has the most impact on increasing the performance of production companies. However, companies in the production of new products are severely affected by dimensions of adaptability and compatibility.

Carter et.al, (2013) in a research titled "transformational leadership, relationship quality, and employee performance during continuous incremental organizational change" concluded that there was a direct relationship between frequency of change in the quality of organizational communication and organizational performance with mediator role of organizational citizenship behavior.

Jordão et.al, (2014) investigated organizational culture and post-acquisition changes in management control systems: an analysis of a successful Brazilian case and concluded that change in organization helped to create new financial results in organization depending on culture and implementation of these changes requires modifications in controlling quality, financial affairs, and production.

b) Iranian Researches

Moghaddam (2007) investigated the role of managers' mental models in the process of organizational change and stated managers' attitude toward environmental factors and changes, and how these attitudes influence their decisions about different organizational changes.

Zeynalipoor & Mirkamali (2008), with the aim to develop and validate appropriate

model of organizational change, concluded that there were 19 effective factors in three managerial, organizational, and individual levels including transformational leadership, culture, and organizational atmosphere on the success of change program at state universities. However, the results indicated that there was a direct relationship between leadership, culture, and atmosphere with performance.

Arabi et.al, (2010) presented a model to increase performance through the coordination of organizational change strategies and concluded that factors such as structure and culture are effective on performance in foreign airlines operating in Iran. They acknowledged that organizations within an industry could divide into different performance groups including high, average, and low performance. Increasing performance by coordinating the types of change strategies can be accomplished in two ways; A. increasing performance between groups: along with increasing coordination between the types of change strategies, organizations can increase their performance significantly no matter which group they are. B. increasing intra-group performance: along with increasing coordination between the types of change strategies of an organization within a certain group, for instance group organizations with low performance, performance may increase in that certain organization within its group.

Masoud Sinaki and Seyyed Naghavi (2016) investigated organizational performance based on Weisbord model at Tehran University of Medical Sciences (TUMS). The results indicate that currently TUMS has the most appropriate situation in organizational communication and the most unsatisfactory status in reward sector. However, other aspects between

these two situations are average; therefore, it is necessary to take suitable measures in rewarding to increase employees' satisfaction, and consequently, organizational performance.

3- Theoretical Framework

Change refers to transform organization from the status quo to the optimal situation. Organizational change is a kind of organizational improvement strategy based on insights and knowledge gained from group dynamics, theories, and practices that can solve many important human problems in organizations. For organizational change, it is necessary to have general awareness, hard work over time, valid knowledge about organizational dynamics, and to know how to change them. Authentic and accurate knowledge is obtained by behavioral sciences including psychology, social psychology, sociology, anthropology, system theory, organizational behavior, and theory of organization and management. The result of this integration is the organizational transformation that provides guidelines to improve adaptability and matching between employees and the organization, between the organization and environment, and among organizational elements and components including strategy, structure, and process. These guidelines are implemented through programs and creating change aiming to solve problems in certain and problematic conditions (French & Bel, 2008).

Organizational change management is a process that requires continuous understanding and control over change process outcomes. In addition to pay attention to intentions and objectives, change and transformational outcomes should be considered particularly in organizational change processes. The

managers' main concern is the proper influence through decision making in change processes and proper implementation of the process steps. This concern is the result of uncertainty in change consequences, particularly in behavioral outcomes and uncertainty in appropriate effectiveness of change process on organizational performance or sustainability of these benefits (Gomes et al., 2016). In change process, an organization tries to increase its adoption with structure, processes, strategy, individuals, and organizational change, create and develop new and creative solutions in organization, and develop their renovation ability in organization (Cummings & Worley, 2014).

Several models have been proposed by experts for organizational change. Leavitt model (1965) includes four components including duties, structure, human and technical ones depending to each other. This means that change in one of them will change in the rest. Likert System Analysis Model (1976) includes six components of motivation, communication, interaction, decision-making, control, and performance. Nadler & Tushman Model (1977) is proposed in three parts of input, process and output. The input includes the environment, resources, history, and strategy. The process consists of official and individual organizational tasks. The output also includes the individual, the group and the system. In this model, organizations are dynamic and interaction exists at the levels of individuals, groups, and organization between the internal components and the process. McKinsey 7S Model (1981) was proposed with the components of leadership style, staff, system, strategy, structure, skills, and common values about organizational change. Burke & Litwin Organizational

Change Model (1992) was proposed with components including external environment, mission and strategy, leadership, culture, structure, management practices, systems, organizational atmosphere, job requirements, work skills, motivation, values, individual needs, and performance that influence organizational performance (Mirkamali & Zahedi, 2012).

