

# Psychological Contract and It's Impact on Employee Attitudes

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## ABSTRACT

**Objective:** The purpose of the current study is to scrutinize the impact of psychological contract and psychological contract fulfillment on organizational commitment and turnover Intentions of employees.

**Study Design:** Cross sectional study.

**Place and Duration of Study:** This study was conducted at the Hospitals, Banks and Universities of Hyderabad, Jamshoro and Tando Jam from 1<sup>st</sup> August 2014 to 1<sup>st</sup> October 2015

**Materials and Methods:** Responses were gathered using a survey. Responses were collected from 600 individuals. SPSS 23 was used for analysis. Responses were analyzed through hierarchical multiple regression.

**Results:** Influence of relational psychological contract on organizational commitment was positively realized ( $\beta = 0.163$ ,  $p < 0.05$ ). Transactional psychological contract was destructively impacting organizational commitment ( $\beta = -0.089$ ,  $p < 0.05$ ). However, psychological contract fulfillment had a positive impact on organizational commitment ( $\beta = 0.179$ ,  $p < 0.05$ ). Turnover intentions were negatively influenced by relational psychological contract ( $\beta = -0.194$ ,  $p < 0.05$ ), transactional psychological contract ( $\beta = -0.139$ ,  $p < 0.05$ ) and psychological contract fulfillment ( $\beta = -0.135$ ,  $p < 0.05$ ).

**Conclusion:** Relational psychological contract and psychological contract fulfillment positively predicted the organizational commitment whereas transactional psychological contract was a negative predictor. Relational psychological contract negatively predicted turnover intentions. Transactional psychological contract increases turnover intentions. Psychological contract fulfillment deteriorated the turnover intentions.

**Key Words:** Psychological Contract, Psychological Contract Fulfillment, Organizational Commitment, Turnover Intentions, Closed-ended questionnaire, Hierarchical regression.

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## INTRODUCTION

Psychological contracts implicit the type of contract between the employer and employee (Rousseau 2000)<sup>1</sup>. Rousseau introduced a couple of types of psychological contracts and these include: relational and transactional. Relational contracts are economic in nature and transactional are non- economic in nature.

Psychological contract has a great stimulus on the attitudes of the employees (Usman R et al. 2004)<sup>2</sup>. The attitudes under considerations in this study are organizational commitment and turnover intentions.

Organizational commitment is considered to be essential for any organization as deals with the individuals working in the organization who are considered to be the back bone of any organization.

In the growing competitive business environment the importance of the workers working in the organization has enhanced to significant level (Kleinman et al.

2001)<sup>3</sup>. Human capitals (skill full workers) are crucial for any organization as it gives them competitive advantage.

Turnover intentions are beliefs of leaving the organization willingly without any external pressures based on some incidents or acts of injustice in the organization.

**Theoretical background and research hypotheses:** In prior researches, there are strong links found between psychological contract and organization commitment (Grimmer et al. 2007)<sup>4</sup> in their work argued that employees realizing a state of relational psychological contract will presumably show high levels of organizational commitment. Thus, it is assumed that H1a: Relational psychological contract has constructive influence on organizational commitment. Employees showing short-term relationship with the organization will realize lower levels of organizational commitment (Grimmer et al. 2007)<sup>4</sup>. Thus, to testify the assumption the hypothesis is formulated.

H1b: Transactional psychological contract has adverse influence on organizational commitment.

When employees receive what they expected at workplace from their employer they feel comforted and will realize a state of fulfillment of their psychological contract. It is claimed that when employees recognize such a state they will be more committed to their

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organization. To test this relationship among the above variables it is hypothesized that

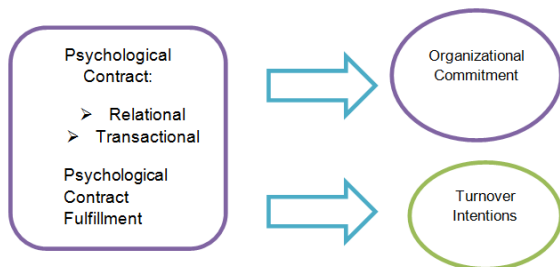
H2: Psychological contract fulfillment has constructive influence on organizational commitment.

