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Psychological Contract Breach and Organizational Commitment in the Greek Banking Sector: The mediation effect of Job satisfaction

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Abstract

A plethora of studies have reported on the negative relationship between Psychological Contract Breach (PCB) and work attitudes such as Job Satisfaction (JS) and Organizational Commitment (OC). Prior research has examined and elaborated the aforementioned relationships through the spectrum of social exchange and equity theory, which suggest that individuals search for fair and balanced exchange relationships. This study aims to provide empirical evidence on the role of PCB and JS as predictors of OC of bank employees in Greece. PCB is conceptualized by six dimensions: (a) benefits, (b) pay, (c) advancement opportunities, (d) the work itself, (e) resource support, and (f) a good employment relationship.

Drawing from a sample of 262 bank employees, this study confirms the mediating role of JS on association between specific PCB aspects and OC, elevating the importance of their role in the organizational context of the banking sector.

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1. Introduction

Over the last decades, change has been vividly illustrated in a world where globalization, deregulation, technological advancements, socio-political and economic events, and new employment trends continuously reshape it (Morrison and Robinson, 1997; Todnem, 2005). Under such circumstances, the employment relationship is inevitably subjected to major transformations (Guest, 2004; Robinson and Rousseau, 1994). Thus, individuals are

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constrained to reassess and renegotiate their psychological contract, which underlies the relationship with their organization (Bellou, 2007a, 2007b).

In this context, psychological contract has been regarded as an important framework for “shedding light” on the employment relationship. It has been defined as the employee’s individual perceptions of the exchange relationship between him/her and his/her employer, which comprises mutual promises and obligations in which both are engaged, and may result either to their breach and/or violation or their fulfillment (Rousseau, 1989, 1990; Robinson and Rousseau, 1994; Morrison and Robinson, 1997). The underlying idea of organization – employee exchange relationship has occupied and been elaborated by social exchange (e.g., Blau, 1964; Homans, 1961) and equity (e.g., Adams, 1965) theorists, whose contributions have been incorporated into the psychological contract construct (Rousseau, 1989; Shore and Tetrick, 1994; Schalk and Roe, 2007). Concepts like “norm of reciprocity” (e.g., Gouldner, 1960), which is central in the social exchange theory, have been widely used by existing literature as a theoretical basis for explaining psychological contract models (Coyle-Shapiro, 2002; Johnson and O’Leary-Kelly, 2003; Zhao *et al.*, 2007).

A number of studies have laid emphasis on workplace outcomes of perceived breach advocating that it relates positively to undesirable outcomes (e.g. intention to leave) and negatively to desirable outcomes (e.g. job satisfaction, organizational commitment), based mostly on the premises provided by social exchange theory (Robinson and Morrison, 1995; Raja *et al.*, 2004; Suazo, 2009; Zhao *et al.*, 2007). More specifically, it is argued that perceived discrepancy as experienced due to psychological contract breach (PCB) leads to employees’ dissatisfaction with the current situation and reduction in their contributions to the organization in order to restore the perceived imbalance in their exchange relationship with the organization (Robinson, 1996). In addition, prior research has also manifested that affective reactions mediate the effect of PCB on work attitudes and behaviours which is also justified by affective events theory (Suazo and Stone-Romero, 2011; Zhao *et al.*, 2007).

Furthermore, it is worth noting that most psychological contract research has been conducted either in the USA or the UK, using as samples MBA students or graduates, with or without working experience (e.g., Lester *et al.*, 2002; Robinson and Morrison, 1995, 2000; Suazo and Turnley, 2010).

Having taken all these into account, this study aspires to apply the psychological contract construct as a framework in order to comprehend and elucidate the impact of PCB on Greek bank employees’ satisfaction and commitment, so that banks effectively manage the negative outcomes that may arise. In this growing literature, the investigation of indirect paths that may link PCB to workplace outcomes, even though it has been rather extensive, it has been implemented through the use of global measures of breach, such as the one developed by Robinson and Morrison (2000) (e.g., Cassar and Briner, 2011; Suazo, 2009; Tomprou *et al.*, 2012). Hence, the contribution of this study is twofold: on the one hand, PCB is assessed with Lester *et al.*’s (2002) composite measure which can more accurately capture and better depict the relations between PCB and work outcomes. On the other hand, it comes to provide a solution to researchers’ disagreement about the role of job satisfaction on the association of PCB and organizational commitment.