Weisbord (1976) regarded six dimensions to measure and investigate organizational change including objectives, structure, communication, rewards, leadership, and auxiliary methods. These dimensions have been represented in figure1. In this figure, external circle has been drawn to separate internal factors and its relationship with external factors outside the organization (Zhang et al., 2016).

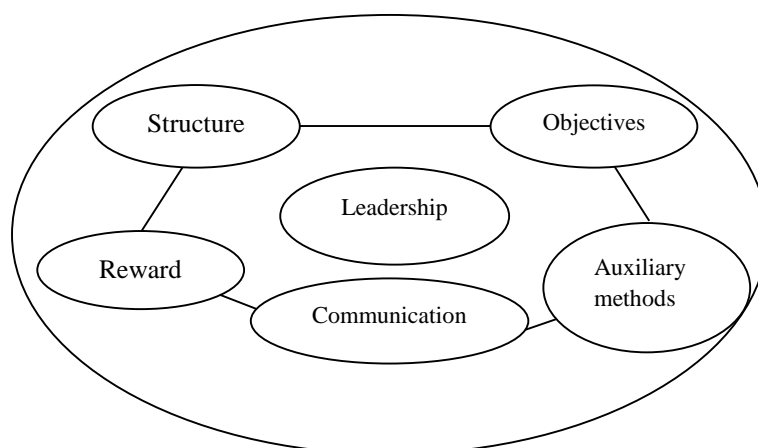


Fig1. Weisbord Six-Box Model

Reference: (Zhang et al., 2016)

Weisbord specified six important areas or sectors. In fact, these sectors are factors that if an organization seeks to succeed and improve performance, it should deal with them properly. According to Weisbord, organizational goal is specified by its mission. Structure is a method whereby performance, program, and production are organized. Relationships are the methods that interact with the employees and the various units of the organization. The reward system gives employees, according to their performance, an internal and external reward. Leadership refers to the type of organization's management activities and supporting methods for planning, controlling, budgeting, and information systems that support work in the organization (Axelrod & Axelrod, 2016).

Several definitions have been presented for performance; including performance is the result of the tasks assigned by the organization to human resources (Cascio, 1995). Performance appraisal is called to the process of measuring the performance of organizations in a specified period in such a way that the expectations and judging indicators are notified clearly and previously to the evaluated system (Tabarsa, 1999).

Keegan (1989) introduced performance matrix. The strength of this model is that it addresses the various aspects of organizational performance, including financial and non-financial aspects, and internal and external aspects, in an integrated manner, but this model does not show clearly and transparently the relationships between different aspects of

organizational performance (Karimi, 2006). Performance Pyramid (1991) aims to establish a link between the organization's strategy and its operation as it expresses the effectiveness of the organization and its internal efficiency. In fact, this framework is the difference between indicators that target non-organization groups, such as customers' satisfaction, quality, and timely delivery, and it reveals internal indicators of business including efficiency, cycle, and waste. Establishing an organizational pyramid begins with defining the organization's vision at the first level which then becomes the goals of business units. At the second level, business units focus on short-term goals such as profitability and cash flow and long-term goals such as market growth and improvement. Business operating systems are the bridge between everyday operational indicators (customer satisfaction, flexibility, and productivity). Finally, four key performance indicators (quality, delivery, cycle and waste) are used in units and work centers on a daily basis (Karimi, 2006).

Another performance evaluation system is stakeholder analysis (2001). In this model, the design of a performance appraisal system begins with understanding the goals and strategies of the organization. For this purpose, the balanced scorecard starts designing a performance appraisal system with the question "What are the shareholders' demands?" The organization's goals represent key stakeholder expectations. Key stakeholders apply all their power through the organization's governance structure for targeting. Non-key stakeholders are not so powerful in targeting and instead, they influence the organization's strategies through external mechanisms. In this way, they determine how to

achieve goals with respect to the external environment; therefore, the performance appraisal system begins with strategies and acts as a bridge between managers' behavior and the stakeholders' expectations (Karimi, 2006).

