

# **THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP, LOCUS OF CONTROL AND EMPLOYEES' READINESS TO CHANGE: THE MEDIATING ROLE OF PSYCAP**

**Miftachul Mujib**

*Department of Management, Dian Nuswantoro University*

**Reni Rosari\***

*Department of Management, Universitas Gadjah Mada*

## **ABSTRACT**

This study investigates the influence of transformational leadership and internal locus of control on readiness to change. We examine the role of psychological capital as the mediating construct. Data were collected by the survey from 149 employees working at several start-up companies in Indonesia. The findings reveal that transformational leadership directly influences readiness to change, while internal locus of control influences both directly and indirectly. The mediating role of psychological capital does not significantly affect the relationship between transformational leadership and readiness to change. We also found that psychological capital fully mediates the influence of internal locus of control on readiness to change. This study contributes to understanding the psychological mechanism of psychological capital as an essential tool to link the effect of internal locus of control in building employees' readiness to change. Theoretical and practical implications and suggestions for further research are further discussed.

**Keywords:** Transformational leadership, internal locus of control, psychological capital, readiness to change.

---

*Received: 5 July 2021*

*Accepted: 16 June 2022*

<https://doi.org/10.33736/ijbs.5618.2023>

## **1. INTRODUCTION**

Employee reaction plays a vital role in organisational change (Oreg et al., 2011). Many organisations fail to manage the change process due to their inability to shape employees' attitudes towards change (Miller et al., 1994). Organizations can improve the chance of successfully implementing a changed plan by investigating employees' readiness to change (Vakola, 2014). Only limited studies explicitly examine the antecedents of readiness to change and how the impact of the change management process predicts readiness to change (Rafferty et al., 2013; Gigliotti et al., 2018).

Rafferty et al. (2013) suggest examining contextual factors such as communication of change, leadership practices, training programs, and personal characteristics (e.g., values, personality traits,

---

\* Corresponding author: Department of Management, Faculty of Economics and Business, Universitas Gadjah Mada, Jalan Sosio Humaniora No.1. Bulaksumur, Yogyakarta 55281, Indonesia. Tel: +628122704837; Email: rrosari@ugm.ac.id

self-efficacy) as antecedents of attitudes toward change, especially readiness to change. One of the dominant contextual factors influencing employees' readiness to change is the managers' support and leadership effectiveness during the change (Kirrane et al., 2016; Choi, 2011). Transformational leadership is usually associated with managerial effectiveness during a change process (Carter et al., 2013). However, research examining the relationship between transformational leadership and readiness to change is still limited, making it an interesting issue to investigate (Sawitri & Wahyuningsih, 2018). Moreover, Sawitri and Wahyuningsih (2018) find that the effect of transformational leadership on readiness to change sometimes exists in a non-linear pattern. Thus, it is an issue that needs to be further investigated.

Personal characteristics, attitudes, and individual differences are identified as antecedents of individual attitudes to change (Rafferty et al., 2013). However, the relationship between personality variables and attitudes toward organisational change must be clarified (Choi, 2011). We propose locus of control as a dispositional factor that can predict an individual's readiness to change. Several studies examining the relationship between locus of control and positive attitude toward change (including readiness to change) show inconsistencies in the findings. El-Farra and Badawi (2012) find that the internal locus of control positively relates to attitudes regarding the organisational change. The core self-evaluation, which includes the locus of control, relates to an individual's readiness for organisational change (Vakola, 2014). Wanberg and Banas (2000) discover a direct effect between self-control and openness to change. Chen and Wang (2007) find that the internal locus of control positively influences an individual's commitment to change based on willingness (affective) and feelings of obligation to support change (normative). However, Lau and Woodman (1995) identify no significant effect between the locus of control on attitude towards change.

The change process is sometimes seen as a challenging psychological state because it increases feelings of worry, negative emotions, uncertainty, and ambiguity (Devos et al., 2007). Therefore, organisational change requires a psychological condition that allows individuals to survive in the change process. A psychological condition needed is psychological capital (i.e., hope, self-efficacy, resiliency, & optimism), which could reduce the negative excesses arising from the change process. Nolzen (2018) suggests exploring the contribution played by psychological capital to understand adaptability or negative reactions better when faced with change.

Several reasons underlie our decision to propose psychological capital as a mediator between transformational leadership and internal locus of control toward readiness to change. First, its stability is valuable in stabilising one's condition in turbulence or changes (Avey et al., 2008). Psychological capital becomes a bumper that dampens the psychological effects caused by stressful conditions such as organisational change (Fredrickson & Branigan, 2005). Through a set of transformational leadership actions, leaders can reduce the impact of stress due to organisational change by strengthening their members' psychological capital and creating readiness to change. Second, psychological capital is a resource that is more stable than emotions and mood but not as permanent as personality. It can be managed by treatment (i.e., leadership) and directed into the desired attitude (Luthans et al., 2010; Kirrane et al., 2016). Organisations could shape the readiness of their members to face organisational change more efficiently by developing their psychological capital. Additionally, transformational leadership is expected to be essential in facilitating those development processes. Third, psychological capital is a personal resource that can increase the likelihood of success in overcoming life problems (Fredrickson, 2004). Individuals with an internal

locus of control believe that the extent of their efforts determines success in dealing with various challenging conditions. This belief increases when one is equipped with hope, resilience, and optimism. Thus, individuals will be better prepared to face changing situations if they have an internal locus of control supported by psychological capital.

Our study examines the impact of transformational leadership and internal locus of control on readiness to change. We also investigate the role of mediating mechanisms in these relationships. The study has several contributions to the existing literature. First, it enriches the limited literature about the influence of transformational leadership on readiness for change. Second, the study provides empirical evidence of the effects of internal locus of control on employees' readiness to change. Third, it explains how psychological capital mediates the influence of transformational leadership and internal locus of control on readiness to change.

