THE IMPACT OF PSYCHOLOGICAL CONTRACT ON EMPLOYMENT RELATIONSHIPS

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Abstract
This paper investigates the determinants of employment relations as measured by three proxy variables: the organizational commitment, work satisfaction and the likelihood of the employee to leave that job. A set of demographic and psychological determinants was identified in the theoretical and empirical review. These were incorporated in a questionnaire. A survey was conducted on a sample of 145 employees in the Albanian banking sector. The sample consisted mainly of banking sector employees and given that a considerable number of banks are located in Tirana, employees of these banks constitute the major part of the sample. Despite the demographic information on the sample of employees and the employment relationship, the questionnaire gathers detailed information on two types of the psychological contract – transactional and relational. The study aims to identify breaches in the psychological contracts that affect employees’ attitude and behavior.

Demographic indicators such as age, educational level, field of study and work position are included in the analysis as control factors and the results confirmed their being key factors in influencing perception of breaches of psychological contracts. The results indicate that age is positively related to organization commitment and work satisfaction, while educational level indicates a negative relation. The field of studies is also a significant determinant of the employment relationship. Furthermore, the organizational commitment has a positive relation to work satisfaction and a negative correlation with “intention to leave”. As expected, satisfied employees are less likely to leave. Breach of the transactional contract is associated with a high probability of resignation. Finally, the results indicate that the relational contract provides a higher organizational commitment compared to the transactional contract.

Keywords: Employment relationship, Transactional contract, Relational contract, Breach of psychological contract, Organizational commitment, Intention to leave, Work satisfaction.

1. Introduction

Today the organizational environment, organisations and the individuals that work within them have changed. The growth of the so called ‘knowledge economy’ has increasingly directed the attention of researchers toward human capital issues as an important source of creating competitive advantage. Luthans et al (2004), presented a schema of human capital evolution, described according to the stages in Figure 1.

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As Fig. 1 shows employees have enjoyed increased significance year on year, but it would be a mistake to consider this development as indicative of a generally more “caring” approach to employees in the Albanian work environment.

In Albania, the family based organization remains the main business type which can be characterized not unfairly as a kind of business lacking in significant steps in successful management processes.

However, with the establishment of democracy, foreign businesses have invested in and continue to show interest in Albanian economic development. Their investments, along with other benefits, signify the flow of new management practices. The treatment and increased importance conferred on workers in these companies, compared with Albanian owned companies is easily distinguishable. From the briefest overview of the annual reports of these foreign investments can be identified descriptive information concerning training and employee engagement in different activities and their motivation. The promise of changes in basic work relationships attendant in turn on change in the organizational environment has provoked increased interest in the psychological contract and its meaning for employees.

Based on the work undertaken by Rousseau, psychological contracts can be seen as mental models of a sustainable working relationship. Based on the importance that the psychological contract has in the work environment, the aim of this paper is to examine the impact of "breaches" of psychological contracts in the employment relationship of employees in the banking sector, reflected in variables such as intention to leave, job satisfaction and organizational commitment. To identify and further analyze these phenomena, statistical regression methods have been used.

There are three main rationales for focusing on the banking sector:

Most of the banks operating in Albania have acquired foreign capital acquisitions that have allowed the creation and sustenance of positive psychological contracts in these companies to a greater extent than in other Albanian companies.
The employees in the sector have come from different branches and levels of education, thus offering, diversified expectations of the organization. The choice of this sector is related to the key importance of the banking system in the Albanian economy.

2. Theoretical background

People in a company are the main resource that enables the company to achieve competitive advantage. In the constellation of developments that dictates the today’s business environment, psychological contract is playing an increasing role in today’s employment relationships.

The psychological contract term dates to the 1960s, when Argyris popularised this concept, defining it as a "consensus" implied between a group of employees and their employer. Levinson (1962) provided an early description of the psychological contract by portraying it as “an unwritten (working) agreement (and) a resultant of mutual expectations (from work)."

