

PSYCHOLOGICAL CONTRACT BREACH AND JOB RELATED OUTCOMES

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ABSTRACT

Purpose – The purpose of this study is to examine the consequences of relational and transactional psychological contract breach on turnover intention with the mediating variables job satisfaction and affective commitment in the employees working in the banking sector of Pakistan.

Design/methodology/approach – Questionnaire were distributed to the employee working in the banking sector of Karachi. Total 268 sample size were used in this thesis. SEM has been used with the help of Smart-PLS to check the relationship between the variables. Convergent and discriminant validity have been evaluated. Boot strapping has been used to test the direct and mediating effects.

Findings – The findings of the study showed that relational psychological contract breach has a significant and positive impact on the turnover intention while the transactional psychological contract breach has insignificant impact on the turnover intention. Transactional psychological contract breach has a significant and negative impact on both job satisfaction and affective commitment. Relational psychological contract breach has a significant and negative impact on both job satisfaction and affective commitment. Job satisfaction was found to mediate the relationship between both relational and transactional psychological contract and turnover intention while affective commitment was found to mediate the transactional psychological contract breach and turnover intention but not relational psychological contract breach and turnover intention.

Practical implications – The finding provides some practical implication for the organization. During the hiring process itself, organizations should not make any unrealistic promises. The organization Rules, Policies and Procedures should be grounded on equality and fairness. Organization should make sure that the performance reviews are conducted on the regular basis. If organization had fail to make any promise or expectation they made to the employee, then they should communicate clearly and give some explanation why the certain expectation couldn't meet.

Originality/value – The finding provides new insights into the aspects effecting employee turnover intention. Previous study presenting turnover models mostly used job satisfaction, leadership and organizational commitment, either correlationally or independently, but there is less focus on the psychological contract breach impact on turnover intention. This research contributes to current studies on psychological contract and will assist for further studies. This study finding will also help the organization and manager in reducing turnover intention of the employee.

Keywords Transactional psychological contract breach, relational psychological contract breach, turnover intention, job satisfaction, affective commitment.

INTRODUCTION**1.1) Background to the study**

Employees are amongst the most essential resources and fundamental part for any organization. Through employee hard work and commitment an organization become successful. Employee and employers are mutually dependent on each other, affect each other capability to achieve the result (Kim, Tam, Kim, & Rhee, 2017). Economic environment are changing rapidly and the capability of the organization to stay aware of these challenges are explicitly or implicitly based on the association between the employee and employers (Costa & Neves, 2017). By giving consideration to previous researchers it is unmistakably clear that the positive relation with the employee is very important for any organization to attain the best outcomes and to gain the competitive edge over the competitors.

Therefore, organization are now strongly concerned to make their employee satisfy and reduce turnover intention. Turnover Intention is an early indication of potential employee turnover in the organization. Actions to perceive a turnover intent is essential to do in light of the fact that qualified employees should be retain for the sake organization's growth (Kim et al., 2017). Organizations with high turnover rate often lead to business failure, an unsatisfied and uncommitted employees and lack of attraction from skilled employees. Employee turnover is adverse to company's accomplishment and profitability, prompting loss of various financial and intellectual resource and assets (Lin, Tsai, & Mahatma, 2017). To reduce turnover intention of the employee, development of psychological contract and its fulfillment is essential. There are enormous study underline the significance of psychological contract between employer and employees.

Psychological contract has been regard as a vital facet to enlighten the employer and employee liaison. According to Rousseau and Parks (1993) psychological contract is type of promissory contact which the employee expect from their employer in exchange of his contribution in the company. The mutual association among the employee and employer's rights, duties, responsibilities and obligations is psychological

contract (Rousseau, 1989). There are two core facet of the psychological contract one is transactional that is centers on monetary rewards and the other is relational that is based on emotional contract.

In the age of globalization and rapid changes society, psychological contract fulfillment stand crucial (Todnem, 2005). One bitter truth is that employer sometimes distort promises made to personnel. Fragmented promises often imposes long-term damage upon employees and relationships (DiFonzo, Alongi, & Wiele, 2018). In the past job environment was more stable but now it become more volatile. Fulfillment of the psychological contract become critical due to complex and competitive work setting. Employees often perceived breach in the psychological contract and often do not receive what they expect or promise by the employer.