Another well-known measurement framework that is widely used is the European Foundation for the Improvement of Excellence (EFQM), which is the framework for evaluating the organization's performance that helps to move and direct the organization's activities towards continuous improvement. The organizational excellence model has nine criteria. The five criteria, empowerment, and four other criteria are the results. The Empowerers include leadership, policy and strategy, employees, partners, and interests and processes, and the results are results from customers, employees, community and business (Mohammadpour Zarandi & Qaderi, 2014).

Another model for measuring performance is the balanced scorecard. In the early 1990s, the Nollen Institute, the KPMC Research Indicator, took a study on measuring the performance of future organizations. David Norton, head of the Institute, led the research and Robert Kaplan was appointed as a university advisor. After a long-term research program with the company's participation, the research group achieved a comprehensive framework called the Balanced Scorecard (BSC) in which, the mission and strategic goals of the company could be converted into a set of performance criteria (Wongrassamee et al., 2003). This set that contains process indicators and results quickly gives a comprehensive picture of the performance of the organization to the managers to measure how well the organization's achievement to strategic goals (AliAhmadi et.al, 2009). The main

objective of the balanced scorecard framework is to give a business perspective to managers and to focus on the core areas and strategy advancement. Balanced Scorecard has kept an important part of financial goals as a benchmark to determine how a system works. BSC is a qualitative and comprehensive model to manage organizations' performance. By focusing on organizational strategies and balancing in important areas of the organization, finance, customers or customers, internal organizational processes, growth and learning, this model tries to manage and evaluate complicated organizations. In this regard, Kaplan and Norton have proposed an assessment of organizational performance in four key areas of financial, customer, internal processes of career and growth and learning (Kaplan & Norton, 1996).

Because of measuring financial performance through this model, financial

area has been explained only in the present research.

Financial measures are important components of the balanced assessment system, particularly in profit-making organizations, which indicate success in other areas since they tell us that the successful implementation of other perspectives will lead to financial results. The financial field is divided into three sections: income growth, cost management and capital gain (Kaplan & Norton, 2009). Income growth index includes market share of sales, number of customers and new markets and number of new strategies. Capital gain includes inventory reduction, payback cycle, return on investment, and productivity-efficiency. Cost management also includes the ratio of income to employees and the reduction of unit costs (Van Looy & Shafagatova, 2016).

In this regard, the conceptual model of research is represented in Fig. 2:

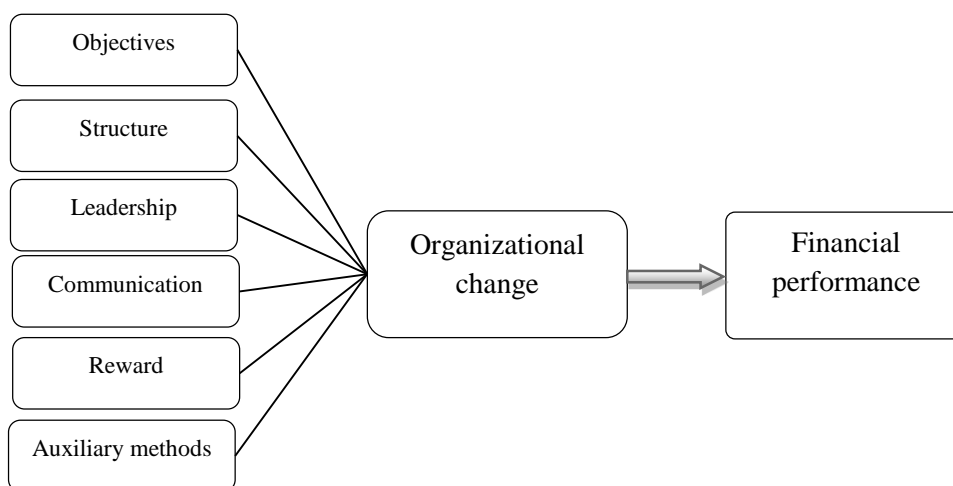


Fig2. Conceptual model of the research

Reference: (Research findings)

4- Research Method

The present research is applied in terms of purpose and is descriptive-correlative in terms of research method.