## **2. LITERATURE REVIEW**

### **2.1. Psychological Capital**

Luthans et al. (2007) define psychological capital as the development of a person's psychological positive state, characterised by: 1) having confidence in the ability to make the necessary efforts on challenging tasks, 2) feeling optimistic about the present and future success, 3) maintaining and being persistent in pursuing goals, if necessary, diverting paths to achieve goals, and 4) having the resiliency to face problems and obstacles. Psychological capital is an infinite individual psychological resource that can be encouraged and developed for personal purposes and career success (Luthans et al., 2010). Although its role is essential for performance support, few studies examine various matters related to psychological capital formation (Avey et al., 2011). Avey (2014) suggests that individual difference is the strongest predictor of psychological capital. Personal factors such as self-esteem and proactive personality are antecedents of psychological capital (Avey, 2014). Contextual factors also contribute to forming psychological capital, such as leadership style and organisation sportsmanship (Goody et al., 2009; Rego et al., 2012; Avey, 2014; Luthans et al., 2007). Through the Psychological Capital Framework, Luthans and Youssef-Morgan (2017) suggest that some of the consequences of psychological capital include productivity, attitudes, behaviour, health, social relations, and well-being. Psychological capital plays a role in influencing how employees face organisational pressures and changes (Avey et al., 2008; Avey et al., 2011; Kirrane et al., 2016). Psychological resources in the form of psychological capital are always valuable, particularly in times of psychological shock following a change (Avey et al., 2008; Kirrane et al., 2016).

### **2.2. Transformational Leadership**

Bass (in Dust et al., 2014) presents several behavioural dimensions that represent transformational leadership, e.g., creating and communicating vision, empowering, providing intellectual stimulus, paying attention to individuals, having ideal influences, and providing inspiring motivation. Carless et al. (2000) adds that the dimensions are reflected in leaders' effort to 1) develop an overview of the future of their organisation and communicate vision, 2) facilitate and encourage the personal development of its members, 3) provide support for members by providing positive feedback, 4) engage members in decision making, 5) use innovative strategies that are sometimes

uncommon to achieve their goals, 6) show consistency between the articulated views and the behaviour shown, and 7) have the charisma that inspires members. The concept developed by Carless et al. (2000) is considered more comprehensive and complete. Transformative leaders can influence organisational performance not only through their influence on individual and group-level performance and processes but also through their influence on organisational culture, systems, and strategies (Wang et al., 2011). In organisational change, transformational leadership can shape employee readiness in the face of change (Bommer et al., 2005; Santhidran et al., 2013; Sawitri & Wahyuningsih, 2018).

### **2.3. Internal Locus of Control**

Locus of control is one's belief or perception of its ability to control the environment and events surrounding their life (Rotter, 1966). Simply put, locus control is the extent to which a person believes they have control over their destiny (Ng et al., 2006). There are two types of locus of control: internal and external. A person with an internal locus of control sees themselves as an agent who can actively master and control his destiny, and with his beliefs, he seeks to control the environment and his success (Ng et al., 2006; Devos & Boukenooghe, 2007). By tending to the internal locus of control, individuals will feel confident and assume that all the outputs they get are directly generated from the effort they put into achieving that output (Galvin et al., 2018). The internal locus of control tends to be positively associated with attitudes, behaviours, and well-being in the work environment (Galvin et al., 2018). In organisational change, locus of control relates to a high acceptance of the change (El-Farra & Badawi, 2012).

### **2.4. Readiness to Change**

Armenakis et al. (1993) define readiness to change as the organisation members' "*beliefs, attitudes, and intentions regarding the extent to which changes are needed and the organisation's capacity to undertake those changes successfully.*" Choi (2011) made a more established definition by stating that readiness to change is an evaluation of the individual's and organisation's capacity to succeed in change, the need for change, and the individual and organisational benefits that can be gained from the change. In contrast to the organisational readiness to change, individual readiness to change involves actively seeking information, determining the mean, and making assumptions about the change process (Choi & Rouna, 2011). Readiness to change is formed from the need for individual and collective change and efficacy (Armenakis et al., 1993). Rafferty et al. (2013) identified three categories of readiness to change predictor: external organisational pressures (e.g., industry changes, technological changes, changes in bureaucratic regulations), possible internal contexts (e.g., communication of change, leadership), and personal characteristics (e.g., value, self-efficacy). Leaders' attributes (e.g., honesty, trustworthiness, sincerity, & commitment) are essential to forming readiness to change (Santhidran et al., 2013). Dispositional factors such as the internal locus of control and self-efficacy of changes are identified as antecedents of readiness to change (e.g., El-Farra & Badawi, 2012).

### **2.5. Underlying and Research Framework**

This study was conducted by referring to the Organisational Support Theory premise that individuals form a general trust in the organisation to the extent to which the latter assesses the contribution made and pays attention to the employees' well-being (Eisenberger et al., 1986).

Fulfilment of members' social-emotional needs by the organisation will produce a feeling of obligation to reciprocate (Baran et al., 2012), and it is expressed by showing a higher level of support by increasing their efforts to help the organisation achieve its goals (Aselage & Eisenberger, 2003). Since leaders act as company agents, the treatment that the employees get from their leaders will affect their work behaviour (Baran et al., 2012). Based on this theory, we argue that transformational leadership will positively influence employees' readiness to support organisational goals and implement changed plans.

Attribution Theory is used to explain the relationship between internal locus of control and readiness to change. The concept of the theory is that individuals make rationalisations to understand the factors associated with a causal relationship between success or failure experienced in their life (Harvey & Weary, 1984). The success or failure of a task is followed by a search for the causes of the results through three dimensions: the locus of causality, stability, and controllability (Weiner, 1979). Locus of causality refers to where the cause of a person's behaviour is, whether it comes from within themselves (dispositional) or comes from outside (situational) (Weiner, 2000).

The moderating role of psychological capital is best explained by Build-and-Broaden Theory, stating that a person's positive emotions will expand temporary thoughts and actions; and will build personal resources that are more durable (Fredrickson, 2001). The 'broaden' proposition states that positive emotions expand the scope of attention, cognition, and action; and will spontaneously widen the order of perspectives, thoughts, and actions in individual minds (Fredrickson & Branigan, 2005). Whereas the 'build' proposition explains the expansion of cognition, thought and action caused by positive emotions from various personal resources which help overcome challenging situations (Fredrickson & Branigan, 2005; Vacharkulksemsuk & Fredrickson, 2016; Lin et al., 2016). Personal resources that are formed from positive emotions can be in the form of physical resources (e.g., expertise, health), social resources (e.g., friendship, social relations), intellectual resources (e.g., knowledge, theories of thought), and psychological resources (e.g., resiliency, optimism, creativity) (Fredrickson & Branigan, 2005; Vacharkulksemsuk & Fredrickson, 2016).