Psychological contract breach interpreted as failing in employer obligations and unjust exchange thus withdrawal from the employment relationship may result to counterproductive, or deviant behavior by employees in the workplace including turnover intention (Griep & Vantilborgh, 2018). Psychological contract breach is the one of the most important issue in explaining negative employee outcomes as it may badly influence employee's behavior (Santhanam, Dyaram, & Ziegler, 2017). There are number researches which study the outcome of psychological contract's breach on employee's job attitude and behavior. Most of the studies supports that it is significantly positive associated with the unwanted consequences and negatively to desirable outcomes of the job, grounded mostly on the theory of social exchange (Suazo, 2009; Robinson & Morrison, 1995; Zhao, Wayne, Glibkowski & Bravo, 2007). To understand job attitude and behavior and valuable ways to improve it, psychological agreement provide a useful platform (Zhao et al., 2007). Studying psychological contract, its management and violation would benefits the organizations to succeed in long run (Rousseau, 2004).

The intention for this thesis was to discover the consequences of transactional and relational psychological contract breach on job satisfaction, affective commitment and turnover intention.

A concise inquiry through existing literature has demonstrated that psychological contract breach will encourage turnover intention due to unfavorable working condition, job satisfaction

and lack of commitment related to attitude (Stormbroek & Blomme, 2017; Jiang, Chen, Sun, & Yang, 2017). Salin and Notelaers (2017) showed that turnover intention is more probable to happen after employees perceive that their employer is not fulfilling their promises. Relational contract breach was discovered to be the more important predictor of intention to leave. (Wang, Wang, & Gao, 2017).

Employee turnover can be detrimental to organization performance. Cost affiliated with recruitment, selection, orientation and training of new employee often surpass 100% of the yearly salary for the vacated position (Bryant & Allen 2013). Turnover of the employee generate a substantial cost, which make it very vital for organization to take essential and practical actions (Hatamzadeh, Hosseini, Bernstein, & Ranjbar, 2018). Nowadays, employees who have unfulfilled expectations and feel displeased in psychological, physical and monetary terms lead to lower commitment, resulting in the turnover of the employee (Salin & Notelaers, 2017).

Pakistan exhibits an especially fascinating and applicable setting to ponder studies of Psychological contract breach. Its economy is at present going through a transition stage with progressing internal and outside political differences, high need for jobs creations, growing

unemployment. Skill loss or brain drain is one of the major concern of Pakistan as around 3.65 million people left Pakistan over the last 5 years for livelihood (2013-2017)¹. As a result employment arrangement in Pakistan is also shifting from the long-term employment to more temporary, part time and outsource or third party employment (Ghayur, 2009). Given this alternation in working conditions and employment contract, breach in the psychological contract may become continuous affair for many employees in Pakistan.

Employee turnover has become a vital concern for banking sector. In banking sector of Pakistan, there is long working hour, over work, customer dealings and high work pressure such factor trigger stress and annoying feeling which lead to the turnover intention (Shah, Abbas, & Qureshi, 2016). Banking

industry of Pakistan is facing many issues along with mergers and acquisition, which create many challenges among employees including job uncertainty, retention and demotivation of key

employees and different working condition this all increases the intention of turnover (Malik & Khalid, 2016).

Because of the skill shortage it has become a major problem to retain the key employees. In the past few years it become trend to recruit talented employee with desire set of skill, this trend unstable the labor market particularly banking sector where the skills are transferable thus increasing the turnover also due to the government facilitating the investor lot of banks expanding their business and lots of multinational banks are starting their operation in Pakistan this trend also raises the phenomenon of turnover (Bilal, Rehman, & Rehman, 2018).

1.2) Research questions

- What is the impact of transactional psychological contract breach on turnover intention?
- What is the impact of relational psychological contract breach on turnover intention?
- What is the impact of transactional psychological contract breach on job satisfaction and affective commitment?
- What is the impact of relational psychological contract breach on job satisfaction and affective commitment?
- What is the mediating effect of job satisfaction and affective commitment between transactional psychological contract breach and turnover intention?
- What is the mediating effect of job satisfaction and affective commitment between relational psychological contract breach and turnover intention?

Research Objective

- To determine how the transactional psychological contract breach impact the turnover intention of the employee.
- To explore how the relational psychological contract breach impact the turnover intention of the employee.

