

Impact of psychological contract breach on work outcomes: The moderating role of psychological capital

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ABSTRACT: *The study analyzed main effects of psychological contract breach (PCB) and psychological capital on job satisfaction (JS) and turnover intentions (TI) with a sample (N = 212) of employees of different organizations in Pakistan. The author examined the moderating influence of psychological capital in the PCB-job outcome relationship. The findings provided good support for the proposed hypotheses. While, PCB was associated with all outcomes, psychological capital (PsyCap) had a significant relationship with job satisfaction. As hypothesized, the negative relationship of PCB with job satisfaction was lower when PsyCap was high. But, the result for TI was different as expected. However, PCB-TI association was stronger with high PsyCap.*

Keywords: *Psychological contract breach; psychological capital; turnover intentions; job satisfaction*

Over the last two decades, the structure of organizations including downsizing and outsourcing has been changed. These changes affect the employee-employer relationship. Consequently employees' perceptions and reactions towards their employment have been tremendously altered. This issue attracted new researchers to examine the impact of psychological contract breach (PCB) on job outcomes i.e. job satisfaction and turnover intention (Zhao et al., 2007; Rayton et al., 2014). They evidenced inverse association between PCB and JS while positive relationship of PCB with TI.

Affective Event Theory (AET) explained the linkage that how employees' job performance and job satisfaction is affected by their emotions (Cognition, mental state) and moods. However, PCB is employees' cognition about their employers' failure to fulfill their obligations (Morrison and Robinson, 1997). Based on previous studies, according to Taylor and Tekleab (2004), PCB is considered important factor of employees' behavior and attitudes. According to Conway and Briner (2005) PCB occur when employer are not fulfilling employees obligations and promises according to employees perceptions. For job satisfaction, AET particularly differentiate it form reaction and defined it as "a positive or negative evaluative judgment of one's job or job situation" (Weiss and Cropanzano, 1996, p.2). According to Locke (1969), the perceived association between the employees wants about job and what is being offered to them is called job satisfaction.

As a consequence of PCB, the work attitudes like JS and TI have been under extensive attention (Robinson & Rousseau, 1994; Zhao et al., 2007; Bunderson, 2001; Tekleab et al., 2005). These studies examined that PCB is negatively related to JS while positively related to TI. The objective of this study is to analyze the PCB relationship with JS and TI by moderating effect of Psychological capital (PsyCap). Because PsyCap is positively

associated to JS and negatively related to TI (Avey et al., 2010). PsyCap may change the relationship of PCB with JS and TI due to its cognitive capacity of self-regulation and self-discipline necessary to achieve their goals (Luthans & Youssef, 2007). In this study, it is believed that PsyCap give individuals confidence and in return it would give high JS and decrease TI.

However, most studies of PCB impact on job outcomes were examined in United States of America and European countries (Rayton and Yalabik, 2014; Bal et al., 2013; Zhao, 2007). Researchers have low level of confidence about its generalizability of results in emerging economies. So, this study believe that it may cover such gap and provide opportunity to analyze western culture theories in developing countries and might found supporting results, which generalize the theory implications in these economies.

Literature Review

Psychological Contract Breach (PCB)

Psychological contract breach is a perception of employees about their organization when it fails to fulfill obligation relating to reciprocity. (Morrison and Robinson 1997). Previous studies evidenced that PCB has negative impact on JS, organizational commitment, organizational citizenship behavior and performance. It has positive impact on turnover intention (Robinson et al., 1994, Robinson 1996), when the employees feels that their organization fail to fulfill their obligations turnover intention has been increased (Bukhari et al., 2011). The balance between employee and employer relationship motivate employees as explained by Social exchange theory. When employee feels that organization is not giving what they expect. They feel injustice and in return their work engagement and performance being decreased (Turnley, Bolino et al. 2003).

Job Outcomes (Job Satisfaction and Turnover Intention)

According to Weiss (2002), job satisfaction (JS) is a positive or negative judgment that is evaluated by an employee about his job. Employees' cognitive and affective responses about their job are the result of job satisfaction (Organ and Near 1985; Rich et al., 2010). In simple words JS comprises two aspects that what an employee thinks about his job and what an employee feels about his job. JS is a pleasurable or positive emotional state appearing from employee's judgment of his or her work, regarding day to day activities, responsibilities and relationship with peers (Locke, 1976).

