

Organisational Change Effectiveness in Saudi Arabian SMEs: A PLS-SEM Analysis of Strategic Human Resource Practices and Transformational Leadership

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ABSTRACT

In highly competitive business settings, organisational change has become crucial for small and medium-size enterprises (SMEs) to be competitive. But successful implementation of organisational change is heavily reliant on good practices in HR and leadership. In this study, the authors discuss the effects of strategic human resource practices on the effectiveness of organizational change and explore the mediation role of transformational leadership in the context of SMEs in Saudi Arabia. A quantitative cross sectional research design was used and data was collected from 348 employees in Saudi Arabian SMEs using a structured questionnaire. The model of the research was then analysed using the Partial Least Squares Structural Equation Modelling (PLS-SEM) software with SmartPLS 4. The results indicate that the recruitment of talent, remuneration systems, employee involvement, training and development programs and employee motivation have significant positive impact on the effectiveness of organizational change. Of these dimensions, employee motivation had the greatest direct impact ($\beta = 0.214$, $p < 0.001$), while the least, but still important, was the compensation system ($\beta = 0.126$, $p = 0.002$). Moreover, the transformational leadership was a significant factor that affected the effectiveness of organisational change ($\beta = 0.387$, $p < 0.001$) with the highest structure effects in the structural model. Mediation analysis results showed that transformational leadership significantly and partially mediated the relations between all dimensions of strategic HRP and organisational change effectiveness. Additionally, the structural model also exhibited significant amounts of explained variance for transformational leadership (75.7%) and organisational change effectiveness (74.2%). This study also makes a significant contribution to the strategic human resource management and organisational change field, by offering empirical evidence that transformational leadership enhances the effectiveness of strategic human resource practices in the context of successful organisational change. The results have practical implications for SME managers and policymakers, as they stress the need to combine strategic human resource practices with transformational leadership to boost organisational adaptability and better change outcomes in achieving Saudi Vision 2030.

Keywords: Strategic human resource practices; transformational leadership; organisational change effectiveness; SMEs; PLS-SEM; Saudi Arabia.

INTRODUCTION

For organisations to stay competitive in today's increasingly dynamic and uncertain business landscape, they must be able to alter and change within their organisation. The fast pace of technological change, global competitiveness and changing market needs necessitates constant changes to organisational structure, processes and employee skills. Although change initiatives have been a crucial investment in many organizations, there is still a high rate of change failure, many organizations face such a high rate due to the lack of good employee management practices and the lack of good leadership during the implementation process (Burnes, 2020; Errida & Lotfi, 2021). Strategic human resource practices (SHRPs) are increasingly known as one of the important organizational competencies to boost the employees' preparedness for change and improve organizational performance. Talent recruitment, compensation management, employee engagement, training and development, and employee motivation are among the practices that assist in forming a competent, committed, and flexible workforce, which supports a change process within an

organisation (Albrecht et al., 2022; Delery & Roumpi, 2017). While some studies have already demonstrated positive linkage between strategic HR practices and organisational performance, empirical evidence revealing how these practices can affect the effectiveness of change in organisations is limited especially in small/medium size enterprises (SMEs) in emerging markets. Transformational leadership is another key success factor in organisational change as transformational leaders inspire employees, communicate a compelling vision, and enhance commitment to organisational goals (Bass & Avolio, 1994; Khan et al., 2022). Even though some studies have been conducted in the past, the mediating role of transformational leadership between strategic human resource practices and organizational change effectiveness is relatively less explored in the literature, particularly in the Saudi Arabian SMEs (Afsar & Umrani, 2020; AlNuaimi et al., 2022). These relationships can be explored in the context of the Saudi Arabian SME sector. SMEs are in the line of sight to achieve Saudi Vision 2030 being a key player in economic diversification, innovation and sustainable growth. To reach these goals, SMEs need to be able to implement effective employee management systems, and leadership capacities that can help with the successful organisational change. Despite this, many SMEs still struggle with issues of workforce management, leadership development, and an SME's adaptability, indicating the need for empirical studies to provide an understanding of the organisational practices that are linked to the successful implementation of change. Thus, the aim of this study is to explore the effect of strategic human resource practices on the success of organizational change and that of transformational leadership as a mediator for SMEs in Saudi Arabia. Data obtained from 348 workers of SMEs is analysed by the Partial Least Squares Structural Equation Modelling (PLS-SEM). These findings advance the strategic human resource management and organisational change scholarship through empirical evidence of how strategic human resource practices help make organisational change more effective. In addition, the study provides practical implications for the SME managers and policy makers interested in increasing organizational adaptability and enhancing the effectiveness of change efforts.