## **2.6. Hypothesis Formulation**

### **2.6.1. Transformational Leadership and Readiness to Change**

According to Organisational Support Theory, the treatment the employees receive from their leaders could affect employees' behaviour in the organisation (Baran et al., 2012). We predict that transformational leader actions can strengthen employee readiness to change. Transformational leaders articulate the future and show how to achieve it, then demonstrate the urgency and meaning of the change planning and create a positive vision of change (Faupeil & Süß, 2018). Through individual attention to employees, transformational leaders ensure that employees remain motivated and resilient during the change (Bommer et al., 2005). Sawitri and Wahyuningsih (2018) and Santhidran et al. (2013) find that transformational leadership positively affects readiness to change. Employees would be more ready to change when they receive optimum treatment from transformational leaders. Thus, the first hypothesis is as follows:

*H1: Transformational leadership positively affects readiness to change.*

### **2.6.2. Internal Locus of Control and Readiness to Change**

By the concept of Attribution Theory, employees will make rationalisations that explain the causal relationships, thus affecting employee responses and actions (Hewett et al., 2018). A person's response is due to the dominance of internal or external influences (Heider, cited in Hewett et al., 2018). In other words, the attributions made by employees depend on whether the locus of causality for behaviour or events is based on the person himself (internal), environmental (external), or both (Hewett et al., 2018). Employees will show an emotional response (positively or negatively) to success or failure based on attribution (Weiner, 2008). According to tendencies based on internal or external locus of causality, employees are influenced by attributions that a person makes. Compared to the external locus of control, the internal locus of control positively influences attitudes towards change and can handle change better (Chen & Wang, 2007). Individuals with an internal locus of control believe that they can control change; if they feel there is a possibility of success, they will not be afraid to face it (Lau & Woodman, 1995). With confidence in the internal locus of control, employees would feel capable of influencing and controlling change and taking actions that strengthen their beliefs (El-Farra & Badawi, 2012; Lou & Woodman, 1995). Individuals with an internal locus of control believe they can determine their destiny and are expected to make internal attributions of their successes and failures (Martinko et al., 2011). By believing in their ability to solve pressing events such as change, they tend to see change as positive. As a result, they will have higher readiness to change (Vakola, 2014). The second hypothesis is as follows:

*H2: The internal locus of control positively affects readiness to change.*

### **2.6.3. The Mediating Role of Psychological Capital in the Effect of Transformational Leadership on Readiness to Change**

The basic assumption of the broaden-and-build theory is that individuals with positive emotions will expand their thinking and develop more durable personal resources (Fredrickson, 2001). Fredrickson (2009) states that individuals with psychological capital (reflected as having confidence, hope, and optimism) experience positive emotions, broadening their thought-action repository and leading to more positive attitudes and behaviours (Gupta, 2018). Organisations that can direct their employees to have high psychological capital allow the latter to be more positive and adaptive in facing diverse working conditions (Avey et al., 2008).

As a personal resource, psychological capital is critical in aiding an individual when experiencing shock over a specific change (Avey et al., 2008). Psychological capital consists of positive psychological conditions (i.e., hope, efficacy, resiliency, and optimism) that are always valuable and become critical when turbulence and changes occur (Avey et al., 2008). Psychological capital becomes a necessary damper in situations of psychological shock, such as organisational change (Fredrickson & Branigan, 2005). Through transformational leadership actions, positive emotions in the form of hope, efficacy, resilience, and optimism can be built and expanded into positive attitudes and behaviours. Leaders can also use it to reduce the effects of stress due to organisational change by building the psychological capital of their members and, in turn, creating readiness to face the change.

Employees show better resilience in challenging situations after the change when they have built their psychological capital (Avey et al., 2008). High confidence in dealing with change (Armenakis et al., 1993) allows them to feel ready to face the change. When accepted by their subordinates, these transformational leadership behaviours act as contextual conditions that improve psychological capital and confidence in the face of obstacles, resulting in a more positive future (Gooty et al., 2009). Psychological capital is built through a series of actions by transformational leaders by creating positive employee emotions before it is transformed into readiness to change. Prior studies showed the evidence for the mediating roles of psychological capital in the relationship between leadership and individual outcomes, such as job performance, organisational citizenship behaviour, and employee creativity and innovation capability (Rego et al., 2012; Gooty et al., 2009; Lei et al., 2020). Rego et al. (2012) reported that effective leadership styles promote psychological capital among employees, which improves job performance. Psychological capital has been found to mediate the relationship between the perception of transformational leadership and citizenship behaviour (Gooty et al., 2009). Lei et al. (2020) state that firms led by transformational leaders create a positive organisational climate that is conducive to stimulating a positive mental and emotional state of employees (in the form of psychological capital) for generating creativity and innovation capability. The implementation of transformational leadership practice is expected to be more impactful on readiness to change when the leader builds the psychological capital condition of the employee. Based on the theory and assumption, we hypothesise that:

*H3: Psychological capital mediates the positive effect of transformational leadership on readiness to change.*

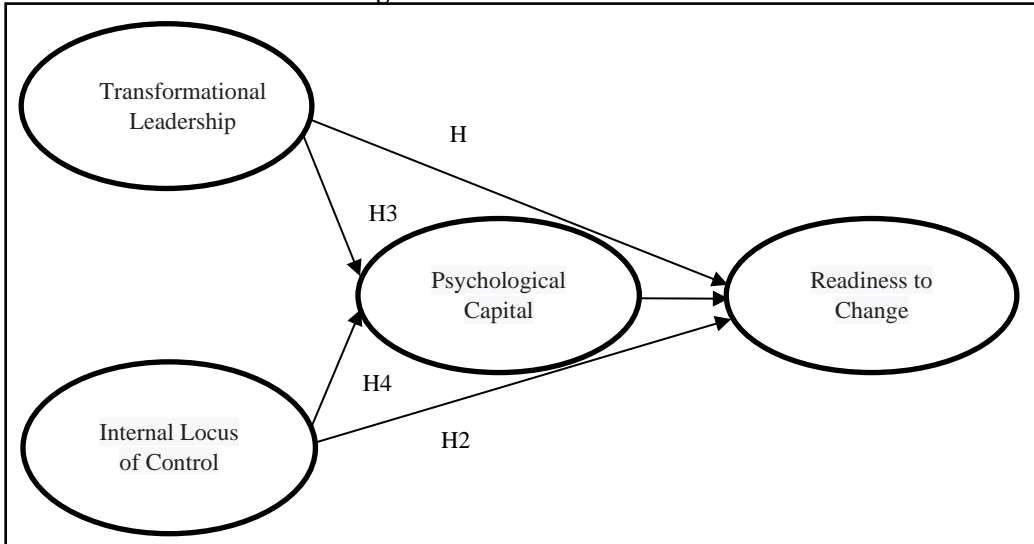
#### ***2.6.4. Psychological Capital Mediates the Effect of the Internal Locus of Control on Readiness to Change***