The 1980s, exhibited noticeable changes in organizations; such as restructuring, staff downsizing, increased insecurity of part-time employees, demographic diversity and foreign competition. These changes were also reflected in the "traditional" model of the employment relationship. First, these trends made it very clear what employees and organizations owe to each other, because the traditional guarantee of job security and lasting rewards, in exchange for hard work and loyalty, will no longer work in most cases (Sims, 1994). Secondly, the state of transition and uncertainty, makes it difficult for organizations to meet all the obligations that they have toward the employees (McLean Parks & Kidder, 1994). It is not surprising that the result of these two factors, is the creation of the perception on a large part of the employees that the conditions of their psychological contracts were not met properly (McLean Parks & Schmedemamm, 1994; Robinson, Kraatz, & Rousseau, 1994). An increased interest in the psychological contract and the employment relationship was observed after the publication (in 1995) of the seminal book "Psychological Contract in Organizations: Understanding Written and Unwritten Agreements" by Denise Rousseau.

Although there is no universally accepted definition of the psychological contract, it is generally accepted that it represents the beliefs associated with the terms of the mutual exchange agreement between the employee and the employer (Conway and Briner 2005; Rochling 1997). Violation of the psychological contract - has to do with the perception of employees that their organization has failed to properly fulfill the obligations of their psychological contracts.

Researchers (e.g Rousseau, 2004), have identified six characteristics described below:

1. Voluntary choice.
2. Trust in a reciprocal agreement.
3. Lack of completeness.
5. Management of losses when the contract "fails".
6. The contract as a model of the employment relationship.

Why is the concept of psychological contract so popular nowadays?

The attention that is paid to psychological contracts can be linked to several factors. Given that the employee is seen as the main resource of the organization, it is now important for organizations to better understand the thoughts and feelings of employees. Basic norms of organizational life can be considered to humanism, respect, trust, compassion, empathy, fairness, and objectivity and since these are part of the psychological contract, makes the latter an important target for consideration. Their importance originates from individual and organizational consequences that bring about the breach of these contracts. Research has shown that violation reduces the confidence of employees towards employers, satisfaction in the job and in organization and reduced obligations to stay in the organization (Robinson, In press; Robinson & Morrison, 1995; Robinson & Rousseau, 1994).

Previous researches indicate that "breaking" of the contract is relatively common (Robinson and Rousseau, 1994). Their content analysis has shown that such breaches usually occur from aspects of human relations such as training and development, compensation and promotion (Robinson and Rousseau, 1994) where employees feel that the organization has not complied with the promises made.

Researches have shown that if the psychological contract is “broken”, the employee intention to leave can grow and commitment to the organization can fall (Guzzo, Noonan & Elron, 1994). So, what is implied is that the psychological state of the employee is a clearly important factor that should be considered and managed, in order to achieve the organization's effectiveness. The measurement of employee psychological conditions as well as their consideration and management from the organization's managers through wise organizational policies will result in appropriate behaviors and responses in the job. The strength of these psychological contracts is dependent on the validity that they have with employees and employers (Anderson and Schalk, 1998). However, there is a danger that the term becomes simply meaningless rhetoric rather than a useful analytical construct (Arnold, 1996; Guest, 1998). Moreover, critical comments address the question of to what extent the breach of the psychological contract leads to significant changes in attitude and behavior of employees, thereby bringing in the last analysis the possibility of change in the performance of the organization.

Violation of the psychological contract is described as multi-dimensional (Morrison and Robinson, 1997), because it includes a wide range of reactions. At one level, such violation causes frustration, irritability and anxiety (Robinson and Morrison, 1995; Pate and Malone, 2000). More extreme emotional responses including grief,
anger, resentment and indignation can ensue (Rousseau, 1989; Pate and Malone, 2000). Breach has also been associated with other behavioral outcomes, such as low organizational citizenship, commitment, satisfaction, reduced trust and an increased degree of cynicism (Robinson and Rousseau, 1994, Robinson and Morrison, 1995; Robinson, 1996; Herriot et al, 1998; Pate et al, 2000). As a result, when an individual's psychological contract is violated, the relationship becomes more calculated and interactive, and as it continues the perceived violation may gain added strength (McLean Parks and Kidder, 1994; Pate and Malone, 2000).