LITERATURE REVIEW

The Resource-Based View (RBV) theory is the major theory that supports this study, which is based on the idea that organisations can develop sustainable competitive advantage from valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). In the strategic human resource management literature, employees and organisational capabilities are recognized as strategic assets, which can drive organisations to achieve their long-term success through developing and managing them (Delery & Roumpi, 2017). Strategic human resource practices help to make sure that the organisation gets, develops, motivates and keeps the human capital, thus improving the organization's adaptability and helping the organization to achieve a successful change. This study is conducted using RBV as the theoretical basis, because the effectiveness of the change in an organisation can not only be based on external environmental factors, but also on organizational capabilities. Organisational resources which support employees' knowledge, skills, commitment and readiness for change by virtue of strategic human resource practices include recruiting talent, compensation systems, engagement practices, training and development programmes and employee motivation. These abilities help the organisation to effectively execute change initiatives and maintain a competitive edge in a changing business landscape (Barney, 1991; Delery & Roumpi, 2017). While RBV will account for the strategic significance of human resources it will not completely account for the mechanisms by which human resources are converted to successful organisational change. Leadership is an important organisational capability to mobilise human resources to meet the objectives of the organisation. Transformational leadership inspires employees to align with the Mission, Vision, and Values of the organisation; fosters innovation; and mitigates resistance when the organisation is going through transformation. Transformational leadership, therefore, serves as the behavioral process how strategic HR practices improve the effectiveness of organizational change. The inclusion of RBV with transformational leadership thus provides a more complete understanding of the contribution that both internal organizational resources and leadership capabilities make to successful change implementation in SMEs in the Saudi context, where they face growing competition and change.

Strategic Human Resource Practices and Organisational Change Effectiveness

Organisation's ability to respond to internal and external changes through strategic human resource practices (SHRPs) has become a necessity of an organization to improve the organizational effectiveness. SHRPs differ from traditional personnel management by associating the human resource activities with the organisation's

goals to build knowledge, commitment and adaptability of staff and improve the organisation's performance and to support the successful implementation of change (Delery & Roumpi, 2017; Albrecht et al., 2022). Organisations that have a strategy for their human resources are likely to be better prepared to respond to uncertainty in their environment and to maintain their competitive edge in times of organisational change (Collings et al., 2021). Organisational change effectiveness is the extent to which planned changes are implemented and organisational goals are met while keeping employees committed during the change process. Previous research has shown that sound HR practices increase employees' readiness for change, decrease resistance to organisational transformation and increase their adaptability to change in the organisation (Errida & Lotfi, 2021; Oreg et al., 2018). Strategic recruitment, fair remuneration, employee engagement, regular training and employee motivation are in particular examples of human capital that organisations need to successfully implement change initiatives. However, the empirical research on the individual impact of these strategic human resource practices on the effectiveness of organisational change in SMEs in Saudi Arabia is still limited. Therefore, each of the dimensions will be explored individually in the following sections and research hypotheses formulated.

Conceptual Farmwork of The Study

The proposed framework builds on the assumption that implementing an effective strategic HR practice helps to establish a context that fosters transformational leadership behaviors that in turn increase employees' commitment, adaptability, and support for organizational change initiatives. Thus, it can be anticipated that transformational leadership will increase the link between strategic HR practices and the effectiveness of organisational change. The conceptual framework in this study is shown in Figure 1.