According to the Build-and-Broaden Theory, a person's positive emotions will increase the variety of temporary thoughts and actions, building more durable personal resources (Fredrickson, 2001). Positive emotions seem durable and add to a repository of personal resources, which can be called upon when resilience is needed (Luthans et al., 2006). An individual's positive emotions (i.e., internal locus of control) can be transferred to other emotional states and form more durable psychological resources needed to face various events (Zhun, 2018). Individuals with hope, efficacy, resilience, and optimism as a part of their psychological capital can expand their thoughts and actions, promoting a more positive attitude and behaviour in every situation (Gupta & Shaheen, 2018). If employees develop their resources through high psychological capital, it allows them to adapt to various working conditions (Avey et al., 2010). Internal locus of control as a positive emotion will stimulate psychological capital to become stronger and further shape one's readiness to face organisational change. Readiness to change can be formed with basic capital, like an internal locus of control. It needs to be strengthened by personal resources that are more durable, namely in the form of psychological capital that consists of hope, self-efficacy, resiliency, and optimism (Luthans et al., 2007). Psychological capital is needed to dampen psychological shock resulting from change (Fredrickson & Branigan, 2005). Psychological capital resources in self-efficacy and optimism are necessary for employees to feel ready to face the change. Employees with an internal locus of control believe that they can successfully deal with change when they have self-efficacy, optimism, and resilience. Hope, efficacy, optimism, and resilience will help internal self-control to produce individual outcomes (Luthans & Youssef-Morgan, 2017).

Therefore, we assume that internal locus of control will affect employee readiness to change when they have psychological capital. Thus, we argue the fourth hypothesis as follows:

*H4: Psychological capital mediates the positive influence of the internal locus of control on readiness to change.*

**Figure 1: Research Framework**



### 3. METHODOLOGY

We collected data using a survey distributed to start-up company workers in Indonesia, especially those using digital technology platforms in their operations. We chose start-up companies as our research context because they are in the phase of introduction and re-organisation (according to the organisational formation cycle), making them prone to experiencing organisational changes that could affect employee work attitudes. Several reasons could underlie why Indonesian start-ups often carry out changes. First, Indonesia has 1,190 start-ups (DataIndonesia, 2021), making it a highly competitive business and requiring companies to adjust their strategies to compete constantly. Second, Indonesia is the largest and fastest-growing internet economy in Southeast Asia (Greenhouse, 2019), requiring start-ups to rapidly transform their services to adapt to consumers' growing needs along with the sophistication of the technology. Third, the Covid-19 pandemic in 2019 impacted the economy and business activities, requiring start-ups to make massive organisational changes. Since there is no accurate data on the number of workers in Indonesian start-up companies, the exact population is unknown.

Therefore, the data collection technique used non-probability sampling, precisely the purposive sampling technique. The sample inclusion criteria are as follows: (1) works at a start-up company that uses digital technology in its business operations with a company age of under five years, (2) has worked at the company for at least one year, and (3) interacts with the direct supervisor whom



they assess through the questionnaire for a minimum of six months. The first criterion is that a start-up company is developing organisational stability, so there will be more potential for organisational change. The second and third criteria are intended to maximize the accuracy of the data generated from respondents who have perceived the impact of leadership given by their direct superiors in forming an attitude of readiness for change and their psychological capital. We analysed data using the Structural Equation Model - Partial Least Square (SEM-PLS) method. As Hair et al. (2014) suggested, the minimum number of samples analysed using SEM-PLS is ten times the path of the conceptual framework. Six paths are described in the conceptual framework; therefore, the minimum number of samples is 60. Hair et al. (2010) also suggest a sample size of at least 100 to 150 to get solid statistical power for testing, so the sample size is 150. The self-administered survey questionnaire is distributed directly to the respondents and online media. Of the 185 questionnaires distributed, 150 were returned, excluding one respondent who gave double responses, and the total data to be analysed was 149.

### **3.1. Measurement**

Transformational leadership was measured by The Global Transformational Leadership scale (GTL) developed by Carless et al. (2000), containing seven favourable question items. An example of these items is, "My leader communicates a clear and positive vision of the future." Internal locus of control was measured by adopting the instrument developed by Spector (1988), consisting of eight items with all questions being favourable. "Promotion is given to employees who have good performance in their work" is one example of the items. To assess the readiness to change, this study adopted the instrument of Vakola (2014) developed by Holt et al. (2007). The total items in the instrument were six question items. Five question items were favourable, and one was a reverse question. An example of these items is, "I believe that I am more ready to accept change than my colleagues". This study measures psychological capital with Psychological Capital Questionnaire (PCQ) developed by (Luthans et al., 2007). The total number of items is 12, and all are favourable. These items include "If I face problems at work, I have various alternative solutions". The measurement scale used is a Likert scale of 1-5 (1 = strongly disagree, 5 = strongly agree).

### **3.2. Descriptive Statistics of Respondent**

Based on the data obtained, most respondents were aged 20-25 (n= 81, 54.4%). Most respondents were female (57%), while the rest were male (43%). Respondents were dominated by those who had worked for 1 to 5 years, with 123 respondents (82.6%). Meanwhile, in terms of educational background, 79.9% of them have graduated from the undergraduate level. The demographic analysis summary is illustrated in Table 1.

**Table 1: Respondent Profile**

<b>Profile</b>	<b>Category</b>	<b>Quantity</b>	<b>Per cent (%)</b>
Age	20-25 years	81	54.4
	26-30 years	50	33.6
	31-35 years	10	6.7
	36-40 years	7	4.7
	≥ 41 years	1	0.7
Gender	Male	64	43.0
	Female	85	57.0

Tenure	1-5 years	123	82.6
	6-10 years	21	14.1
	11-15 years	2	1.3
	≥ 16 years	3	2.0
Education	Secondary School	10	6.7
	Diploma	8	5.4
	Graduate	119	79.9
	Master	11	7.4
	Doctoral	1	0.7

## 4. RESULTS AND DISCUSSION

### 4.1. Data Analysis

We analysed the data using Structural Equation Model (SEM) technique with the Partial Least Square (PLS) approach. All scales have a Cronbach's Alpha value and composite reliability greater than 0.6, as Cooper and Schlinder (2014) suggested. Convergent validity was estimated by AVE with a standard of > 0.5 (Fornell & Larcker, 1981). Table 2 shows that each construct achieved sufficient convergent validity ranging from 0.51 to 0.55, indicating that all scales have good convergent validity. Criteria for discriminant validity dictate that the square root of the AVE value must be greater than the correlation values between the constructs (Hair et al., 2014). The result indicates that all constructs are confirmed to have good discriminant validity (Table 3).