- To discover how the transactional psychological contract breach impact job satisfaction and affective commitment.
- To discover how the relational psychological contract breach impact job satisfaction and affective commitment.
- To analyze the mediating effect of job satisfaction and affective commitment between transactional psychological contract breach and turnover intention.
- To investigate the mediating effect of job satisfaction and affective commitment between relational psychological contract breach and turnover intention.

2.1) **Theoretical background:**

In accordance to the COR theory, there are two means by which an individual may react to the resource loss. One way is after the loss of resource, they might still try harder to restore the resource loss that is when an employee after loss of resource and perceived breach still stay with their organization they may involve in some productive actions to reestablish the lost resource. Or two they may engaged in negative behavior and job outcome (Ng & Feldman, 2012).

This theory also advocates that the losses at the workplace have much more effect on the individuals than the equally gain resources. As the enormous number of research have found that there are more chances of burnout (Shirom, 1989) and negative outcomes (Melamed, Shirom, Toker, Berliner, & Shapira, 2006) as the consequence of employee's resources damage at workplace than the positive outcome. As the result of breach if an employee loss any resources it produce the undesirable response (i.e. loss commitment towards organization, turnover intention).

According to the COR theory employee will be more involve in damaging behavior if they perceived loss in basic resources. If the employer failed to make up for those loss resources it can causes strain and later harmful consequences. According to Hobfoll (2011) Employees might see psychological contract violation as a loss of desirable resources. COR is one of the most establish theory for the study of resources loss and breach and its outcome of interest including job

Hypothesis Development

Transactional Psychological Contract breach and Job satisfaction

In the related studies, some scholars believe that transactional psychological contract is the core cause of both employee commitment towards the organization and satisfaction of job. Breach of the transactional contract cause in reduction of satisfaction in the job (Anderson & Schalk, 1998; Zhao et al., 2007). Employees whose psychological contract is broken, experience low job satisfaction as compared to high fulfilled (Beynon, Haffernan & Mcdermott, 2012). When employee's perceived breach, this may diminish their faith and commitment with their employer and sentiments of frustration may emerge (Robinson & Rousseau, 1994). Thus, we hypothesize that:

H1: There is a negative impact of transactional psychological contract breach on job satisfaction.

Transactional Psychological Contract breach and Affective commitment

Meyer and Allen (1991) stressed that psychological contract between employee and employer reflect the affective commitment. Rousseau (1989) debated that psychological contract impact the employees opinion and views about their association with the organization that why it is tied to the employee's commitment. Due to the low employee connection and narrow scope of transactional psychological contract, its breach is likely to be negativity related with the affective commitment in the organization as employee is not involved with the organization with transactional contract as compared to relational contract its violation may create severe consequences of commitment (Zhao et al., 2007).

H2: There is a negative impact of transactional psychological contract breach on affective commitment.

Relational psychological contract breach and Job Satisfaction

Employee's reaction to relational psychological contract is more emotional, socially attached and these relational contract give growth to job associated outcomes which are commitment and job satisfaction (Walker, 2013). Relational contract breach lessens work satisfaction and commitment towards the organization (Zhao et al., 2007). Mutual

trust and loyalty is based on relational contract and is linked with job satisfaction (Rousseau, 2000). Relational PCs fulfillment are associated positively with commitment, intent to stay with the organization and job satisfaction (Rousseau & Parks, 1993).

H3: There is a negative impact of relational psychological contract breach on job satisfaction.

Relational psychological contract breach and Affective commitment

Anderson and Schalk (1998) indicated that the violation of relational psychological contract result in lowering of affective commitment. Relational psychological contract emphasis upon socio-emotional exchange between employee and employer, with job security in exchange for commitment as basic foundation. By keeping the promise of relational psychological contract by the organization will lead to the positive result such as organization commitment (Guest, 2004). Rousseau (2004) has stressed that affective commitment of employees is essentially the outcome of relational contract. It can be assumed that the workforces with relational psychological contract are more invested and emotionally attached with their organization and thus experience more severe outcome if employee perceived the breach.

H4: There is a negative impact of relational psychological contract breach on affective commitment.

Job satisfaction and turnover intention

The association between job satisfaction and turnover intention has been evaluated extensively in the previous studies. Tett and Meyer (1993) advocated that job satisfaction is negatively connected with turnover intentions. According to Susskind, Borchgrevink, Kacmar, and Brymer (2000) job satisfaction has negatively associated with turnover intention. Job satisfaction was associated with decreased intentions to leave a company (Jaramillo, Mulki, & Solomon, 2006). Egan, Yang, and Bartlett (2004) stated that employee's turnover intentions is low where job satisfaction is high.