Put differently, psychological contracts serve to motivate employees as to meet the promises made by the employer when employees are confident that employers will consistently meet their promises. Strategies, structures, and organizational processes define what employers want from their employees and what they are willing to offer, influencing in addition the manner in which contract negotiations are undertaken and the nature of the contracts that are managed collectively (Herriot & Pemberton, 1995).

According to Rousseau, there are some general patterns or types of behaviors that characterise the behaviors that employees and employers demonstrate toward each other. Psychological contract types are as follows:

- **Transactional Contracts** – these are distinguished by very specific types of exchanges, which include a narrow range of behaviors for a specified period of time.

- **Relational contracts** - include conditions such as loyalty (employee and employer committed to meeting each others needs) and sustainability (for open engagement in the future). Employees who labour under this type of contract tend to be willing to work outside normal working hours, regardless of whether they are paid or not.

- **Balanced contracts**, including promises and obligations as interactive contracts, as well as from those relationships. Although at a first glance appear to us interactive contracts and relationships, empirical evidence (Coyle-Shapiro and Kessler 2000), suggests that employees often have both types of work contracts.

- **Transitional contracts**, which are identified at a time when organizations change the terms of the contract, in the response of an overseen situation i.e. of crisis or unforeseen short term emergencies.

**The methodology**

This paper seeks to verify the importance and impact of the psychological contract in the employment relationship, reflected in indicators such as organizational commitment, intention to leave and satisfaction at work. So basically, the study is of a descriptive nature, dealing with the issue by utilising a quantitative approach. The focus of this research is the collection of original data as the primary source using
through direct questioning of a target group. According to Burns and Grove (1993: 777) quantitative research can be defined as a formal process, objectively and systematically undertaken to describe, test and examine the interactive causes and consequences between variables.

**The geographical expansion of the study**

Questionnaires were mainly distributed to banks located in Tirana with a parallel but limited focus on its immediate surroundings. The selection of banks and employees was undertaken randomly but with the intention of focusing on a sample of a stratified sample of bank employees at various levels and backgrounds.

**Population and sample**

The target groups of this study are employees of the banking sector. Employees in these banks work full time in their respective positions, ranging from customer relationship, paymaster, specialist, manager and director.

**Data Collection**

The questionnaire distributed is similar to that used in the study written up in the article "Consequences of Psychological Contract for IS Personnel violations" authored by Jerry C. Chiang, Chenchen Liao, James Jiunn-Yih Jiang and Gary Klein, and published in the Journal of Computer Information Systems in the summer of 2012. Various modifications have been made including the most representative questions, to allow for relevant adjustments to suit the conditions of the Albanian environment. Data were collected from questionnaires sent electronically (e-mail) and printed form. From 200 questionnaires 146 were gathered and 145 considered. A response level of 72.5% was achieved.

**Study limitations**

Employees who participated in the study were not completely convinced that the details of the survey would remain confidential or whether the results would be published together with the name of the bank where they worked. Those demonstrating greater concern with these issues were situated at subordinate levels in the organization rather than those in leadership position. Another, admitted, study limitation was the limited extent of the geographical distribution of the questionnaire.

**Data Analysis**

The regression analysis program package from Microsoft Office Excel was used for purposes of data analysis. This analysis utilizes a linear regression approach using the “little quadratic” method to fit a line through a series of observations. Such a method enables analysis of how a dependent variable is influenced by values of one or more independent variables. In this output, this method is used to determine how various independent factors operate such as psychological contract violation, violation of interactive contracts and the interactive relationships influencing organizational commitment, such as job satisfaction and the intent to leave. The
questionnaire in its second section contains several different positions or statements as part of each variable, in order to create a single variable, the arithmetic average is used. For each of those questioned, an arithmetic average of each of the five variables in the study was utilized.