2. Literature Review

2.1. Psychological Contract Breach and Work-related Outcomes

A plethora of studies have reported on the negative relationship between Psychological Contract Breach (PCB) and work attitudes (i.e., employees’ evaluation of their organization and job), such as job satisfaction and organizational commitment (e.g., Cassar and Briner, 2011; Coyle-Shapiro and Kessler, 2000; Eisenberger *et al.*, 1997; Lester *et al.*, 2002; Schalk and Roe, 2007; Robinson and Rousseau, 1994; Zhao *et al.*, 2007).

Prior research has examined and elaborated the aforementioned relationships through the spectrum of social exchange and equity theory, which suggest that individuals search for fair and balanced exchange relationships. When an imbalance takes place then individuals tend to restore it by even adopting negative attitudes and behaviours in order to reciprocate for the perceived unfairness, as predicted by norm of reciprocity (Gouldner, 1960). Psychological contract theory advocates that employees seem to constantly evaluate to what extent their contributions are reciprocated by their organization. In case of a breach, the discrepancy between the expected and received outcomes along with employer’s failure to fulfil his/her promises, will provoke the decrease in employees’

contributions and the emergence of negative attitudes and behaviours in an attempt to re-establish the balance to their exchange relationship with the organization (Robinson, 1996; Robinson and Rousseau, 1994).

2.2. PCB, Job Satisfaction and Organizational Commitment

Overall job satisfaction (JS) refers to an employee's evaluation of his/her work and his/her working conditions (Robinson and Rousseau, 1994; Zhao *et al*, 2007). It constitutes an attitude rather than an emotion in the sense that it is an "evaluative judgement" of one's work but also an "affective-laden attitude", susceptible to recent organizational changes, especially regarding his/her work conditions (Weiss and Beal, 2005, p. 3; Eisenberger *et al*, 1997, p. 814). Weiss (2002), in particular, suggests that JS is influenced by both affective experiences and work beliefs.

In respect of organizational commitment (OC), literature offers many and varied definitions, among which the most widely used is the one proposed by Meyer and Allen (1984) and describes it as the strength of an individual's identification with and attachment to an organization. Although, Meyer and Allen (1991) introduced a three-component measure, psychological contract literature has focused mainly on the affective aspect of commitment, since it has been acknowledged to better reflect an attitude, both conceptually and operationally (Zhao *et al*, 2007). Affective commitment has been defined as "employees' emotional attachment to, identification with, and involvement in, the organization" (Meyer *et al*, 1998, p. 32).

Rousseau (1989) and Coyle-Shapiro and Kessler (2000) argued that the concept of psychological contract is tied to employee's commitment, since it appears to influence employee's beliefs regarding his/her relationship with the organization. When a positive perception is shaped, employees tend to be more committed, leading, in turn, to readiness for undertaking tasks and work roles, and willingness to engage in extra-role behaviours and avoid negative behaviours such as tardiness, poor performance, absenteeism and intention to leave (Schalk and Roe, 2007). On the contrary, when a negative perception is shaped (e.g., contract breach), employees may decrease their trust in and identification with their organization, and feelings of dissatisfaction may emerge, in order to restore the balance to their exchange relationship (Robinson, 1996; Robinson and Rousseau, 1994). Along this line of reasoning, Lester *et al* (2002) provided supporting evidence for the relationship between PCB and OC adopting global measures. Thus, the following hypotheses are formulated:

H1. PCB will be negatively related to organizational commitment.

H2. PCB will be negatively related to overall job satisfaction.