This research was conducted in the second half of 1395 (corresponding to 2016) in Bank Shahr. Since this research seeks to investigate models and evaluate

the variables based on confirmed factors, the statistical population consists of 150 managers and staff experts of the central Bank Shahr office in the city of Tehran. Based on the sample size of Cochran, 108 people were selected as a research sample by simple random sampling. To collect data, a statistical sample was used and to test the hypotheses, a questionnaire was used which was adjusted according to the research variables. The standard organizational change questionnaire consists of 30 questions, which is based on Weisbord Model. In this model, the dimensions for

reviewing organizational change are goals, structure, leadership, communications, rewards and auxiliary methods. Financial performance questionnaire includes 8 questions, which are based on the Kaplan and Norton Performance Measurement Model that its dimensions are income growth, cost management and capital gains, and its sub-indexes are market share of sales, number of new markets, number of new strategies, income-to-employee ratio, cost reduction per unit, inventory reduction, return on investment and efficiency.

Table1. How to assign questionnaire questions to research variables

Variables	Questionnaire questions
Goals	1-7-13-19-25
Structure	2-8-14-20-26
Leadership	3-9-15-21-27
Communication	4-10-16-22-28
Reward	5-11-17-23-29
Auxiliary methods	6-12-18-24-30
Financial performance	31-32-33-34-35-36-37-38

Reference: (Research findings)

To assess the reliability of the questionnaire, Cronbach's alpha was

used, the results of which are presented in Table 2.

Table2. Cronbach's alpha test for questionnaire reliability

Variables	Number of questions	Sample size	Cronbach's alpha
Goals	5	40	0.765
Structure	5	40	0.685
Leadership	5	40	0.731
Communication	5	40	0.684
Reward	5	40	0.897
Auxiliary methods	5	40	0.899
Financial performance	8	40	0.901
All organizational change variables	30	40	0.936

Reference: (Research findings)

As it can be seen, Cronbach's alpha for all variables is at an acceptable level; therefore, it can be claimed that the questionnaire has acceptable reliability.

The validity of the questionnaire was confirmed according to the experts' opinions. To analyze the collected data and test the statistical hypotheses of the research, factor

analysis and structural equation analysis were used. For statistical analysis, LISREL was used.

5- Research Findings

By using structural equation analysis in this sector, the impact of independent variables (organizational change variables) on dependent ones (financial performance)

was investigated. It needs to be explained that each of variables of goal, structure, leadership, communications, reward, and auxiliary methods were defined by using their indicators. Estimation of standardized load factors (standardized regression coefficients) of the conceptual model can be seen in fig. 3.

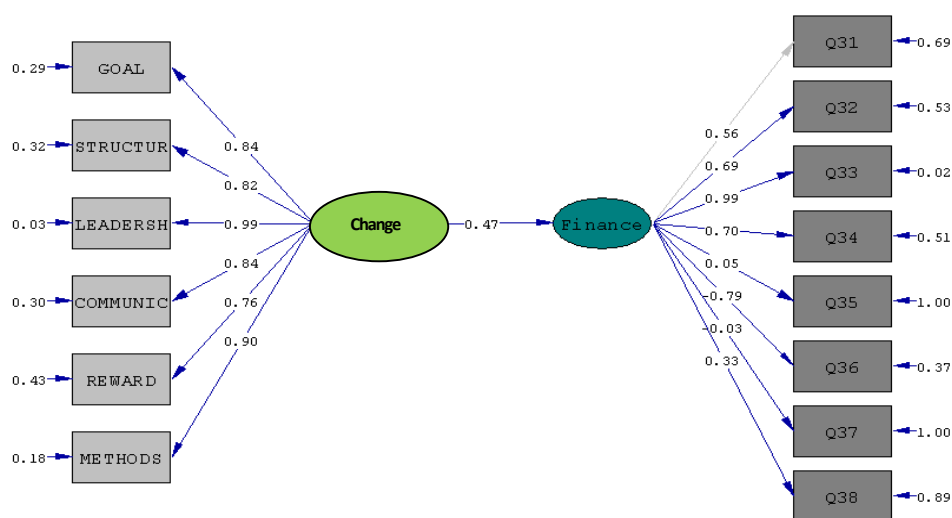


Fig3. Estimation of standardized load factors of the conceptual model

Reference: (Research findings)

As it is obvious from the findings, there is almost a strong impact of the independent variable of organizational change on the dependent variable financial

and economic performance of Bank Shahr. The impact is equal to 0.47. In Table 3, the intensity of effect of the research variables is presented.