According to Spector and Fox (2003), JS is what employees feel about their work, which may be positive or negative. Previous research stated that satisfied employees are likely to have less their sick leave and have lower turnover intention. If employees are asked about their work attitudes, they refer it to JS (Robbins and Judge, 2013). Now job satisfaction becomes important issue for behavioral researchers due to employees' high level of JS, when they have positive attitudes towards their job.

Turnover intentions means when individuals want to quit his/her job from organization. It may be an indicator of psychological attachment of employees to the organization. TI is a desire to find out a job with other new organization (Tett and Meyer, 1993). TI has significant negative relationship with organizational effectiveness (Pitts, Marvel, & Fernandez, 2011; Valentine, Godkin, Fleischman, & Kidwell, 2011) and job satisfaction (Lee & Mitchell, 1994).

Relationship between PCB and Job Outcomes:

Previous studies has examined PCB and its impact on employees' JS and TI (Turnley, Bolino, Lester and Bloodgood 2003; Bhatnagar and Biswas, 2012). They found that when employee feels that their employers fulfills their psychological contracts, they well act

accordingly and as a result their satisfaction will be high and lower the intention to quit. Another work attitude like job satisfaction become lower due to psychological contract breach for various reasons, including loss of inducement and feelings of inequality (Conway & Briner, 2005). In simple words, if employees' expectation and promises are not met then this might lower JS and increase the intentions to quit, and in return of it, is expected to affect other outcomes. As a consequence of PCB, the work attitudes like JS and TI have been under extensive attention (Robinson & Rousseau, 1994; Bunderson, 2001; Tekleab et al., 2005). Based on this, we hypothesized that;

H1: Psychological contract breach is negatively related with job satisfaction and positively with turnover intentions.

Psychological Capital (PsyCap)

According to Luthans, Youssef, & Avolio (2007), PsyCap has four aspects that are hope, optimism, self-efficacy, and resilience. In previous studies efficacy and hope were considered as the most significant in describing different job outcomes (Luthans, Avolio, Avey, & Norman, 2007). "The employee's conviction or confidence about his or her abilities to mobilize the motivation, cognitive resources, or coursed of action needed to successfully execute a specific task within a given context" is called efficacy (Stajkovic & Luthans, 1998b: 66). Another aspect of PsyCap is hope means "a positive motivational state that is based on an interactively derived sense of successful (a) agency (goal-directed energy) and (b) pathways (planning to meet goals)" (Snyder, Irving, & Anderson, 1991: 287).

According to Bandura (2012), hope and self-efficacy are considered the most significant dimensions than other two of PsyCap. Past research found that PsyCap has positive association with JS (Avolio, et al., 2007) and negative relationship with TI (Avey et al., 2010). Thus, based upon the definition and past research, we believe that psychological capital,

particularly self-efficacy and hope, stimulate positive thinking and give individuals more confidence, which might result in high JS and lower chances to TI. Therefore, we hypothesized,

H2: Psychological capital may be negatively associated with TI and positively associated to JS.

Moderating role of Psychological Capital:

In past, few researches have been conducted on basis of Conservation of Resource (COR) theory that employees psychological assets have power to control the negative role of organizational and job stressor. Hindrance stressors usually suppress motivation that reduces job satisfaction and employees goal achievement (Podsakoff, & LePine, 2005). COR theory helps in describing the employees PsyCap to cope with organizational stressor (PCB). According to Hobfoll (2002), the persons who have main resources like self-efficacy and hope might be able to select, alter and implement other resources to achieve stressful demand.

The employees tried to successfully cope with organizational stressor (PCB) when they faced it (Hobfoll, 2011) and this success depends upon the PsyCap, which these employees possessed (Treadway et al., 2005). We argue that employees having high PsyCap are less likely to perceive Psychological contract breach as harmful, due to their confidence level in following difficult tasks (Bandura, 1997), employees capacity to uphold in facing obstacles (Stajkovic & Luthans, 1998a), and their capability to seek different ways to become successful (Snyder, 1994).

These persons have the intellectual capacity to self-regulate the work (Bandura, 1997). They offer necessary abilities like pro-activeness, self-discipline and initiative, to achieve the targeted goals even in lack of external motivators (Luthans & Yousaf, 2007). Consequently, these individuals have less experience with negative JS and high turnover

intention. Against psychological stress and dysfunctional behavior, hope plays like buffering agent (Seligman and Csikszentmihalyi, 2000). According to Bandura & Locke (2003), the individuals who have high efficacy can expect less failure even facing hurdles.