H5: There is a negative impact of job satisfaction on turnover intention.

Affective commitment and turnover intention

Prior studies shows that is affective commitment has a great impact on turnover intention and there is a negative relation between the two (Meyer, Stanley, Herscovitch, & Topolnytsky, 2002; Lee & Bruvold, 2003). According to the Meyer and Allen (1997) turnover intention will decreases if affective commitment is high between the employees. Somers (1995) state that employee turnover intention will be low and they try to retain their identity with organization if their affective commitment is high. Employee with high affective commitment are willing to give extra effort for their organization and such caring should encourage to remain with the organization thus turnover intention will be low (Simons & Roberson, 2003)

H6: There is a negative impact of affective commitment on turnover intention.

Transactional psychological contract breach and turnover intention

Earlier studies have shown that if the transactional psychological contract is "broken", the employee plan to leave the organization can raise and commitment to workplace can drop. (Guzzo, Noonan & Elron, 1994).

The intent to leave the organization by the employee can be very harmful for the organization's efficiency and output and it is the result of the transactional psychological contract violation (Zhao et al., 2007). When employee perceived psychological contract breach, they become displeased with their job which eventually result in growth of turnover intention and also lead to decrease organization commitment (Aykan, 2014). Blomme, Rheede and Tromp (2010) found out that a correlation be existent amongst psychological contract and employee intention to leave the organization.

H7: Transactional psychological contract breach has a positive impact on turnover intention.

Relational psychological contract breach and turnover intention

Si, Wei and Li (2008) in a study of psychological contract violation stated that the breach of relational psychological contract will directly influence workers's intention to leave. The exploration of Turnley and Feldman (2000) establish that there is a positive relation between

the psychological contract breach and the worker's intention to leave the organization. There is concrete positive relation between relational psychological contract breach and turnover intention (Zhao et al., 2007).

When psychological contract fulfillment perceived by the employees, they will respond this fulfillment positively with more positive job outcome thus lead to the decrease turnover intention (Turnley, Bolino, Lester, & Bloodgood, 2003).

H8: Relational psychological contract breach has a positive impact on turnover intention.

Mediating role of Job satisfaction for the relationship between relationship and transactional psychological contract and turnover intention:

In this thesis job satisfaction is used as the mediator rather than the independent variable to predict the turnover intention of the employee. Decrease job satisfaction is one the consequences of the psychological contract breach which ultimately result in the turnover intention. (Conway & Briner, 2005). Previous researches have shown that the job dissatisfaction stimulate adverse behaviors in employees including turnover intention (Tett & Meyer, 1993; Siu, Cheung, & Lui 2015). Job satisfaction is an important predictor of the turnover intention and turnover, showing how content employees are with their organization and job (Herman, Huang, & Lam, 2013). Decline in the job satisfaction will result in the desire to move out or leaving the organization increases (Moura, Abrams, Retter, Gunnarsdottir, & Andoet, 2009).

There are many studies in which job satisfaction is used as the mediator to predict the turnover intention (Poon, 2004; Andrews, Kacmar, & Kacmar, 2014; Behery, Abdallah, Parakandi, & Kukunuru, 2016; Chung, Jung, & Sohn, 2017; Ferreira, Martinez, Lamelas, Rodrigues, 2017; Huang et al., 2016; Huffman, Casper, Payne, 2014; Siu, Cheung, Lui, 2015).

H9: Job satisfaction mediates the relationship between transactional psychological contract breach and turnover intention.

H10: Job satisfaction mediates the relationship between relational psychological contract breach and turnover intention.