**Table 2:** Results for Convergent Validity and Reliability

Construct	Mean	SD	AVE	Cronbach's Alpha	Composite Reliability
Psychological Capital	3.90	0.76	0.51	0.86	0.89
Transformational Leadership	3.71	0.81	0.59	0.86	0.89
Internal Locus of Control	4.03	0.74	0.51	0.68	0.81
Readiness to Change	4.04	0.73	0.55	0.73	0.83

**Table 3:** Results for Discriminant Validity

	PC	TL	ILC	RC
PC	<b>0.71</b>			
TL	0.14*	<b>0.77</b>		
ILC	0.39**	0.21**	<b>0.72</b>	
RC	0.62**	0.27**	0.27**	<b>0.74</b>

*Note:* \*  $p$ -value < 0.05, \*\*  $p$ -value < 0.001; PC: Psychological capital; TL: Transformational leadership; ILC: Internal locus of control; RC: Readiness to change. The diagonal line (Bold) is the AVE square root of the correlation between constructs.

### 4.2. Hypothesis Testing

We estimate the theoretical model using SEM-PLS based on the significant P-values of the Average Path Coefficient (APC), Average R-squared (ARS), and Average Adjusted R-squared (AARS) (Kock, 2018). Table 4 shows that the significance of the APC, ARS, and AARS's P-value is < 0.001. This finding indicates that the model fulfils one of the goodness of fit criteria. A model

has no multicollinearity when the AVIF and AFVIF values are less than 5.0 and have an ideal value of less than 3.3 (Kock, 2018). The results show the values of AVIF and AFVIF to be 1.20 and 1.42, respectively (ideal), signifying no multicollinearity in the model. We can determine the model's strength by looking at the Tenenhaus GoF (GoF) value. Our finding depicts the value of Tenenhaus of GoF to be 0.52, meaning that the model built has a strong fit. Table 4 shows the detailed data of the indicators.

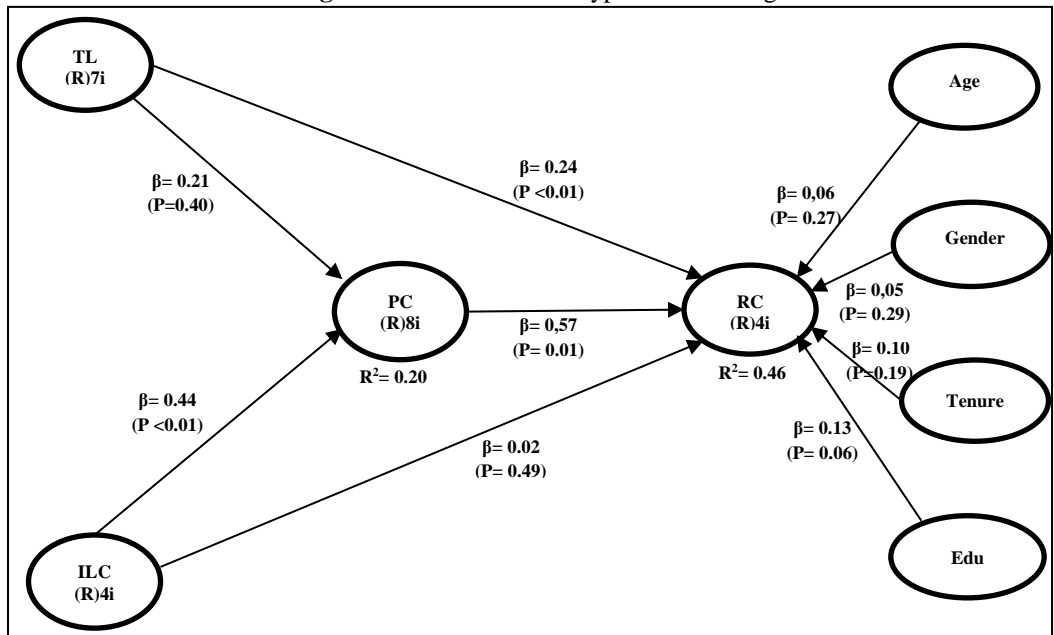
**Table 4: Model Fit**

Indicator	Value	Requirements (Kock, 2018)	Conclusion
APC	0.18***	<i>P sig</i>	Accepted
ARS	0.36***	<i>P sig</i>	Accepted
AARS	0.34***	<i>P sig</i>	Accepted
AVIF	1.20	Accepted if $\leq 5$ , Ideal value $\leq 3.3$	Ideal
AFVIF	1.42	Accepted if $\leq 5$ , Ideal value $\leq 3.3$	Ideal
GoF	0.52	Small $\geq 0.1$ , Medium $\geq 0.25$ , Strong $\geq 0.36$	Strong Model

*Notes:* APC: Average path coefficient, ARS: Average R-squared, AARS: Average adjusted R-squared, AVIF: Average block VIF, AFVIF: Average full collinearity VIF, GoF: tenenhaus GoF. \*\*\*  $p < .001$ ,  $n = 149$ .

We tested the hypothesis by analysing the path coefficient, coefficient of determination (adjusted R-squared), significance level, and effect size of the path coefficient. Figure 2 and Table 5 depict the structural model test result of the hypothesis testing.

**Figure 2: Full Model for Hypothesis Testing**



**Table 5:** Results of Structural Model Analysis

Construct	Path to- ( $\beta$ & $p$ -value)	
	Psychological Capital	Readiness to Change
<b>Direct Effect</b>		
Transformational Leadership		0.27**
Internal Locus of Control		0.23**
R <sup>2</sup> (Adjusted)		0.17
Q <sup>2</sup>		0.18
<b>Full Model</b>		
Transformational Leadership	0.21	0.24**
Internal Locus of Control	0.43**	0.02
Psychological Capital		0.57**
R <sup>2</sup> (Adjusted)	0.18	0.43
Q <sup>2</sup>	0.19	0.48
<b>Effect Size:</b>		
Transformational Leadership	0.01	0.09
Internal Locus of Control	0.19	0.08
Psychological Capital		0.36
<b>Control Construct</b>		
Age		0.04
Gender		0.04
Tenure		-0.07
Education		0.12

Note: \*\*  $p < .001$ .