Table3. The intensity of effect between variables

Variable	The intensity of organizational change variable	The intensity of dependent variable of financial performance	Significance
Organizational change	1	0.47	Significant
Financial and economic performance	0.47	1	Significant
Goal	0.84	$0.47 \times 0.84 = 0.39$	Significant
Structure	0.82	$0.47 \times 0.82 = 0.38$	Significant
Leadership	0.99	$0.47 \times 0.99 = 0.47$	Significant
Communication	0.84	$0.47 \times 0.84 = 0.39$	Significant
Reward	0.76	$0.47 \times 0.76 = 0.36$	Significant
Auxiliary methods	0.90	$0.47 \times 0.90 = 0.42$	Significant

Reference: (Research findings)

About the impact of independent variables on the dependent variable of financial and economic performance, it is

noticeable that the greatest impact is related to the leadership variable on the financial and economic performance of

the Bank Shahr, with the intensity of the effect equal to 0.47. After this variable, the independent variable of auxiliary methods with an effect intensity of 0.42 affects the financial and economic performance of Bank Shahr. The least impact is on the remuneration variable, the intensity of this effect on the financial

and economic performance of the Bank Shahr is 0.36.

To determine the significance of the effect of organizational change and its components on the financial and economic performance of Bank Shahr, t statistic is used, which is shown in fig. 4.

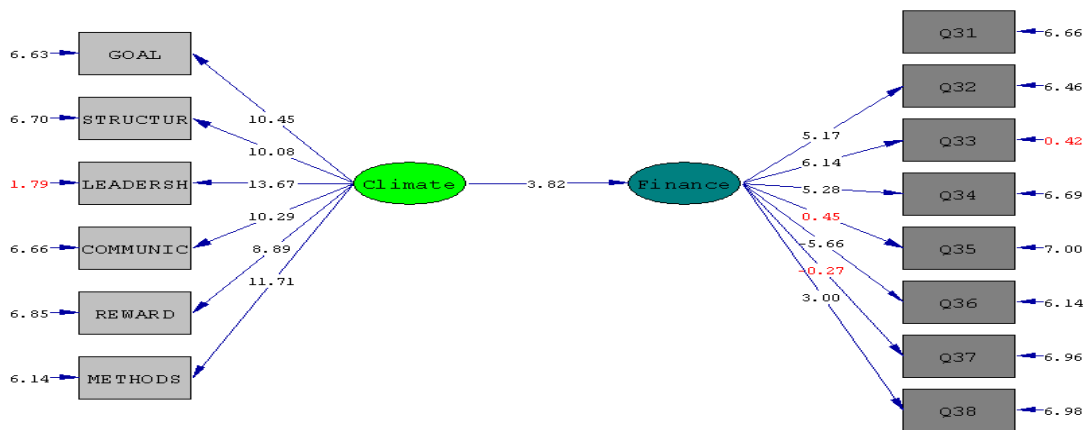


Fig.4. T-Student values of the conceptual model

Reference: (Research findings)

Given t-student value, the impact of all organizational change variables is confirmed on financial-economic performance of Bank Shahr. About financial performance indicators, it is noticeable that since t-statistic is less than 1.96 for two indicators of 35 and 37, significance hypothesis of this impact is rejected. Considering t-student values related to errors, it can be seen that the values of the statistic are more than 1.96 for all indicators and variables except indicator 33 and leadership variable. It indicates that there is a significant amount of error; these errors are often due to low sample

size. However, since t-student values are less than 1.96 for indicators 33 and leadership variable, these two errors are not significant. The multiplicative coefficient of the above model is 0.73, that is, the organizational change variables account for 73% of the dependent variables of financial and economic performance of Bank Shahr.

To assess the significance of the whole model, the fitting indicators of the refined model along with the criteria for the interpretation of each indicator are presented in Table 4.