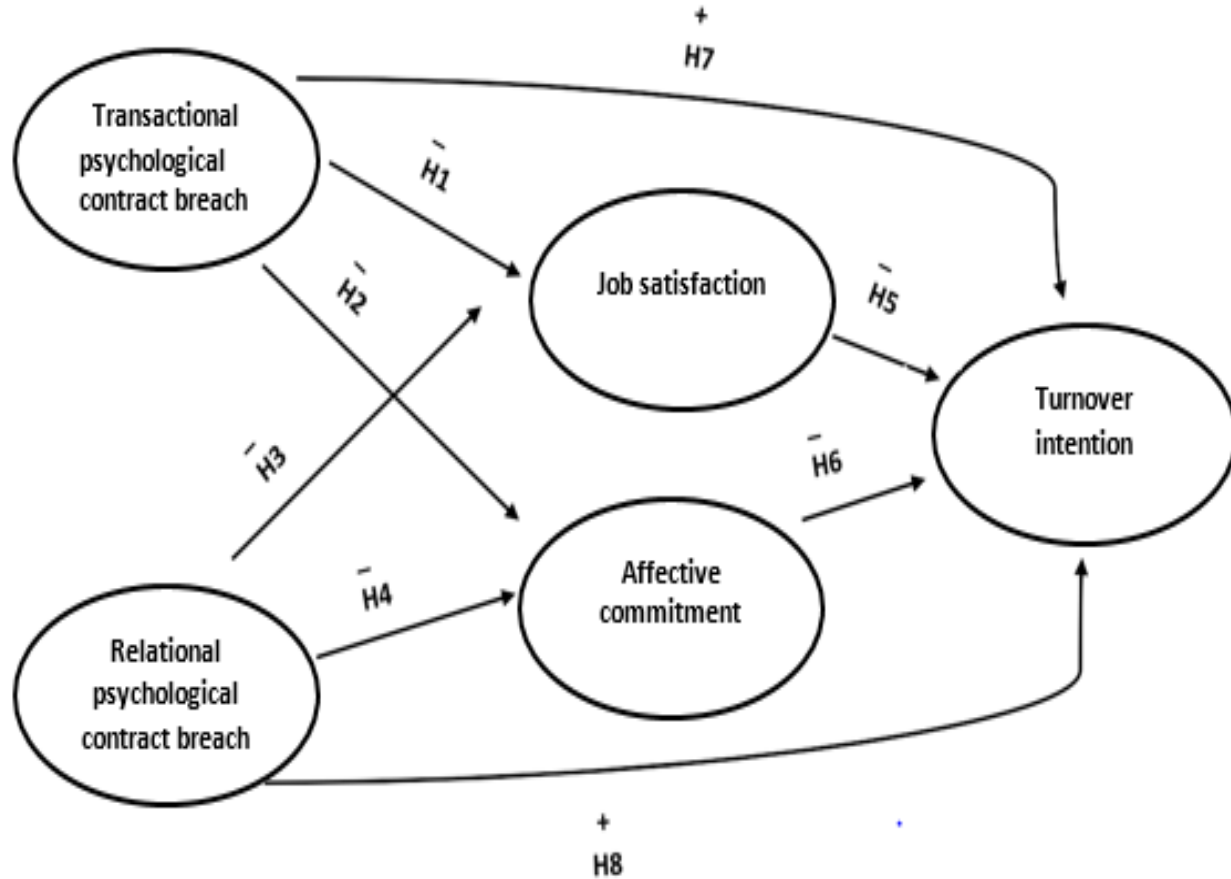
Mediating role of Affective commitment for the relationship between relationship and transactional psychological contract and turnover intention:

On the bases of existing literature it is found that the psychological contract breach have a major impact on the affective commitment. Affective commitment is also have a major consequences on the turnover intention. Lapointe, Vandenberghe, & Boudrias, (2013) in their study used affective commitment as the mediator between the psychological contract breach and turnover intention. The creation and retaining of affective commitment between employee and employer is crucial indicator for turnover intention. (Meyer & Allen 1997; Wheeler, Gallagher, Brouer, & Sablynski, 2007). According to Meyer et al. (2002) workers who have higher affective commitment will have emotional attachment with the organization which in turn reduce their turnover intention.

There are number of studies which position affective commitment as mediator to predict the turnover intention (Blomme et al., 2010; Ennis, Gong, & Okpozo, 2018; Fazio, Gong, Sims, & Yurova, 2017; Harhara, Singh, & Hussain, 2015; Jang & Kandampully, 2018; kang, Gatling, & Kim, 2015; Panaccio, Vandenberghe, & Ayed, 2014; Vandenberghe, Bentein, & Panaccio, 2017; Yang, Bently, Treadway, Brouer, & Wallace, 2018)

H11: Affective commitment mediates the relationship between transactional psychological contract breach and turnover intention.