HRM scholars have been positively relating organizational commitment with job satisfaction (eg. Rue and Byars, 2005; Chen, 2007; Liu and Norcio, 2008). Building on this argumentation, this study explores the mediating role of JS as a part of PCB process leading to OC. The reason for this mediation hypothesis is the assumption that the way how a worker perceives his/her exchange employment relationship will contribute to employee's evaluation of his/her work and his/her working conditions (JS), which in turn, will lead to shaping the bond with the organization (OC). However, the causal order between JS and OC has been debated, and conflicting findings have been reported (Bluedorn, 1982; Johnston, Charles, Pasuranaman and Sager, 1988; Meyer, 1997). Given that no consensus has been achieved, some scholars treat these variables as correlates (Meyer *et al*, 2002), while the majority of the relevant literature incline to the casual precedence of JS over OC (Reichers, 1985). Thus, the following hypothesis is proposed:

H3. JS mediates the relationship between PCB and OC.

3. Research Method

3.1. Sample and Procedure

Greece is going through radical changes of both socioeconomic and political nature due to the economic crisis that it faces. Since 2010, it has been under the supervision of the European Commission, the European Central Bank and the International Monetary Fund (IMF) in order to overcome recession (Bank of Greece, 2011). This research focused on the Greek banking sector which, in this context, undergoes major changes: many bank branches have

closed and employees have experienced pay reductions and changes in their work schedules and conditions, in general. Seven banks, among which the three greatest in respect of their size (number of branches and employees) and market share, have agreed upon merging into three, while it is believed that changes concerning the banking sector have not, yet, come to end.

The sample was drawn from 14 commercial banks and 55 branches located in central Greece and more specifically in the Prefectures of Larissa, Trikala, and Karditsa. Among the respondents, there were employees of the seven banks that are at the initial stages of merger procedures. However, data were gathered during the fourth quarter of 2012, when these decisions were relatively recent. 559 questionnaires were distributed in person by the researcher to bank employees who work in branches located in Central Greece both in urban and rural areas, of which 285 were returned resulting to a response rate of approximately 51%. However, only 262 were valid and provided us with the collected data. Our sample consists of 138 men (52.7%) the majority of respondents being between 26 to 35 years old (37.4%) and holding an undergraduate degree (56.5%). Furthermore, 59.2% of the participants work for more than ten years in the specific bank and 53.8% are clerks.

3.2. Questionnaire design

Our research was implemented through instruments that have already been used in existing literature and have reported satisfactory levels of internal consistency and reliability. In line with Rousseau and Tijoriwala's (1998, p. 680) suggestion that "the individual is the direct source of information regarding the contract", self-reported constructs were selected because they seem to be the most appropriate measures of the nature and content of the psychological contract. Seven-point Likert-type scales ranging from (1) "Strongly disagree" to (7) "Strongly agree" were utilized to assess all of the constructs measured in this study, with the exception of PCB the measurement of which is described further below.

Psychological contract breach: PCB was measured with the six-factor instrument developed by Lester et al (2002), which includes 18 items. The dimensions examined are: (a) benefits, (b) pay, (c) advancement opportunities, (d) the work itself, (e) resource support, and (f) a good employment relationship. Participants were asked to indicate for each item the amount that they actually received in comparison with the amount that their organization were committed to provide to them on a scale ranging from (-3) "Much less than promised" to (+3) "Much more than promised". In line with Lester et al's (2002) simplification of the interpretation process during the regression analyses, the items were then reverse scored so that the higher and more positive the score, the greater degree of PCB. *Overall job satisfaction:* For assessing employee's overall level of job satisfaction four items from Quinn and Shepard's (1974) job satisfaction index were selected. This measure consists of four items, as used by Eisenberger et al (1997), and participants were asked to indicate the extent of their agreement regarding each statement. *Organizational commitment:* To assess organizational commitment, we used a six-item measure developed by Meyer et al (1993).