**Qualitative and quantitative analysis of the surveyed case**

The first part of the questionnaire contains demographic information. The second part is aimed at the independent and the dependent variables in order to see the connection between them. Demographic data reveal that the banking sector female employees outnumber males by a factor of two to one, while the age group employed in this sector falls within the range of 31-40 years. Also in this sector employees with a higher education are in the majority with a significant percentage holding a masters degree. Based on this fact we can make the reasonable assumption that the bulk of them are covered by an interactive type of psychological contract. With reference to the part of the questionnaire with questions related to the

![Interactive Contract](chart1InteractiveContract.png)

![Relationship Contract](chart1RelationshipContract.png)

*Chart 1* Comparison between the encroachment of the interactive contract and the relationships

*Source*: Author’s processing/operation Age and dependent variables

interactive contract and the relationships, the results show that more than half of employees (59%) surveyed perceive psychological contract breaches as significant. Given that 80% of employees have a degree in economic sciences, the chances are that they require to make a career in the banking sector. Referring to previous studies regarding the conclusions reached, we find that contracts are positively associated with desire to have a career (Rousseau, 1990) and negatively associated with lack of trust of the employer (Rousseau and Tijoriwala, 1996) and increased resistance toward the change. On the other hand, relationship contracts, are negatively related to the desire for career and positively associated with trust and acceptance of change (Rousseau and Tijoriwala, 1996).

One of the demographic data of interest to be analysed was age. According to various studies conducted it is clearly suggested that there is a relationship between age and job satisfaction. Studies conducted (Carstensen et al., 1999) have shown that
older workers are focused more on the positive aspects of their relationship with the organization and therefore are less affected by negative events, such as breach of contract (Allen & Meyer, 1993; Löckenhoff & Cartensen, 2004). Given that older workers have more experience, their work in the organization may become less attractive (Clark, Oswald & earr, 1996; Sarker, Crossman & Chinmeteepituck, 2003). For new employees work may have greater importance than their relationship with the employer (in the future this is likely to change), while for older workers who are less likely to work transferring the case is reversed (Hedge et al., 2006; Kacmar & Ferris, 1989). In this way satisfaction of older workers may arise first from the relationship with employer and co-workers, while for the new employee satisfaction may arise more from the work they perform. According to this explanation, when the organization violates the psychological contract, the job satisfaction of new employees is less "damaged or affected", but they lose the trust of their employers and become less engaged in the organization. Since the mobility of older workers is reduced, they may perceive less job opportunities for transfer than their younger counterparts and in this situation they can react more to the breach of contract aspects such as satisfaction at work (Hedge et al., 2006). According to Clark et al. (1996) older workers can obtain greater pleasure from external factors unrelated to work such as family, community and their favorite activities. They can allow themselves to be less satisfied with the work in terms of perceived violation of the psychological contract, meanwhile maintaining satisfaction from areas outside of their work.

Details of the study conducted show that younger people are approximately satisfied (2.742), while older ages have a level of satisfaction "to a great extent" (to degree 4 in the questionnaire). According to the explanation above, younger people are more influenced by the perception of psychological contract violation, while their older colleagues are not focused on negative events but on the positive aspects of the employment relationship. This is in line with results from previous studies. Here you can see very well the importance of psychological contracts in labor relations and subjective conceptions of them.

For the other two dependent variables, commitment and intention to leave it was apparent that older age groups are more satisfied at work and are more involved. These two reasons serve to explain the fact that the intention to leave declines with increasing age. We cannot say the same for younger groups. Job satisfaction and commitment are at a lower level compared with other older age groups and thus intention to leave is somewhat higher.