H12: Affective commitment mediates the relationship between relational psychological contract breach and turnover intention



Methodology

The whole strategy of how the study will take place is refer as research design (Sekaran & Bougie, 2016). Research design is of different kinds and is selected according to research purpose and questions. It allows the researcher to have comprehensive approach in the study and ensure the related findings. The approach used in this thesis is to find the correlation between dependent and independent is quantitative. Statistical techniques and numerical investigation of data is the foundation of this approach. It emphasis on enlighten a specific phenomenon by collecting numerical data and generalizing it across cluster of people (Sekaran & Bougie, 2016). For this study explanatory method is used, which aims to explain the research questions and helps in understanding the problem more proficiently. The method used in this study is correlation analysis which outline the relationship among variables. A correlational study based on survey data in which the relationships between one or more dependent variables and one or more independent variables are examined (Tharenou, Donohue, & Cooper, 2007). The target

population used in this study are all employees of banking industry of Pakistan. Target population of this study were people who are working in banking industry but different in a key factor of demographic such as gender, age, income levels, education and experience. Non-Probability sampling technique has used in this study. Sampling frame is not available so the convenience sampling has been used. In this study 268 sample size were used. Daniel Soper sample size calculator recommended minimum sample size of this study were 172. Likert scale is designed to investigate has a range of 1-5. Questionnaire was distributed among the employees through hard copy, also with soft copies (through Google form).

	Operational Definition	Source	Items	Alpha
Transactional psychological contract breach	In this study Transactional psychological contract breach is an independent variable which refer to the breach in economic, monetary and material exchange relation between the employee and employer.	Harrington and Lee (2014)	Promotions in my work unit are based on merit. In my work unit, steps are taken to deal with a poor performer who cannot or will not improve. In my work unit, differences in performance are recognized in a meaningful way. Awards in my work unit depend on how well employees perform their jobs. Creativity and innovation are rewarded. Pay raises depend on how well employees perform their jobs.	0.91

Variable	Operational Definition	Source	Items	Alpha
Relational psychological contract breach	In this study relational psychological contract breach is an independent variable which refer to the breach in socio-emotional and interpersonal relationships between the employee and employer.	Harrington and Lee (2014)	I am given a real opportunity to improve my skills in my organization. I feel encouraged to come up with new and better ways of doing things. My work gives me a feeling of personal accomplishment. I like the kind of work I do. I know what is expected of me on the job. My talents are used well in the workplace.	0.88

xVariable	Operational Definition	Source	Items	Alpha
Affective commitment	In this study affective commitment is a mediator which refer to the strong emotional attachment to your organization and you genuinely want to be there.	Allen and Meyer (1990)	I would be very happy to spend the rest of my career with this organization. I enjoy discussing my organization with people outside it. I really feel as if this organization's problems are my own. I think that I could easily become as attached to another organization as I am to this one. (R) I feel like 'part of the family' at my organization.	0.87

I feel 'emotionally attached' to this organization.

This organization has a great deal of personal meaning for me.

I feel a strong sense of belonging to my organization.

Variable	Operational Definition	Source	Items	Alpha
Job satisfaction	In this study job satisfaction is a mediator which refer to how happy or content employees are with their jobs.	Hackman and Oldham (1975)	My basic salary is sufficiently paid according to my daily working hours and work load. I am satisfied with my chances for salary increases. The work I do is appreciated. I believe those that do well on the job have fair chances of being promoted. It is possible to get promoted fast in my job.	0.76

Variable	Operational Definition	Source	Items	Alpha
Turnover intention	In this study turnover intention is a dependent variable which refer to the measurement whether an employee's plan to leave their positions.	Bluedorn (1982)	I often think about quitting. It is likely that I will actively look for a new job next year. I often think of changing my job. I will probably look for a new job in the next year.	0.87

satisfaction, intention of employee turnover and commitment of employee towards the organization, are normally inherent in the situation of loss of resource. To study and understand the effect of resource loss on job consequence such as job satisfaction COR theory has been extensively used.

According to the COR theory if the employee perceived breach in the relational psychological contract then it will dent their job satisfaction and loyalty towards the organization. If there is a violation in the individual transactional contract it

will cause loss in economic resources of the employee and to mend those resources an employee usually try to obtain new resources by going to the new organization thus increasing the turnover intention of the employee.

Several study have been conducted using COR theory to understand the way how the resources losses affects employee satisfaction towards the job, employee work approach, and commitment towards the organization. (Wheeler, Halbesleben, & Whitman, 2013; Hochwarter, Laird, & Brouer, 2008).