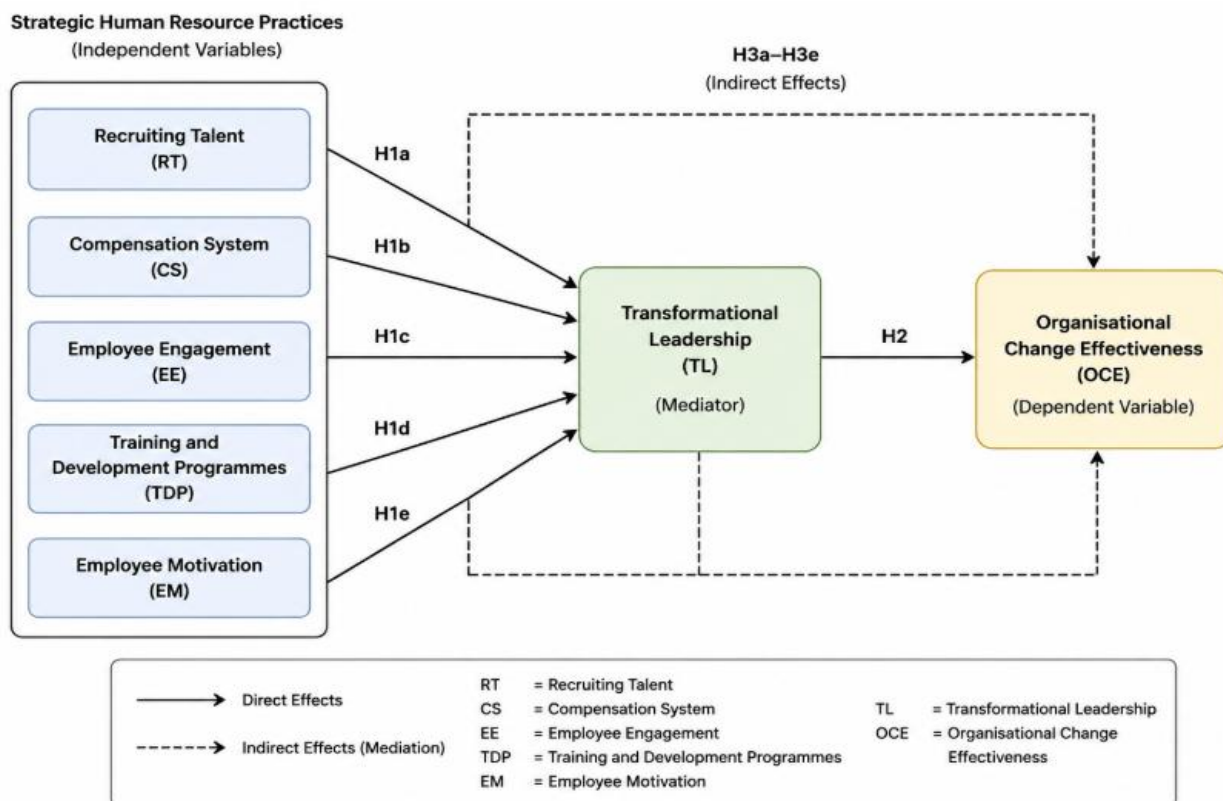


Figure 1. Conceptual Framework. Adapted from Hashim et al. (2021), Foster et al. (2020), and Smith et al. (2023).

METHODOLOGY

Research Design

The study was designed quantitatively with a cross-sectional survey design to investigate the relationships among strategic human resource practices, transformational leadership and organisational change effectiveness

of small and medium-sized enterprises (SMEs) in Saudi Arabia. A quantitative approach was deemed suitable as it allows the study of hypothesized relationships between multiple latent constructs via statistics (Hair et al., 2022). Data was gathered from the respondents at one point in time, which was achieved by using a cross-sectional design that enabled a cost-effective way of studying the perceptions of employees about the effectiveness of organisational practices and changes.

Population and Sample

The population consisted of employees in SMEs in Saudi Arabia. SMEs were chosen as they are key stakeholders in the quest of reaching the goals of Saudi Vision 2030, and often face organisational changes due to digital transformation, innovation and market competition. The data collected was through a structured questionnaire that was provided to the employees in different SMEs. There were 348 valid responses returned and used for final analysis. This number of samples is above the minimum acceptable for Partial Least Squares Structural Equation Modelling (PLS-SEM) for testing the proposed research model (Hair et al., 2022).

Data Collection Procedure

The primary data was collected by using a self-administered questionnaire that contained items for measurement which are previously validated and adapted from the existing studies. A questionnaire was made available via e-mail to the employees of SMEs in Saudi Arabia. All participants were assured of anonymity and confidentiality and participation was voluntary. The questionnaire was first read to verify that it was understandable and pertinent to the study.