3.3. Constructs Validity

Constructs validity was estimated through path modeling using the partial least squares (PLS) approach and the SmartPLS software (Ringle, Wende, and Will, 2005). The variance-based PLS procedure is a latent variable modeling technique that incorporates multiple dependent constructs and it is considered to be useful in investigating descriptive and predictive relationships. A strong advantage of PLS approach compared to covariance-based structural equation modeling is its ability to deal with situations where knowledge about distribution of the latent variables is restricted, requirements about the closeness between estimates and the data should be met and sample size is too small (Fornell and Cha, 1994).

Preceding PLS, the Bartlett sphericity testing on the degree of correlation between the variables ($p < 0.001$) and the appropriateness of the sample according to Kaiser-Meyer-Olkin (KMO over 0.70) verified the appropriateness of the sample. Henseler and his colleagues (2009) suggested that the first stage of the development of a PLS model should be the measurement model. The measurement model examines the relations between manifest variables (MV) and latent variables (LV). The measurement model is focused on the evaluation of the validity and reliability of the constructs in the model. Composite reliability (CR) and Cronbach's alpha were calculated to assess the reliability of

scales. All constructs exhibited CR and Cronbach's alpha greater than the minimum acceptable level of 0.70 (Fornell, and Larcker, 1981; Nunnally and Bernstein, 1994), as illustrated in table 1. The six dimensional latent structure of PCB as well as the unidimensionality of job satisfaction and organizational commitment constructs were confirmed.

Table 1. Results of reliability, convergent and discriminant validity analysis of all scales.

	items	AVE	CR	Cronbach's Alpha	EMP	OPP	BNF	JS	OC	PAY	RES	WRK
EMP	4	0.751	0.923	0.889	0.867							
OPP	3	0.904	0.966	0.947	0.633	0.951						
BNF	2	0.758	0.862	0.708	0.383	0.395	0.870					
JS	4	0.814	0.946	0.924	-0.431	-0.473	-0.303	0.902				
OC	6	0.812	0.963	0.953	-0.456	-0.454	-0.264	0.719	0.901			
PAY	3	0.778	0.913	0.862	0.497	0.514	0.723	-0.383	-0.316	0.882		
RES	2	0.885	0.939	0.870	0.674	0.485	0.292	-0.279	-0.357	0.414	0.941	
WRK	4	0.717	0.910	0.868	0.630	0.741	0.423	-0.504	-0.542	0.472	0.557	0.847

EMP: A good employment relationship; OPP: Advancement opportunities, BNF: Benefits, JS: Job Satisfaction, OC: Organizational Commitment, PAY: Pay, RES: Resource support, WRK: Work itself,

Bold diagonal elements are the square roots of the AVEs, off-diagonal elements are correlation coefficients among variables.

Fornell and Larcker's (1981) average variance extracted (AVE) criterion is adopted for the estimation of scales' convergent validity. AVE value of a latent variable should be higher than 0.50, in order to explain more than half of the variance of its indicators on average (Baron, & Kenny, 1986). As shown in table 1, all scales met this criterion. In addition, convergent validity of a scale may be assessed by examining the factor loadings of the items on the model's constructs. High items' loadings on their underlying construct and lower loadings on unrelated constructs designates convergent validity. Barclay et al. (1995) proposed that items' loadings of 0.70 or higher provide evidence for convergent validity. In our study, factor loadings of all items on their respective associated constructs are greater than 0.8 ($p < 0.01$), while their loadings on unrelated constructs are less than 0.4.

Discriminant validity of the measurement model was examined through Fornell and Larcker's (1981) AVE test and correlations criterion. This test designates that the square root of the respective AVE of each construct should exceed the correlations between the factors making each pair. In that case, each dimension shares more variance with its own block of indicators than with another dimension representing a different block of indicators. As shown in table 1, all constructs in our research model demonstrated adequate discriminant validity, since the diagonal elements, which are the square roots of the AVEs, are greater than the off-diagonal elements (correlations) in the corresponding rows and columns.