Turnover intention is identified as an employee’s intentions of leaving the organization (Mobley, 1977).<sup>5</sup> It is not a state when employees actually leave the organization; it’s only the state of consideration of leaving the organization. Willingly turnover might be because of uncomplimentary atmosphere at workplace. The relational contract embraces extended responsibilities, grounded on socio-emotional mechanisms for example devotion, commitment and trust (Robinson et al. 1994)<sup>6</sup>. Previous work on the subject back this thought that lower levels of turnover intentions are demonstrated by employees when they experience relational psychological contract. Vice versa is the case when employees are having transactional psychological contract, in that case they show higher levels of turnover intentions (Morrison et al. 1997)<sup>7</sup>. In light of existing writings it is proposed in this study that H3a: Relational psychological contract has destructive influence on turnover intentions. H3b: Transactional psychological contract has constructive influence on turnover intentions.

Evidences of the association among psychological contracts fulfillment and attitudes and behaviors of employees at workplace are found in literature. Amongst the behaviors there was employees’ intention to leave the organization (Psycones, 2006)<sup>8</sup>. According to Bunderson (2001)<sup>9</sup> “when an employer is perceived to be failing in their role obligations, continued employment is seen as an unfair exchange and withdrawal from the employment relationship may result (p.722)”. In this way we can indisputably say that lower are the levels of psychological contract satisfaction, more prominent are the odds that sentiments of leaving the organization will emerge in the heart of employee.

H4: Psychological Contract Fulfillment has negative impact on turnover intentions of employees

CONCEPTUAL FRAMEWORK



MATERIALS AND METHODS

It was a cross - sectional study in nature. Stratified random sampling method was used. Total 600 questionnaires were distributed in the banks, hospitals and universities of Hyderabad, Jamshoro and Tando

Jam. The study was conducted from 1<sup>st</sup> August 2014 to 1<sup>st</sup> October 2015. A total of 600 questionnaires were distributed. Questionnaires were equally distributed among males and females. All responses were collected through self-reported questionnaire. Participants registered their responses on 5 point Likert scale.

Psychological contract was measured through Raja et al. (2004) questionnaire. Psychological contract fulfillment was measured by Robinson and Morrison (2000). Organizational commitment was measured through Meyer and Allen (1997). Turnover intentions were measured by using the instrument of Kelloway et al. (1999). All the measures showed the cronbach’s alpha score of above 0.70, making them reliable to use in the study. All the categorical variables were kept constant.

RESULTS

**Descriptive Statistics:** Table 1 is depicting the descriptive statistics. For relational psychological contract mean = 3.1192, S.D = 0.63963, transactional psychological contract mean = 2.8995, S.D = 0.82838, psychological contract fulfillment mean = 3.4818, S.D = 0.51005, organizational commitment mean = 3.5378, S.D = 0.64161, turnover intentions mean = 2.5109, S.D = 0.95617.

Table No.1: Descriptive Statistics

Variable	Mean	Std. Deviation
Relational Psychological Contract	3.1192	0.63963
Transactional Psychological Contract	2.8995	0.82838
Psychological Contract Fulfillment	3.4818	0.51005
Commitment	3.5378	0.64161
Turnover Intentions	2.5109	0.95617

Inferential Statistics:

**Correlation Analysis:** Relational psychological contract was positively associated with organizational commitment  $r = 0.162$ . Transactional psychological contract had negative relationship with organizational commitment  $r = -0.286$ . Psychological contract fulfillment was positively associated with organizational commitment with  $r = .144$ . Relational psychological contract had a negative impact on turnover intentions  $r = -0.286$ . Transactional psychological contract had inverse relationship with turnover intentions with  $r = -0.179$ . Psychological contract fulfillment was adversely related to turnover intentions  $r = -0.139$ . All the relationships were significant at  $p < 0.05$ .