Measurement of Variables

The questionnaire consisted of two sections. The first section collected respondents' demographic information, including gender, age, educational level, and work experience. The second section measured the study constructs using multiple-item scales adopted from previous literature. Strategic human resource practices were operationalised through five dimensions: recruiting talent, compensation system, employee engagement, training and development programmes, and employee motivation. Transformational leadership served as the mediating variable, while organisational change effectiveness represented the dependent variable. All items were measured using a five-point Likert scale ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree").

Data Analysis

The collected data were analysed using SmartPLS 4. Partial Least Squares Structural Equation Modelling (PLS-SEM) was employed because it is appropriate for analysing complex models involving multiple latent constructs, mediation effects, and predictive relationships. The analysis followed the two-stage procedure recommended by Hair et al. (2022). First, the measurement model was evaluated by assessing indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Subsequently, the structural model was assessed using bootstrapping to examine the significance of the hypothesised relationships, coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and mediation effects.

Hypothesis Testing Results

The hypothesized models were evaluated by the bootstrapping technique in SmartPLS 4 to simulate 5000 bootstrap resamples. All of the direct hypotheses were accepted as described in Table X. Recruiting talent had a significant positive effect on organisational change effectiveness (H1a: $\beta = 0.148$, $t = 3.442$, $p = 0.001$), followed by compensation system (H1b: $\beta = 0.126$, $t = 3.073$, $p = 0.002$), employee engagement (H1c: $\beta = 0.183$, $t = 3.978$, $p < 0.001$), training and development programmes (H1d: $\beta = 0.171$, $t = 3.886$, $p < 0.001$), and employee motivation (H1e: $\beta = 0.214$, $t = 4.553$, $p < 0.001$). Employee motivation had the strongest direct impact on the effectiveness of organisational change while compensation system had the weakest direct impact and both had statistically significant relationships with organisational change effectiveness. In addition, transformational leadership had a strong positive effect on the effectiveness of organisational change (H2: $\beta =$

0.387; $t = 7.588$; $p < 0.001$), which in the model means the greatest influence. The model also achieved large amounts of variance explained, accounting for 75.7% of the variance in transformational leadership ($R^2 = 0.757$) and 74.2% of the variance in organisational change effectiveness ($R^2 = 0.742$). The mediation analysis also supported all the relationships among the five strategic human resource practice dimensions and organisational change effectiveness. Specifically, the indirect effects were significant for recruiting talent (H3a: $\beta = 0.087$, $t = 3.346$, $p = 0.001$), compensation system (H3b: $\beta = 0.079$, $t = 3.292$, $p = 0.001$), employee engagement (H3c: $\beta = 0.118$, $t = 4.069$, $p < 0.001$), training and development programmes (H3d: $\beta = 0.109$, $t = 3.893$, $p < 0.001$), and employee motivation (H3e: $\beta = 0.136$, $t = 4.387$, $p < 0.001$). All the mediation hypotheses were supported; the direct and indirect effects were significant and positive, which was interpreted as complementary partial mediation. The findings as a whole were supportive of the proposed conceptual framework, showing that there is strong empirical evidence that strategic HRP directly affects organisational change effectiveness and have a significant indirect effect via transformational leadership.