However, we believe that when employees perceive that their psychological contract are breached, at that time their psychological capital may assist them to reduce the negative impact related with such activities. So, we hypothesized,

H3: Psychological capital may moderate association between PCB and job outcomes (Job satisfaction and Turnover intention) such that the relationship may be lesser when PsyCap is high.

Method

Sample and Data Collection:

PCB can be varied across different organizations. We decided to collect data from different organization due to variance in PCB. We focus on service sector of Faisalabad because this sector is often ignored by researchers. This service sector includes branches of private banks, well known private educational institutions, public universities, medical hospitals and telecommunication firm's offices located in Faisalabad. All white collar employees are selected for data collection because of two reasons. Firstly, we think that PCB has more chances to play a role in managerial positions. Secondly, due to their higher education level so that they can reply to a survey in English efficiently.

Onsite administration of questionnaires was used to collect data. A cover letter was accompanied with questionnaire, which explained the core purpose of the study to respondents and also assured them to keep their responses highly confidential only for study purpose. The respondents completed questionnaires that pertained items related to

PCB, PsyCap, job satisfaction and turnover intention. We collect data about PCB and PsyCap in the first time of the survey. Data regarding job satisfaction and turnover intention were collected from the second survey wave.

Moreover, each respondent supplied information regarding their name, age, gender, education level, and job experience and organization name. These respondents returned back completed questionnaires to author.

Of the 275 surveys, we received 212 self-reported responses. The final response rate of our study was 77%. We distributed 65 questionnaires among workers of private educational institution, 60 in public universities, 75 in private hospitals and 75 in telecommunication company in Faisalabad. The response rate for educational institutions, public universities, private hospital and telecommunication company were 73%, 75%, 79% and 81% respectively.

Measures:

All variables were measured by using questionnaires. Responses to all constructs, other than PsyCap, were analyzed using 5-point Likert scale with the anchors 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. We measured psychological capital using a 6-point Likert scale with the anchors 1 = Strongly Disagree, 2 = Disagree, 3 = Somewhat Disagree, 4 = Somewhat Agree, 5 = Agree, and 6 = Strongly Agree.

Psychological contract breach: In this study, five item scale developed by Robinson and Morrison (2000) is used to measure PCB. This scale has been used in previous studies as it is a global scale of breach. An example of item of PCB is, “The company has done an excellent job of fulfilling its promises to me”. The alpha reliability of this scale of our sample is 0.91.

Psychological Capital (PsyCap): We use twelve-item scale for PsyCap developed by

Luthans, Youssef, et al. (2007). We measure two dimensions of PsyCap that are hope and efficacy by using 12 items and these dimensions have six items for each. Example of items for hope is, “if I should find myself in a jam at work, I could think of many ways to get out of it” and the example of items for efficacy is “I feel confident analyzing a long-term problem to find its solution”. However, to check overall impact of PsyCap, we took average of twelve items because high score would reflect high PsyCap. The alpha reliability of psychological capital is 0.86.

Job outcomes: We use six-item scale for overall job satisfaction measurement presented by Agho, Price, and Mueller (1992). This scale comprises questions like “I feel fairly well satisfied with my present job” and “I find real enjoyment in my work”. The alpha reliability is 0.69 for this measure. We used scale developed by Vigoda (2000), which is three item scale to measure T.I. The scale contained item as “I often think about quitting this job”. The alpha reliability is 0.79 of this measure.

Results

PCB, PsyCap, and Job outcomes:

Table 1 shows that this sample has 34% female respondent, with employees averaging 35.12 years of age and averaging 6.96 years experience. The standard deviation (SD) of demographic variables is 6.10, 0.43, and 3.12 respectively.

To test all main effect hypotheses, we use multiple linear regression analyses. In the first step, we entered age, gender and experience. Then in second step, independent variable is entered. Table 2 exhibits the findings for effects of PCB and PsyCap on JS and TI. PCB is positively associated to turnover intentions ($\beta = 0.28, p < .001$) and negatively to JS ($\beta = -0.32, p < .001$). These results are consistent with our Hypothesis 1. Table 2 exhibits that PsyCap is positively associated to JS ($\beta = 0.62, p < .001$)

and its relationship with turnover intentions ($\beta = -.08, p < .05$). These findings are consistent to our Hypothesis 2.