**Level of education and dependent variables**

The study data show that the level of education has a negative relationship with organizational commitment. So, for employees with masters and doctorates organizational commitment is lower than for those employees who have completed high school or higher professional education. However, the level of engagement
displays a very small difference between the levels of education. Negative relationships resulted between the level of education and job satisfaction and intention to leave. Employees with a higher level of education feel less satisfied with the work at the bank. But, the result is reversed in intention that they have to leave.

Despite the fact that people with vocational secondary education and higher education are more engaged and more satisfied than those with masters and doctorates, they have a higher intention to leave. One reason that explains this negative relationship may be the idea that employees are holders of different psychological contracts and the breach of the relationship contract has a greater effect on intention to leave. Evidence shows that many significant factors that affect the movement of workers are organizational commitment and job satisfaction. Interactive contract employees have a short-term involvement in the organization. In this way a violation of these contracts will have a lesser impact compared with breach of contract relations.

Branch of study and dependent variables

In order to view the link between branches of study and the dependent variables, initially a division of branches into two groups was undertaken. The first group includes all branches belonging to the economic field, while in the second one other fields of study are included. The results showed that persons who have completed various branches other than economics are more engaged and satisfied in the workplace. This can be explained by the different expectations of persons employed in the bank who are coming from dissimilar fields of study.

Normally, the expectations of people who have studied economics are greater than those who completed their studies in other branches. Persons who have completed branches studies in subjects such as foreign languages, translation, Albanian language (revealed by some of the answers given in the questionnaire) have less expectations from the bank.

In our view this is first because, given that the labor market does not offer much demand for other branches, these people have a hard time finding a job in their field of study. Secondly, the economic crisis has created more difficulties in finding a job. Under these circumstances, having a job in the bank for employees with a non-economic profile makes them feel satisfied and engaged.

As might be expected, workers with an economics background feel less engaged and satisfied than other employees with non-economic education and, in consequence, have a slightly greater intention to leave the bank.

Work position and dependent variables

Examination of the relationship between job position and three other variables was considered by grouping different job positions into two groups. In the first group we considered all subordinate positions and specialist groups, while in the second
positions in management and leadership levels were included. Data processing showed that people who have managerial and leadership positions in the bank are more engaged and satisfied than persons occupying the position of the specialist, who demonstrated a higher intention to leave. Employees generally have higher educational qualifications, a factor that affects the engagement satisfaction and intent to leave the current job.

Organizational commitment and job satisfaction - Employees displayed a positive correlation between organizational commitment and job satisfaction. Responses indicate that bank employees are more satisfied with the work when they feel that their involvement in the organization has grown. The result is similar to findings of studies conducted previously.

Organizational commitment and intention to leave - A higher organizational commitment makes employees more satisfied with the work. The results indicate that engagement is positively related to job satisfaction and negatively with intention to leave. Again this is in line with the conclusions of previous studies.

Job satisfaction and intention to leave - It was found from the study that the increases in job satisfaction are associated with a lower intention to leave the job. If we compare the extent of the impact of satisfaction with the level of impact of organizational commitment, we observe that job satisfaction has a greater effect on reducing the intention to leave. Results appear similar to those suggested by the previous studies.

Violation of the psychological contract and intention to leave

In a study undertaken in 1996 by Robinson, it was concluded that the loss of trust and unmet expectations of employees mediate the relationship between psychological contract breach and contribution to the organization. Previous research also suggests that psychological contract violations produce results in the sense of feelings of offence and incredulity, factors which influence the reduction of job satisfaction. For example, job satisfaction is negatively related to absenteeism and turnover (Locke, 1976; Withey and Cooper, 1989), positively associated with performance of organizational citizenship behaviors (Bateman and Organ, 1983; Organ and Konovsky, 1989; Williams and Anderson, 1991) and positively associated with labor effort (Resbult et al., 1988; Withey and Cooper, 1989).