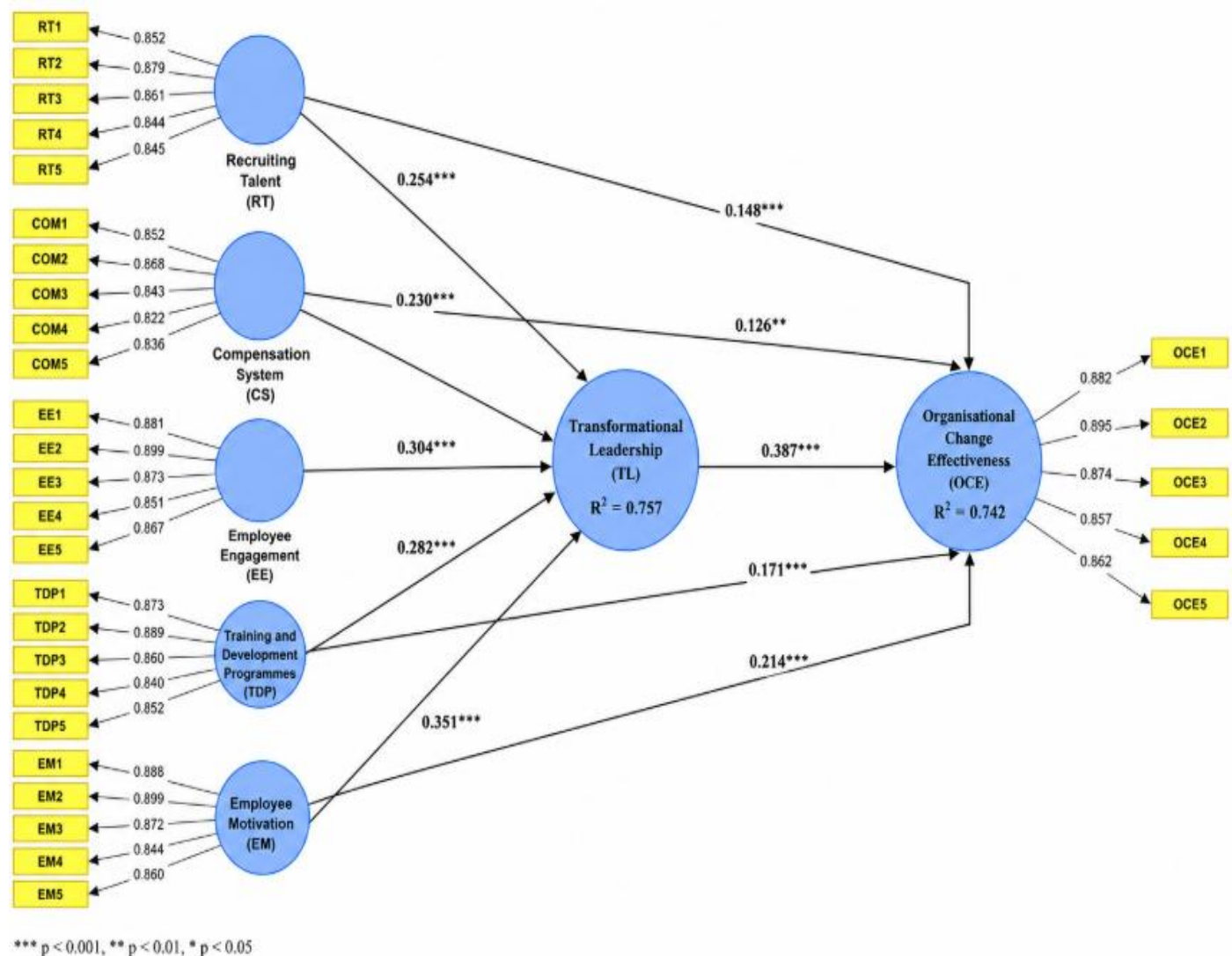


Figure 1 Structural Model direct effects

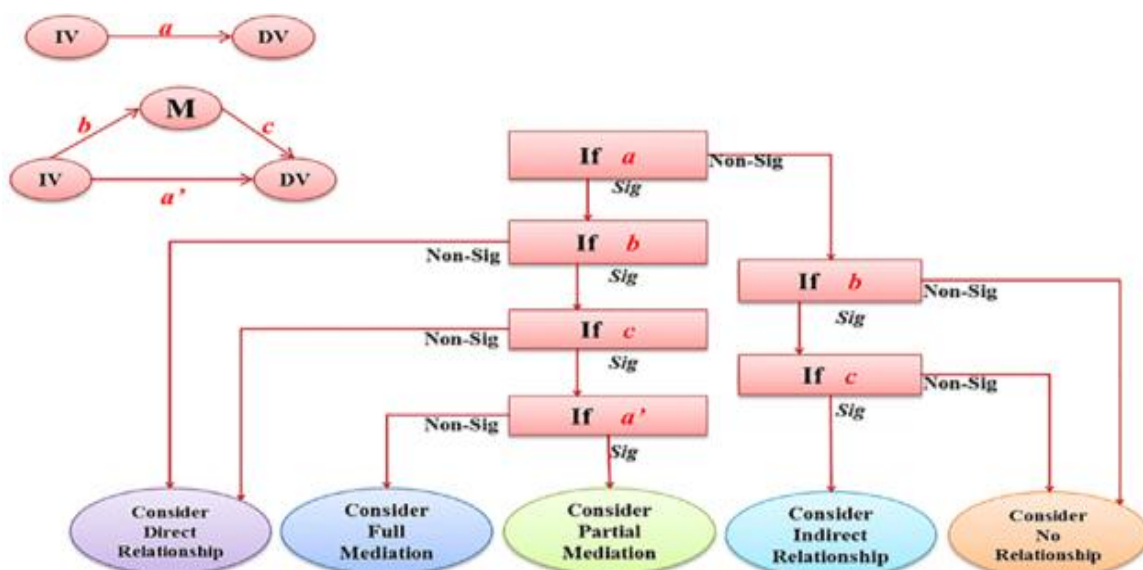
The direct relationships were evaluated using the bootstrapping procedure in SmartPLS 4. As presented in Table X, all direct hypotheses were statistically significant and supported. Employee motivation exhibited the strongest positive effect on organisational change effectiveness ($\beta = 0.214$, $t = 4.553$, $p < 0.001$), followed by employee engagement ($\beta = 0.183$, $t = 3.978$, $p < 0.001$), training and development programmes ($\beta = 0.171$, $t = 3.886$, $p < 0.001$), recruiting talent ($\beta = 0.148$, $t = 3.442$, $p = 0.001$), and compensation system ($\beta = 0.126$, $t = 3.073$, $p = 0.002$). In addition, transformational leadership had a significant positive effect on organisational change effectiveness ($\beta = 0.387$, $t = 7.588$, $p < 0.001$), indicating that it was the strongest predictor in the structural model. Overall, these findings support all proposed direct hypotheses.

Table 1.1. Results of Direct Hypothesis Testing

Hypothesis	Structural Path	β	t-value	p-value	Decision
H1a	Recruiting Talent $\rightarrow$ Organisational Change Effectiveness	0.148	3.442	0.001	Supported
H1b	Compensation System $\rightarrow$ Organisational Change Effectiveness	0.126	3.073	0.002	Supported
H1c	Employee Engagement $\rightarrow$ Organisational Change Effectiveness	0.183	3.978	<0.001	Supported