**Regression:** Hypotheses were tested through hierarchical multiple regression (Table # 3). Influence of relational psychological contract on organizational commitment was positively realized ( $\beta = 0.163, p < 0.05$ ). Transactional psychological contract was

destructively impacting organizational commitment ( $\beta = -0.089, p < 0.05$ ). However, psychological contract fulfillment had a positive impact on organizational commitment ( $\beta = 0.179, p < 0.05$ ). Turnover intentions were negatively influenced by relational psychological contract ( $\beta = -0.194, p < 0.05$ ), transactional psychological contract ( $\beta = -0.139, p < 0.05$ ) and psychological contract fulfillment ( $\beta = -0.135, p < 0.05$ ). Thus, all hypotheses were supported.

**Table No.2: Correlation Results**

Variables Description	Correlation Coefficient(r)	Level of Significance(p)
Relational Psychological Contract & Organizational Commitment	.162**	.000
Transactional Psychological Contract & Organizational Commitment	-.098*	.028
Psychological Contract Fulfillment & Organizational Commitment	.144*	.001
Relational Psychological Contract & Turnover Intentions	-.286**	.000
Transactional Psychological Contract & Turnover Intentions	-.179**	.000
Psychological Contract Fulfillment & Turnover Intentions	-.139**	.002

\*\* Correlation is significant at the 0.01 (2- tailed)

\* Correlation is significant at the 0.05 (2- tailed)

**Table No. 3: Results of Hierarchical Multiple Regression**

Hypothesis	R <sup>2</sup>	ΔR <sup>2</sup>	β	Sig.(p)	Result
H1a	.192	.019	.163	.001	Supported
H1b	.179	.006	-.089	.044	Supported
H2	.204	.031	.179	.000	Supported
H3a	.350	.027	-.194	.000	Supported
H3b	.338	.015	-.139	.001	Supported
H4	.340	.018	-.135	.000	Supported

## DISCUSSION

This study aimed at predicting organizational commitment with relational psychological contract. The outcomes of relational psychological contract as a constructive predictor of organizational commitment and transactional psychological contract as a destructive predictor of the organizational commitment are consistent with Usman R et al (2004)<sup>2</sup>. Usman R et al (2004)<sup>2</sup>, Zhou (2014)<sup>10</sup>, Cassar (2011)<sup>11</sup> and others found that when employees perceive to formulate relational psychological contract they get themselves engaged with their respective organization at emotional level and they develop commitment with their respective organizations.

While employees engage with organization at transactional level, they only tend to make employees concern only with their economic rewards and showing no commitment to the organization. This finding is consistent with Usman R et al (2004)<sup>2</sup>.

When employees experience psychological contract fulfillment, they will be committed to the organization, this was predicted and found in the present study. Findings of Deepthi et al (2014)<sup>12</sup> are also in connection with this study.

It was predicted that relational psychological contract has a negative impact on turnover intentions. This impact was significantly established in this study. Other studies also confirmed the negative impact of relational psychological contract on turnover intentions confirming employees perceive to formulate relational psychological contract will have lesser intentions to leave the organization since the employees having relational psychological contract will perceive to engage in long-term emotional attachment with the organization and thus, will rarely experience feeling of leaving the organization.

Transactional psychological contract has positive impact on turnover intentions. This relationship was also confirmed by Ntalianis (2006)<sup>13</sup>.

Employees intend low to leave the organization when they acknowledge psychological contract fulfillment. This prediction was confirmed in this study. Chang (2013)<sup>14</sup> also found similar results.

Statistical evidences showed that relational psychological contract inputs positive influence on organizational commitment whereas transactional psychological contract destructively impacts employees' organizational commitment. Psychological contract fulfillment was found to positively affect organizational commitment of employees. It was found that relational psychological contract, transactional psychological contract and psychological contract fulfillment all have an inverse influence on turnover intentions of employees.

## CONCLUSION

Psychological contract is very important contributor to the attitudes of employees in organizations. These attitudes are then crucial for the survival and success of organizations. Managers need to know more about the formulation of psychological contracts and how the violation and fulfillment of these contracts can influence employee attitudes. Managers should make their effort to towards formation of relational psychological contract of employees and assure that employees' psychological contract is fulfilled as they effect the commitment the employees' show towards organization. This attitude of commitment towards organization will increase their performance and laterally organization's performance.

Focus on formulation of relational psychological contract will reduce employees' attitude of intentions of leaving the organization which will save organization from loss of quality workforce.

**Conflict of Interest:** The study has no conflict of interest to declare by any author.

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