Table 5 shows the significant positive effect of transformational leadership on readiness to change ( $\beta = 0.27$ ,  $p < 0.01$ ), signifying that H1 is supported. Based on the data in Table 5, the internal locus of control directly affects readiness to change, indicated by the coefficient value of 0.23 ( $p \leq 0.001$ ), so H2 was supported. Figure 5 shows a full model incorporating psychological capital as a mediating variable. Transformational leadership has no significant effect on psychological capital ( $\beta = 0.21$ ,  $p = 0.4$ ). The direct effect of transformational leadership on readiness to change has decreased the path coefficient, initially from 0.27 (see Table 5) to 0.24 (see Figure 2), but it has remained significant. Based on the mediation testing procedure, according to Baron and Kenny (1986), the second and fourth procedures were not fulfilled; thus, H3 was not supported. There is no significant effect of internal locus of control on readiness to change when psychological capital was included in the model, as shown by  $\beta$  value 0.23 ( $< 0.001$ ) to 0.2 (0.49); thus, it fulfilled the mediation procedure suggested by Baron and Kenny (1986). Furthermore, the effect of mediation was tested by Variance Extracted For (VAF) method with the following steps: 1) the direct effect of the exogenous construct on the endogenous construct should be significant before the mediating construct is included in the model, 2) the indirect effect should be significant after the mediating construct is entered into the model, 3) calculating the VAF value (Hair et al., 2014). According to Hair et al. (2014), the VAF value of 0.92 or 92%, is categorised as fully mediated (H4 was supported). Detailed calculations of VAF values for H4 are presented in Table 6.

**Table 6:** Exploration Results of Mediation Method for VAF

	<b>Indirect effect/Total effect</b>	<b>VAF value</b>
Indirect effect (ILC-PC-RC)	0.44x0.57	0.24
Direct effect (ILC-RC)		0.02
Total effect		0.26
<b>VAF (ILC-PC-RC)</b>	<b>0.24/0.26</b>	<b>0.92 (92%)*</b>

### 4.3. Discussion

Our study found that transformational leadership positively affects readiness to change. In line with Sawitri and Wahyuningsih (2018) and Santhidran et al. (2013), employees who are influenced by transformational leadership have a higher readiness to change. A set of actions taken by a leader that impacts the members' wellbeing can raise trust in the organisation (Eisenberger et al., 1986; Baran et al., 2012) and increase members' willingness to support organisation goals (Eisenberger et al., 1986). Members' organisational support is expressed by attitudes and behaviours toward organisational policies such as organisational change plans and is reflected by a readiness to change. Employee readiness to change can be built by communicating a vision of the future, supporting individual employee development, providing encouragement, and giving recognition to employees (Carless et al., 2000).

Next, we discover that internal locus of control positively affects readiness to change. It is in line with a study by Vakola (2014), which states that employees who believe in their ability to resolve stressful events such as change (indicated by having a locus of control) will have high readiness for change. This study also strengthens the results of previous research (El-Farra & Badawi, 2012), which states that the internal locus of control, a person's belief that he can control the environment around him and his success, will increase readiness for change because he feels he has control over the change event. Oreg et al. (2011) suggested investigating factors that might mediate or moderate the relationship between antecedents and readiness to change to explain how the antecedents affect readiness to change. Our study found that psychological capital mediates the positive influence of internal locus of control on readiness to change. The internal locus of control must be linked with more durable psychological resources to create the readiness to change. Hope, self-efficacy, resilience, and optimism, as the components of psychological capital (Luthans et al., 2007), are psychological resources needed in challenging conditions (Fredrickson & Branigan, 2005). Its components can be formed from dispositional factors, which are the strongest predictors (Avey, 2014). In this context, the internal locus of control is one of the dispositional factors affecting readiness to change. Since dispositional factors are the strongest predictors of psychological capital compared to other factors like situational factors (Avey, 2014), a mediator is not needed to influence transformational leadership's effect on readiness to change. If transformational leadership is a contextual factor given dominantly in shaping readiness to change, then the mediating role of psychological capital is no longer needed.

### 4.4. Implications

This study adds to the evidence that transformational leadership positively affects readiness to change (e.g., Sawitri & Wahyuningsih, 2018; Santhidaran et al., 2013). The findings also confirm the proposition of the Organisational Support Theory (Baran et al., 2012), which states that individuals who receive support from the organisation will feel obliged to reciprocate by

supporting the organisation's decisions. It also supports a previous study (El-Farra & Badawi, 2012) that report that individuals with an internal locus of control have more positive attitudes toward change. The psychological mechanism that leads to an internal locus of control affected individuals' readiness to change was explained by mediating role of psychological capital. Psychological capital is proven to be the factor that mediates the effect of the locus of internal control on readiness for change. This research contributes to the literature on the need for explaining the mediating mechanism in the impact of internal locus of control toward readiness to change. Other findings suggest that the behaviour of transformational-style leaders is sufficiently capable of shaping members' readiness for change, so it does not require other mediating factors.

The results of this study contribute to change management practices, especially in shaping members' readiness for change. Leaders need to reinforce actions that reflect in communicating the vision of change, providing support for employee capacity building, involving the employees in change planning, and encouraging employees that can stimulate employees' readiness to change. It is also suggested to encourage employees to have an internal locus of control and strengthen them by developing psychological capital. The belief that they can solve obstacles to achieve success will encourage employees to believe they are ready to face organisational changes. Human resource managers are suggested to develop employees' psychological capital through the development of expectations that change will benefit themselves and the organisation, self-efficacy in the face of change, resiliency during the change process, and optimism that change will be successful. Such psychological capital can be built by intervention through employee training and self-development.

## **5. CONCLUSION**

Organisational change plans can be successfully implemented by investigating employee readiness to change. Implementing several acts reflecting transformational leadership optimally can be a powerful way to build member readiness to change without any necessary mediating factors. The greater the influence of transformational leader treatment, the higher employee readiness to face the change. Psychological capital is a beneficial psychological resource used as a bumper in stressed conditions such the organisational change. The psychological states reflecting hope, self-efficacy, resiliency, and optimism play psychological mechanisms in the role of dispositional factors (such as internal locus of control and self-efficacy) and affect an individual's readiness to change.