H1d	Training and Development Programmes $\rightarrow$ Organisational Change Effectiveness	0.171	3.886	<0.001	Supported
H1e	Employee Motivation $\rightarrow$ Organisational Change Effectiveness	0.214	4.553	<0.001	Supported
H2	Transformational Leadership $\rightarrow$ Organisational Change Effectiveness	0.387	7.588	<0.001	Supported

Indirect (Mediation) Hypothesis Testing

The Bootstrap analysis with 5,000 bootstraps was used to examine the mediating role of transformational leadership in SmartPLS 4. The results presented in Table X showed that all the indirect effects were positive and statistically significant, suggesting that strategic human resource practices were found to positively and significantly mediate the relationships between transformational leadership and organisational change effectiveness. The strongest indirect effect was observed for employee motivation ($\beta = 0.136$, $t = 4.387$, $p < 0.001$), followed by employee engagement ($\beta = 0.118$, $t = 4.069$, $p < 0.001$), training and development programmes ($\beta = 0.109$, $t = 3.893$, $p < 0.001$), recruiting talent ($\beta = 0.087$, $t = 3.346$, $p = 0.001$), and compensation system ($\beta = 0.079$, $t = 3.292$, $p = 0.001$). All of the mediation relationships were determined as being complementary partial mediation because the direct and indirect effect was both large and positive. So that hypotheses H3a, H3b, H3c, H3d and H3e were accepted.