Conclusions provided by previous studies and the results obtained from the data collected from our study with employees of the banking sector reveal the following results. The relationship between psychological contract breach and intent to leave is negative. This means that even in the case where employees perceive that their psychological contract has been violated and continues to be violated, their intention to leave the job does not grow. On the contrary, a very small decrease of intent to leave is observed (-0.003). This case can be explained by the fact that most of the workers have an interactive contract. This means that they pay more attention to the
material side (monetary) and are not inclined towards establishing close relationships with employers. As the financial and economic crisis has affected businesses and the economy, termination of the existing job and the decision to seek alternative employment is not easy.

Meanwhile the breach of the interactive contract seems to have a positive relation with employees’ intention to leave. Given the fact that questioned employees displayed features like those of an interactive contract holder, this fact reflects also the response to a high extent (0.722 with R Square (0.64)) of their intention to leave.

Employees who believe that their organization has breached the psychological contract are likely to display higher levels of fatigue or apathy, absenteeism and intent to leave. (Cartwright & Cooper, 1994; Freese, Heinen & Schalk, 1999; Robinson, 1996; Robinson & Rousseau, 1994; Schalk, Freese & Van den Bosch, 1995; Sparrow, 1996; Turnley & Feldman, 1998).

Comparison between organizational commitment, interactive contract and work relations

From previous studies on psychological contracts, it is interesting to study existing comparisons between interactive contracts and that of the level of commitment reached by them.

![Comparison between organizational commitment and interactive relations contract](chart)

**Chart 2** Comparison between organizational commitment and interactive relations contract Source: Author analysis
Through this comparison we were interested to underline that relational contracts have a higher impact on organizational commitment, compared with their interactive counterparts. If we compare this phenomenon in the two graphs shown above we will note that bank employees who are holders of relational contracts, have a 4 times greater organizational commitment than workers with interactive contract features.

Many studies have confirmed the fact that psychological contracts which are perceived as more favorable to employees, are associated with higher levels of organizational commitment (Cassar, 2011; Freese & Schalk, 1996; Guest & Conway, 1997, 1998; Guest, Mackenzie Davey & Patch, 1998; Lester, Turnley, Bloodgood & Bolino, 2002; Turnley & Feldman, 1998; Ten Brink, Den Hartog, Koopman & Van Muijen, 1999).

Relational psychological contract relations are focused on a more open timeline and are related to social changes that meet expectations and non-material needs. They tend to generate positive results for an organization. A relational contract is expected to help in delivering better positive individual and organizational outcomes than an interactive contract.

**Conclusions**

The current study focuses on violations of psychological contracts and relationship of the phenomenon of violation with organizational commitment, job satisfaction and intention to leave. The study on which the paper is based suggests that human resource managers and employers must be particularly watchful in making promises during the early phase of the employment of employees. It reveals that particular care should be exercised during training processes for employees because training itself may raise expectations and engender beliefs that training itself confers a right to promotion.

Particular attention must be focused on young employees by offering a challenging job which makes them experience a sense of heightened involvement in their work at the bank. This will increase organizational commitment and job satisfaction and reduce any intention to leave.

Further studies could be carried out to discover reasons why employees report low intentions to leave the job, despite the perception of breaches of the psychological contract. Possible working assumptions here is that could be that employees perceive that parallel violations occur in other organizations, or that they simply “give up” their psychological contracts lowering their expectations in the current situation of the Albanian economy.

To sustain “healthy” psychological contract managers should emphasize the importance of and investment in job security, promotion opportunities, opportunities for learning, personal development, fair remuneration systems and comprehensive communications processes. All these practices can be expected both to motivate employees and increase organizational commitment.
To avoid reaches of contracts managers need to better understand the expectations of employees. It is better to recruit employees who are receptive to relational contracts, therefore becoming more engaged to the organization.

In the case examined – the behavior of bank employees – psychological contract theory provides a viable platform for examination of the phenomenon of termination – the issues of why individuals decide to leave the banking sector in favor of employment elsewhere.

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3. Bibliography

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