Table 1 and 2 near here

Moderating impact of psychological capital:

We used moderated multiple regression analyses (Cohen, Cohen, West, & Aiken, 2003) to test Hypotheses 3. In first step, we entered age, gender and experience as control variables. Then in second step, we put PCB as independent variable and PsyCap as moderator variable. In last third step, we put an interaction term of the PCB and PsyCap, which will confirm moderation, if the interaction effect is significant. Moreover, we analyzed variance inflation factor and tolerance statistics. These analysis measures the collinearity among independent variables in regression model (Hair, Anderson, Tatham, & Black, 1998; Tabachnick & Fidell, 2001). Variance inflation factor score is less than 5 (Chatterjee & Price, 1991). The tolerance score is more than 0.10, which is acceptable (Hair et al., 1998). These scores indicates that the problem of multicollinearity is not the issue.

Discussion

Despite of generalized results among researchers, some research studies has showed various results of PCB on JS and TI. In this study, we not only checked psychological capital role as moderator but also evidence that how hope and efficacy may play a role to mitigate the negative effects of PCB as a stressor.

The results of this study support the hypotheses that when employees psychological contract are breached in organization, it decrease their job satisfaction and enhance the intentions to quit the job. These results assist the idea of PCB being harmful to targeted job outcomes. The results exhibits that psychological capital has

positive impact on JS and negative impact on TI.

The findings are according to expected directions between psychological capital and JS. The results reveal that PCB is becoming sensitive issue those employees who have low PsyCap. If employees have high psychological capital (hope and efficacy) then PCB would not impact negatively on JS. In addition, these results suggest that findings of previous studies conducted in Western context are also generalized in Pakistan.

5.1 Future research directions

Because of different dimensions of PCB across different nations, there should be study regarding comparison of non-Western and Western samples to check the moderating in part of contextual factors. Future researchers should concentrate on multidimensional analysis of PCB with other job outcomes.

Conclusion

Asia region has dramatically important role in global economy because blue chips companies are focusing on this region increasingly. Researchers have little confidence about the generalizability of the results in Asia that were earlier obtained in United States (Tsui et al., 2007). This study present generalizability of basic concepts of PCB and psychological capital in Pakistan. However, there is need of more efforts to extend the complex research models in various cultural settings.

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APPENDIX

Table 1. Descriptive Statistics, correlations and reliabilities

| | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------------------------|-------|------|---|------|--------|-------|---------|---------|---------|
| 1. Age | 35.12 | 6.10 | - | .017 | .593** | .163* | .140* | -.041 | .145* |
| 2. Gender | 1.24 | 0.43 | | - | .118 | .027 | .019 | .019 | .040 |
| 3. Experience | 6.96 | 3.12 | | | - | .141* | .079 | -.044 | .078 |
| 4. PCB | 3.44 | 0.42 | | | | (.91) | -.370** | .074 | .799** |
| 5. Job satisfaction | 3.56 | 0.59 | | | | | (.69) | -.390** | .583** |
| 6. Turnover intentions | 2.72 | 1.04 | | | | | | (.79) | -.346** |
| 7. PsyCap | 4.56 | 0.57 | | | | | | | (.86) |

*. Correlation is significant at the 0.05 level.

**. Correlation is significant at the 0.01 level.

Table 2. Results for Main Effects and Moderated Regression Analysis

| | Job Satisfaction | | Turnover intentions | |
|--------------|------------------|--------------|---------------------|--------------|
| | B | ΔR^2 | β | ΔR^2 |
| Step 1 | | | | |
| Age | .05 | | -.16* | |
| Gender | .02 | | -.05 | |
| Experience | .15** | .06** | -.21*** | .15*** |
| Step 2 | | | | |
| Age | .09 | | -.16* | |
| Gender | .01 | | -.03 | |
| Experience | .11** | | -.17** | |
| PCB | -.22*** | | .28*** | |
| PsyCap | .46*** | .26*** | -.05 | .09*** |
| Step 3 | | | | |
| Age | .08 | | -.15* | |
| Gender | .01 | | -.04 | |
| Experience | .10** | | -.18*** | |
| PCB | -.32*** | | .28*** | |
| PsyCap | .62*** | | -.08* | |
| PCB x PsyCap | .18** | .02** | .14* | .02* |

*. Correlation is significant at the 0.05 level.

**. Correlation is significant at the 0.01 level.

***. Correlation is significant at the 0.001 level.