Table4. GOF indicators of conceptual model

GOF indicators		Index value	Criteria	Result
CMIN	X ²	186.21	-	Inappropriate fitness
	Df	43	-	
	p.value	0.013	Larger than 0.05	
	X ² /df	4.004	Fewer than 2	Inappropriate fitness
GFI RMR	RMR	0.003	Close to zero	Excellent fit
	GFI	0.94	Close to one	Good fit
	AGFI	0.92	Close to one	
	PGFI	0.57	Larger than 0.5	
RMSEA	RMSEA	0.01	Fewer than 0.05	
Baseline Comparisons	NFI	0.89	Larger than 0.90	Inappropriate fitness
	NNFI	0.92	Larger than 0.90	Good fit
	CFI	0.91	Larger than 0.90	
	RFI	0.94	Close to one	
	IFI	0.91	Close to one	

Reference: (Research findings)

As it can be seen in table4, GFIs indicate that, given the criteria of each index, generally, the model has good fitness; therefore, the final model could represent the relationships between variables properly. However, in table 7, the non-fit of the appropriate model is seen by the chi-square index. This index is one of the most important one in determining model fitness, which is highly susceptible to sample size. As sample size increases, probable significance increases as well.

In this research, because of low sample size, the K2 index is not significant. Considering the significance of other important indicators such as: RMSEA, GFI and CFI, it can be ignored.

In this regard, after testing hypotheses (structural equation analysis), all research hypotheses were confirmed and their significance were correct. In other words, all organizational change variables have significant impact on financial-economic performance of Bank Shahr.

6- Conclusion and Discussion

This research aimed to investigate the impact of organizational change on

financial-economic performance of Bank Shahr. The findings indicated that there was a significant impact between organizational change dimensions (organizational goal, structure, leadership, communication, reward, and auxiliary methods) on financial-economic performance of Bank Shahr. The results are in line with the studies of Moghaddam (2007), Zeynalipoor & Mirkamali (2008), Arabi et.al, (2010), Masoud Sinaki & Seyyed Naghavi (2016), and Karter et.al, (2013). In this regard, organizational change that is one of the factors affecting financial performance of organizations can improve financial performance of organization and assist the organization to use the resources better. According to the research findings, among organizational change components, leadership had the most and reward had the least impact on financial-economic performance of Bank Shahr since leadership is of great importance in large organizations and its role is more prominent and more effective in achieving desirable organizational performance (such as financial and economic performance). Meanwhile, the components of financial and economic performance all had an effect on the variable of financial

performance, but its two indicators, namely, the reduction of each unit cost and return on capital, did not have a significant effect on financial and economic performance. Since Bank Shahr is a private bank and managed by municipalities, it can be concluded that, like other private companies, the costs they spend on units are important for managers and employees.

In this regard, and according to the results, the following suggestions are presented to managers of Bank Shahr in order to improve financial and economic performance:

- In order to influence the leadership on financial and economic performance, choosing a leadership style appropriate to the organization's conditions and using appropriate motivational systems to improve the performance of the staff is recommended.

- Regarding the impact of auxiliary methods on financial and economic performance, the use of automation, intranet, technology integration at different levels of the organization and the easy access of managers and personnel to the required information are suggested to do affairs better.

- For the impact of organizational goals on financial and economic performance, employees' participation in formulating organizational goals, outlining organizational goals and missions, and removing barriers to work are suggested.

- Considering the impact of organizational communication on financial and economic performance, improving communication networks in the work and strengthening the immersive and dynamic communication between working groups and employees are recommended.

- On the impact of organizational structure on financial and economic performance, pushing the organization

towards establishing a participatory organization and using employee participation programs, using organic structures appropriate to units and working groups, as well as using centrally centered and decentralized decision-making methods together are suggested.

- About the impact of rewards on financial and economic performance, updating and fairing the payment system, improving and targeting the organization's welfare facilities in line with the age and work experience of the organization's personnel, competing with the organization's payments to maintain decent work forces in the organization, implementing individual and group incentive programs of competent employees are suggested.

Finally, it can be stated that organizations must, as long as they are struggling to survive and require themselves to be present in the national and global arena, prioritize their adaptation to the environment and pay attention to organizational changes. This principle cannot be obtained unless it is possible to achieve it by improving performance management and paying attention to the performance of the organization, especially financial performance. Improving the organization's performance can be achieved by obtaining feedback from the inner and peripheral environment and analyzing the strengths, weaknesses, opportunities, and threats of the organization, and by creating and applying a performance evaluation system.

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