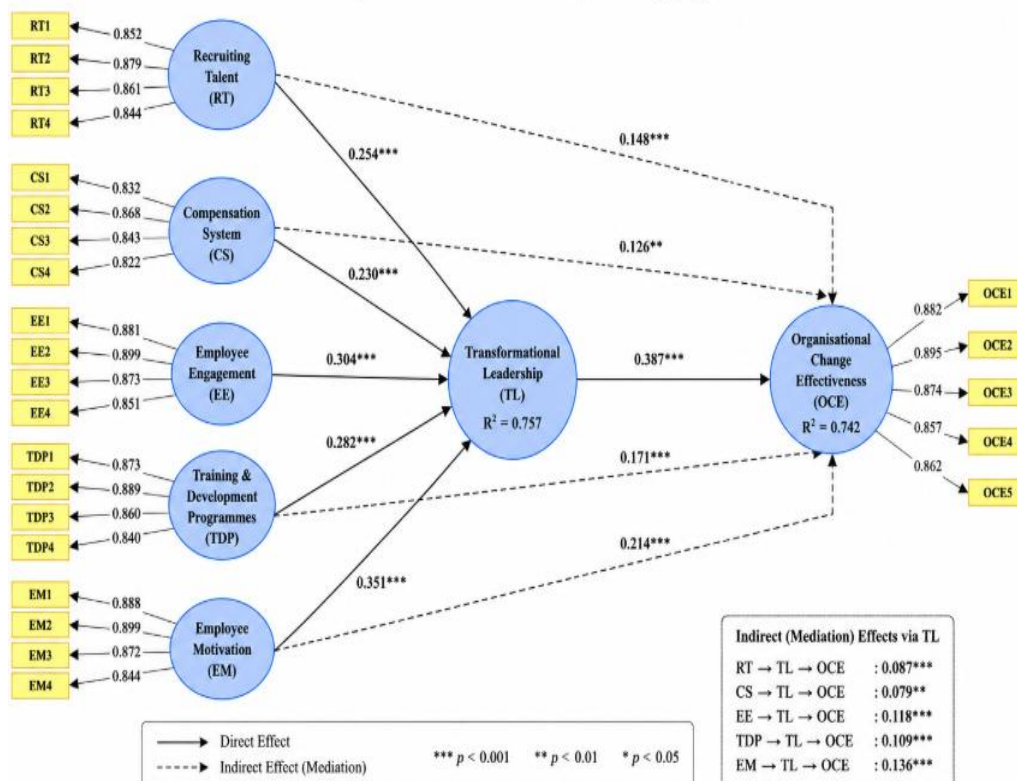


Source(s): Mathieu and Taylor, 2006

Figure 2 Structural Model mediation

Table 2. Results of Indirect (Mediation) Hypothesis Testing

Hypothesis	Indirect Relationship	Indirect β	t-value	p-value	Mediation Type	Decision
H3a	Recruiting Talent $\rightarrow$ Transformational Leadership $\rightarrow$ Organisational Change Effectiveness	0.087	3.346	0.001	Complementary Partial Mediation	Supported
H3b	Compensation System $\rightarrow$ Transformational Leadership $\rightarrow$ Organisational Change Effectiveness	0.079	3.292	0.001	Complementary Partial Mediation	Supported
H3c	Employee Engagement $\rightarrow$ Transformational Leadership $\rightarrow$ Organisational Change Effectiveness	0.118	4.069	<0.001	Complementary Partial Mediation	Supported
H3d	Training and Development Programmes $\rightarrow$ Transformational Leadership $\rightarrow$ Organisational Change Effectiveness	0.109	3.893	<0.001	Complementary Partial Mediation	Supported
H3e	Employee Motivation $\rightarrow$ Transformational Leadership $\rightarrow$ Organisational Change Effectiveness	0.136	4.387	<0.001	Complementary Partial Mediation	Supported



Note: Standardized path coefficients and loadings are shown. Bootstrapping = 5,000 subsamples.