3.4. Mediated Regression Analyses

Table 2 reports the results of mediated regression analyses. Six control variables were included in the analyses namely gender, age, educational level, tenure, and branch location (Trikala and Karditsa in the region of Thessaly). The effects of PCB dimensions as a whole were significant, since the 34.4% of the total variance is explained, indicating that it is related significantly to organizational commitment. In particular, good employment relationships and work content are proved to have negative statistically significant direct effects on OC (std. beta=-0.192, $p < 0.05$ and std. beta=-0.340, $p < 0.001$ respectively). Thus, hypothesis 1 is partially supported.

The effects of PCB elements alone on job satisfaction are shown in Model 2. Similarly, Good employment relationships (std. beta=-0.184, $p < 0.05$), and work content (std. beta=-0.290, $p < 0.001$) are strongly related to job satisfaction. So, hypothesis 2 is also partially supported.

Following the procedures suggested by Baron and Kenny (1986), the role of job satisfaction in the equation is then analyzed by regressing both PCB dimensions and JS on OC (Model 3). Compared to Model 1, the incremental

change in adjusted R-squared is significant and large (23,7%, $p < 0.001$). This implies that job satisfaction has a strong direct effect on OC (std. beta=0.581, $p < 0.001$). Model 3 also shows that the good employment relationships effect on OC, is non-existent due to the mediation effect, compared with its direct effect described in Model 1. In particular, the association of good employment relationships with OC is fully mediated by job satisfaction, because they are no longer significant when the effect of satisfaction is included at the last model. The relationship of work itself with OC is partially mediated by satisfaction, because the strength of this relationship has been deteriorated at the presence of job satisfaction. Regarding control variables, only tenure is statistically associated with OC. Thus, hypothesis 3 is partially supported.

Table 2. Results of mediated refression analysis.

	OC ^a	JS ^a	OC ^a
	(model 1)	(model 2)	(model 3)
BNF	-0.013	0.016	0.023
PAY	-0.010	-0.147	-0.075
OPP	-0.065	-0.130	-0.010
WRK	-0.340***	-0.290***	-0.171*
RES	-0.049	-0.141	-0.033
EMP	-0.192*	-0.184*	-0.085
JS	-	-	0.581***
<i>Control variables</i>			
Gender	-0.033	-0.030	-0.016
Age	0.066	0.145	-0.018
Education	-0.047	0.043	-0.071
Tenure	0.143	-0.021	0.155*
Karditsa	0.062	0.056	0.030
Trikala	0.035	0.098	-0.022
Adjusted R-square	0.344***	0.293***	0.581***

^a Standardized beta, Significant at * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

4. Discussion

Building on the social exchange and equity theories, this paper have shed light upon the association between PCB, JS and OC. Drawing from a sample of 262 bank employees, the strong negative impact between specific PCB aspects on JS and OC was confirmed. Furthermore, the mediating role of JS on the association between specific PCB aspects and OC was verified, elevating the importance of their role in the organizational context of the banking sector.

Psychological contract is tightly associated to employee's commitment, since his/her beliefs regarding his/her employment relationship affect his/her identification with and attachment to the organization (Rousseau, 1989; Conway & Briner, 2005). Positive perceptions regarding employees' psychological contract seem to yield more satisfied workers especially with positive evaluations about their relationships and their work content, leading, in turn, to more committed ones who are willingly engaged in extra-role behaviours and tasks which strengthen their bond with the organization.

In particular, our findings highlight the dominant role of work itself as a PCB component, which refers to high responsibilities, high autonomy, challenges and interests attached to the job. In addition, good employment relationships reflecting job security, quality of work conditions, and treatment with respect and fairness are also strong predictors of both JS and OC.

These results contribute to the extant literature by adopting composite measures and extend previous studies conclusions detecting the negative impact of specific PCB dimensions on work related outcomes in the contemporary organizational context (e.g. Lester *et al*, 2002). Moreover, this study provides supporting evidence for the mediating role of JS on the relationship between PCB and OC.

In an era of financial crisis, mergers and acquisitions prevail in the banking sector and as a possible result job security deteriorates, job uncertainty increases, and quality of work conditions aggravate. Thus, organizations are obliged to rethink, re-evaluate and revise their view regarding their exchange relationship with their employees as reflected on their psychological contract.

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