The study has several limitations. Firstly, the study design is cross-sectional, so it cannot further explore the role of predictors in forming psychological capital before giving rise to employee readiness to change. Future research is therefore suggested to use longitudinal data to capture the phenomenon of psychological capital formation affecting readiness to change. Secondly, the questionnaire used in data collection is self-administered, which can only measure the construct of transformational leadership in a perceived way. Further studies could consider reconfirming employee responses of perceived transformational leadership to the assessed leaders to get robust data validity. Thirdly, the measurement of the construct of transformational leadership uses global indicators. This can cause bias in filling out the questionnaire because the respondent could agree with one thing but disagree with the other equally proposed matter in the statement. Therefore, we suggest future research to evaluate more appropriate alternative measurements.

## REFERENCES

- Armenakis, A. A., Harris, S. G., & Mossholder, K. W. (1993). Creating readiness for organizational change. *Human Relations*, 46(6), 681–703.
- Aselage, J., & Eisenberger, R. (2003). Perceived organizational support and psychological contracts: a theoretical integration. *Journal of Organizational Behavior*, 24(5), 491–509.
- Avey, J.B. (2014). The left side of psychological capital: New evidence on the antecedents of psyicap. *Journal of Leadership & Organizational Studies*, 21(2), 141–149.
- Avey, J.B., Avolio, B.J., & Luthans, F. (2011). Experimentally analyzing the impact of leader positivity on follower positivity and performance. *Leadership Quarterly*, 22(2), 282–294.
- Avey, J.B., Luthans, F., & Youssef, C.M. (2010). The additive value of positive psychological capital in predicting work attitudes and behaviors. *Journal of Management*, 36(2), 430–452.
- Avey, J.B., Wernsing, T. S., & Luthans, F. (2008). Can positive employees help positive organizational change? Impact of psyicap and emotions on relevant attitudes and behaviours. *The Journal of Applied Behavioral Science*, 44(1), 48–70.
- Baran, B.E., Rhoades, L.S., & Miller, L.R. (2012). Advancing organizational support theory into the twenty-first century world of work. *Journal of Business Psychology*, 27, 123–147.
- Baron, R. M., & Kenny, D. a. (1986). The moderator-mediator variable distinction in social psychological research: conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6), 1173–1182.
- Bommer, W., Rich, G., & Rubin, R. (2005). Changing attitudes about change: Longitudinal effects of transformational leader behavior on employee cynicism about organizational change. *Journal of Organizational Behavior*, 26(7), 733–753.
- Carless, S.A., Wearing, A.J., & Mann, L. (2000). A short measure of transformational leadership. *Journal of Business and Psychology*, 14(3), 389–405.
- Carter, M.Z., Armenakis, A.A., Feild, H.S., & Mossholder, K.W. (2013). Transformational leadership, relationship quality, and employee performance during continuous incremental organizational change. *Journal of Organizational Behavior*, 34(7), 942–958.
- Chen, J. & Wang, L. (2007). Locus of control and the three components of commitment to change. *Personality and Individual Differences*, 42(3), 503–512.
- Choi, M. & Rouna, W. E. A. (2011). Individual readiness for organizational change and its implications for human resource and organization development. *Human Resource Development Review*, 10(1), 46–73.
- Choi, M. (2011). Employees' attitudes toward organizational change: A literature review. *Human Resource Management*, 50(4), 479 – 500.
- Cooper, D., & Schindler, P. (2014). *Business Research Methods*. Boston: McGraw-Hill.
- DataIndonesia (2021). Mayoritas Startup Indonesia Berasal dari Jabodetabek. *DataIndonesia.id*. <https://dataindonesia.id/digital/detail/mayoritas-startup-indonesia-berasal-dari-jabodetabek>.
- Devos, G., Buelens, M. & Bouckennooghe, D. (2007). Contribution of content, context, and process to understanding openness to organizational change: Two experimental simulation studies. *The Journal of Social Psychology*, 147(6), 607–630.
- Dust, S. B., Resick, C. J., & Mawritz, M. B. (2014). Transformational leadership, psychological empowerment, and the moderating role of mechanistic–organic contexts. *Journal of Organizational Behavior*, 35(3), 413–433.
- Eisenberger, R., Huntington, R., Hutchison, S., & Sowa, D. (1986). Perceived organizational support. *Journal of Applied Psychology*, 71(3), 500–507.

- El-Farra, M.M., & Badawi, M.B. (2012). Employee attitudes toward organizational change in the Coastal Municipalities Water Utility in the Gaza Strip. *EuroMed Journal of Business*, 7(2), 161 – 184.
- Faupel, S., & Süß, S. (2018). The effect of transformational leadership on employees during organizational change – an empirical analysis. *Journal of Change Management*, 19(3), 145-166.
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50.
- Fredrickson, B. L. (2001). The role of positive emotions in positive psychology: the broaden-and-build theory of positive emotions. *American Psychologist*, 56(3), 218-226.
- Fredrickson, B. L. (2004). The broaden-and-build theory of positive emotions. *Philosophical Transactions of the Royal Society of London Series B-Biological Sciences*, 359(1449), 1367–1377.
- Fredrickson, B. L., & Branigan, C. (2005). Positive emotions broaden the scope of attention and thought-action repertoires. *Cognition and Emotion*, 19(3), 313–332.
- Galvin, B.M., Randel, A.E., Collins, B.J., & Johnson R.E. (2018). Changing the focus of locus (of control): A targeted review of the locus of control literature and agenda for future research. *Journal of Organizational Behavior*, 37(7), 1-14.
- Gigliotti, R., Vardaman, J., Marshall, D. R., & Gonzalez, K. (2018). The role of perceived organizational support in Individual change readiness. *Journal of Change Management*, 18(2), 1–15.
- Gooty, J., Gavin, M., Johnson, P. D., Frazier, M., & Snow, D. (2009). In the eyes of the beholder: transformational leadership, positive psychological capital, and performance. *Journal of Leadership and Organizational Studies*, 15(4), 353–367.
- Greenhouse Team (2020). Startup ecosystem in Indonesia: Key ingredients, challenges, and strategies. *Greenhouse*. [greenhouse.co/blog/indonesias-startup-ecosystem/](https://greenhouse.co/blog/indonesias-startup-ecosystem/)
- Gupta, M. & Shaheen M. (2018). Does work engagement enhance general well-being and control at work? Mediating role of psychological capital. *Evidence-based HRM: A Global Forum for Empirical Scholarship*, 6(3), 272–286. <https://doi.org/10.1108/EBHRM-05-2017-0027>.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate data analysis (7th ed.)*. New York: Prentice Hall International.
- Hair, J. F., Sarstedt, M., Hopkins, L., & Kuppelwieser, V. G. (2014). Partial least squares structural equation modeling (PLS-SEM): An emerging tool in business research. *European Business Review*, 26(2), 106–121. <https://doi.org/10.1108/EBR-10-2013-0128>
- Harvey, J.H. & Weary, G. (1984). Current issues in attribution theory and research. *Annual Review Psychology*, 35(1), 427–459.
- Hewett, R., Shantz, A., Mundy, J., & Alfes, K. (2018). Attribution theories in Human Resource Management research: A review and research agenda. *The International Journal of Human Resource Management*, 29(1), 87–126.
- Holt, D.T., Armenakis, A.A., Feild, H.S., & Harris, S.G. (2007). Readiness for organizational change; The systematic development of a scale. *The Journal of Applied Behavioral Science*, 43(2), 232-255.
- Kirrane, M., Lennon, M., O’Connor, C., & Fu, N. (2016). Linking perceived management support with employees’ readiness for change: the mediating role of psychological capital. *Journal of Change Management*, 17(1), 1–20.
- Kock, N. (2018). *WarpPLS User Manual Version 6,0* (6th ed.). Laredo, Texas: ScriptWarp System.