Figure 3. Structural Model Results (PLS-SEM Bootstrapping)

FINDINGS AND RESULTS

In this study, researchers investigated the relationships of strategic HR practices, transformational leadership and effectiveness of organizational change in SMEs in Saudi Arabia by conducting a Partial Least Squares Structural Equation Modelling (PLS-SEM). The measurement model showed that the reliability and validity for all the constructs were satisfactory. The proposed conceptual framework was then supported through strong empirical evidence via the structural model. The results indicated that all the dimensions of strategic HR practices were seen to have significant impact on the effectiveness of the organisational change. Specifically, the talent recruiting process, compensation process, employee engagement, training and development programs, and employee motivation all had positive and statistically significant effects on the effectiveness of organisational change. Of the dimensions, employee motivation had the greatest direct relationship, highlighting the fact that motivated employees are more likely to embrace organisational change and are more likely to play a proactive role in successful change implementation. However, compensation system had the smallest direct effect, albeit it was still significant, indicating that financial incentives are not enough to ensure the success of the organisational transformation when they are not complemented by other human resource practices. The findings also showed that the transformational leadership was the most significant predictor in the structural model as it had a significant positive effect on the effectiveness of organisational change. The discovery demonstrates the need for inspiring leadership that makes sure that employees understand the organisational vision and feel engaged with an organisation when considering organisational change. In addition, the structural model had high explanatory power: strategic human resource practices accounted for 75.7% of variance in transformational leadership and together with transformational leadership accounted for 74.2% of the variance in organisational change effectiveness. The mediation analysis served to provide further evidence of the mediating role of the specific variables in the relationship between strategic HR practices and organisational change effectiveness. All the five dimensions of strategic human resource practices were found to have significant mediation effect on the organisational change effectiveness through transformational leadership. Due to the fact that both direct and indirect effects were statistically significant, the mediation relationships were all deemed complementary partial mediation. The results suggest that the strategic human resource practices have a direct impact on organisational change and a direct impact on transformational leadership behaviours that in turn affects the effectiveness of organisational change. In total, the empirical findings support the proposed research model and highlight the importance of the strategic human resource practices integration with transformational leadership in enhancing the results of organisational change in SMEs in Saudi Arabia.

CONCLUSION

This study enriches the study of strategic human resource management and organisational change with empirical evidence that shows that the impact of strategic human resource practices on the effectiveness of organisational change happens through the mediation of transformational leadership. The study has built on the data obtained from the employees of SMEs in Saudi Arabia, to support the findings of the study, which indicates that strategic human resource practices are considered important organizational capabilities that facilitate successful organizational change. The empirical results show that the effectiveness of the organisational change is also significantly driven by recruiting competent talent, compensation mechanisms, employee engagement, training and development programs, and employee motivation. Furthermore, the results indicated that transformational leadership was a significant mediating factor that enhanced the relationships between these human resource practices and organisational change outcomes. The results indicated that good HR practices are necessary for effective organisational change but so is leadership that can motivate employees, articulate the vision of the organisation, and engage employees in the change process. Theoretically, this study builds upon previous studies by incorporating the strategic human resource practices and transformational leadership into a unified empirical model that explains effectiveness in organisational change within the framework of Saudi Arabian SMEs. On a practical level, it offers important insight for SME owners, managers and policy makers on the need to view investments in employee management and leadership development as complementary plans, not separate initiatives, within the organisations. In general, the findings of this study offer robust empirical support for organisations that integrate effective HR practices with transformational leadership to be more likely to ensure successful and sustainable change in an organisation.

Suggestions for Future Research

This study gives empirical insights into the effectiveness of organisational change in a valuable way, but there are opportunities for further research. First, future research could use longitudinal research designs to determine how strategic human resource practices and transformational leadership affects the change over time within the organisation. A longitudinal study would allow a more in-depth understanding of the dynamic nature of organisational change and would allow for the development of more robust causal relationships. Second, the proposed framework can be expanded in future research to include other organizational factors such as, organizational culture, innovation capability, employee resilience, digital transformation, organizational learning or psychological empowerment. Such variables could account for the ways in which strategic human resource practices impact the effectiveness of organisational change. Third, comparison studies across industries, organisational size and/or country would help to generalise the findings. An organizational context analysis of the effectiveness of strategic HR practices and transformational leadership in organizational change may be brought to light by analyzing HR practices and leadership in organizations that operate in diverse economic and cultural environments. Lastly, future studies could use mixed-method or qualitative studies to support the quantitative results. Interviews with organisational leaders and employees might be able to give a more in depth understanding of the practical issues of implementing organisational change and explain processes of behaviour that can't be fully captured through survey-based research. Such studies would also enhance the knowledge of organisational change management, and further develop the strategic human resource management theory and practice.

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