- Lau, C-M., & Woodman, R.W. (1955). Understanding organizational change: A schematic perspective. *Academy of Management Journal*, 38(2), 537-554.
- Lei, H., Leaungkhamma, L., & Le, P.B. (2020). How transformational leadership facilitates innovation capability: the mediating role of employees' psychological capital. *Leadership & Organization Development Journal*, 41(4), 481-499.
- Lin, C.-C., Kao, Y-T., Chen, Y-L., & Lu, S.C. (2016). Fostering change-oriented behaviors: A broaden-and-build model. *Journal of Business Psychology*, 31, 399-414.
- Luthans, F., & Youssef-Morgan, C. M. (2017). Psychological capital: An evidence-based approach. *Annual Review of Organizational Psychology and Organizational Behavior*, 4(1), 339-366.
- Luthans, F., Avey, J. B., Avolio, B. J. dan Peterson, S. J. (2010). The development and resulting performance impact of positive psychological capital. *Human Resource Development Quarterly*, 21(1), 41-67.
- Luthans, F., Avey, J.B., Avolio, B.J., & Norman, S.M. (2007). Positive psychological capital: measurement and relationship with performance and satisfaction. *Personnel Psychology*, 60(3), 541-572.
- Luthans, F., Vogelgesang, G. R., & Lester, P. B. (2006). Developing the psychological capital of resiliency. *Human Resource Development Review*, 5(1), 25-44.
- Martinko, M.J., Harvey, P., & Dasborough, M.T. (2011). Attribution theory in the organizational sciences: A case of unrealized potential. *Journal of Organizational Behavior*, 32(1), 144-149.
- Miller, V. D., Johnson, J. R., & Grau, J. (1994). Antecedents to willingness to participate in a planned organizational change. *Journal of Applied Communication Research*, 22, 59-80.
- Ng, T.W.H., Sorensen, K.L. & Eby, L.T. (2006). Locus of control at work: A meta-analysis. *Journal of Organizational Behavior*, 27, 1057-1087.
- Nolzen, Niklas. (2018). The concept of psychological capital: A comprehensive review. *Management Review Quarterly*, 68(3), 1-41.
- Oreg, S., Vakola, M., & Armenakis, A. (2011). Change recipients' reactions to organizational change: A 60-year review of quantitative studies. *The Journal of Applied Behavioral Science*, 47(4), 461-524.
- Rafferty, A.E., Jimmieson, N.L. & Armenakis, A.A. (2013). Change readiness: A multilevel review. *Journal of Management*, 39(110), 110-135.
- Rego, A., Sousa, F., Marques, C., & Cunha, M. P. E. (2012). Authentic leadership promoting employees' psychological capital and creativity. *Journal of Business Research*, 65(2), 429-437.
- Rotter, J.B. (1966). Generalized expectancies for internal versus external control of reinforcement. *Psychological Monographs*, 80(1), 1-28.
- Santhidran, S., Chandran, V.G.R. & Borromeo, J. (2013). Enabling organizational change – leadership, commitment to change and the mediating role of change readiness. *Journal of Business Economics and Management*, 14(2), 348-363.
- Sawitri, H.S.R., & Wahyuningsih, S. (2018). Readiness to change in the public sector. *International Journal of Business and Society*, 19(1), 259-267.
- Spector, P. E. (1988). Development of work locus of control scale. *Journal of Occupational Psychology*, 61(4), 335-340.
- Vacharkulksemsuk, T. & Fredrickson, B.L. (2016). Looking back and glimpsing forward: The broaden-and-build theory of positive emotions as applied to organizations. *Advances in Positive Organizational Psychology*, 1, 45-60.

- Vakola, M. (2014). What's in there for me? Individual readiness to change and the perceived impact of organizational change. *Leadership & Organization Development Journal*, 35(3), 195–209.
- Wanberg, J.R., & Banas, J.T. (2000). Predictors and outcomes of openness to changes in a reorganizing workplace. *Journal of Applied Psychology*, 85(1), 132–142.
- Wang, G., Oh I-S., Courtright, S.H., & Colbert, A.E. (2011). Transformational leadership and performance across criteria and levels: A meta-analytic review of 25 years of research. *Group & Organization Management*, 36(2), 223–270.
- Weiner, B. (1979). A Theory of Motivation for some classroom experiences. *Journal of Educational Psychology*, 71(1), 3–25.
- Weiner, B. (2000). Intrapersonal and interpersonal theories of motivation from an attributional perspective. *Educational Psychology Review*, 12(1), 1–14.
- Zhun, G., Schooler J.W., Yong W., & Mingda T. (2018). Research on the relationship between positive emotions, psychological capital and job burnout in enterprises' employees: based on the broaden-and-build theory of positive emotions. *Canadian Social Science*, 14(5), 42–48.