

## **Impact of Psychological Contract on Employee Outcomes of Job Satisfaction and Organizational Commitment: Evidence from a Leading Apparel Manufacturing Company in Sri Lanka**

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### **Abstract**

*The purpose of this study is to examine the impact of psychological contract on employee outcomes of job satisfaction and organizational commitment in a leading apparel company. Companies that invest more effort in achieving higher level psychological contract between their employees, employer and organization have satisfied and committed employees. The research design is descriptive in nature. A simple random sampling has been used to select the sample. The participant in the study was 50 executive level employees in a leading apparel company in Sri Lanka. Standard questionnaire is distributed to collect data. Based on the analysis, researcher identified that there is a strong positive relationship between psychological contract and employee outcomes of job satisfaction and organizational commitment. As well as based on findings researchers established that there is a significant impact of psychological contract and employee outcomes of job satisfaction and organizational commitment.*

**Keywords:** *Job Satisfaction, Organizational Commitment, Psychological Contract*

### **1. Introduction**

Psychological contact is a useful concept in today's work places. It used to understand employees' relationships with their employers (Turnley & Feldman, 2000). The psychological contract is defined as the "implicit and explicit promises two parties' makes to one another" (Rousseau & Tijoriwala, 1998). Good HR practices directly impacy to positive employee outcomes

such as commitment to the company, trust in management, higher levels of cooperation, higher level of job satisfaction, higher levels of effort and involvement, and a lower inclination for employees to leave the company (Collins, Ericksen, & Allen, 2005).

According to Kaliski (2007) job satisfaction further implies enthusiasm and happiness with one's work and it is the key ingredient that leads to recognition, income, promotion and achievement of other goals that lead to a feeling fulfillment.

According to Balfour and Wechsler (1996) employee commitment is defined as an employee's desire to remain with the organization (Saiyadain, 2003).

Effective psychological contract helps to improve the job satisfaction of employees. Many scholars have to investigate the psychological contract on job satisfaction during the last few decades. According to Ballou (2013), breaching psychological contract is adversely affect to job performance and job satisfaction of employees and their commitment. Yalabik (2014) has also identified that, there is an impact of psychological contract on employee outcome such as job satisfaction and employee commitment. Further it has been stated that, breaching psychological contract adversely effect on job performance, job satisfaction, employee commitment, etc. Therefore in today most of the organizations try to maintain good psychological contract between the organization and the employee.

Therefore, the current study is focused in identifying the impact of psychological contract on job satisfaction organizational commitment of the leading apparel company in Sri Lanka.

## **2. Research Problem**

According to Turnley, Bolino, Lesterand and Bloodgood (2003), Psychological contract breach is negatively related to job satisfaction. Coyle-Shapiro (2002) stated that when the organization fulfills its promised obligations, employees may be motivated and engaged in discretionary behaviors, including increased effort and organizational citizenship. As per Robinson and Rousseau (1994), psychological contract violations affect to employees those who have high levels of trust or commitment to the company. Job satisfaction is a useful outcome in psychological contract due

to its strong links with other attitudinal and behavioral outcomes such as commitment and job performance has been linked more strongly with contract fulfillment than obligation or breach (Lambert, Edwards & Cable, 2003). Consequently identified problem is “*What is the impact of psychological contract on employee outcomes of job satisfaction and organizational commitment?*”

### **3. Research Objectives**

General objective of this research is to examine the impact of psychological contract on employee outcomes of a leading apparel manufacturing company in Sri Lanka. On that general objective, specific objectives are established as follows.

1. To identify the impact of psychological contract on job satisfaction
2. To identify the impact of psychological contract on employee commitment

### **4. Literature Review**

#### ***4.1 Psychological Contract***

In recent years, the concept of psychological contract has achieved considerable prominence as it advances our understanding of employees' attitudes and behaviors in the contemporary time (Coyle –Shapiro & Kessler, 2000). According to Aggarwal and Bhargava (2009), psychological contract refers to the relationship between employee and employer in terms of the unwritten expectations that exists (Rousseau, 1989). Further, Rousseau (1989) has identified that, Psychological Contract can be classified into four categories as transitional, transactional, balance and relational contracts. Transitional contract is a passing phase of relationship between the two parties reflecting the absence of commitment regarding further employment. Transactional psychological contract indicates obligations that may be considered to be “economic” in nature. Relational contracts involve long term obligations based upon trust and are concerned with personal, socio-emotional as well as economic resources. Balance psychological contract

refers, contain of both transactional and relational dimensions (Rousseau, 1989).

#### ***4.2 Job Satisfaction***

Job satisfaction is an important attribute that organizations desire of their staff (Oshagbemi, 2003). However dissatisfied employees are prone absenteeism and excessive turnover (Chen, Yang, Shiau and Wang (2006) it is also noted that, job satisfaction improves work performance, productivity and enhance commitment. Rizwan, Khan, Tariq, Ghaffar (2012) has defined Job satisfaction as the feelings and thoughts of employees about their work or place of work. Bodur (2002) stated that there are some factors related to job satisfaction that is work substances, age, sex, educational level, psychological contract, work place environment etc. Brikend (2011) studied job satisfaction and found that job satisfaction is under the influence of series of factors such as the nature of work, salary, advancement opportunities, management, psychological contract, work group and work conditions.

#### ***4.3 Organizational Commitment***

Meyer and Allen (1996) emphasized that organizational commitment reflects the psychological status between employees and organizations. It implies that the employee determinations of whether to stay or not stay in organization and it contains three dimensions: affective commitment which describes employees' willingness to stay in organization as their affection to organization. Normative commitment reflecting employee commitment to stay in organization as their sense of social responsibility and obligation and continuance commitment which reflect employee commitment to stay in organization based on utilitarian consideration. According to Meyers and Allen (1996), organizational commitment is the employees' psychological perception of the relationship between individuals and organizations and it reflects employee psychological status of been loyal to the organization.

#### ***4.4 Effects of psychological contract on job satisfaction***

According to Armstrong (2006), Job satisfaction refers to the attitude and feelings people have about their work. Positive and favorable attitudes towards the job indicate job satisfaction and negative and unfavorable attitudes towards the job indicate job dissatisfaction. According to Hoppock (1935, as cited in Jam & Fathima, 2006)), there is a strong relationship between worker's emotional adjustment (psychological contract) and levels

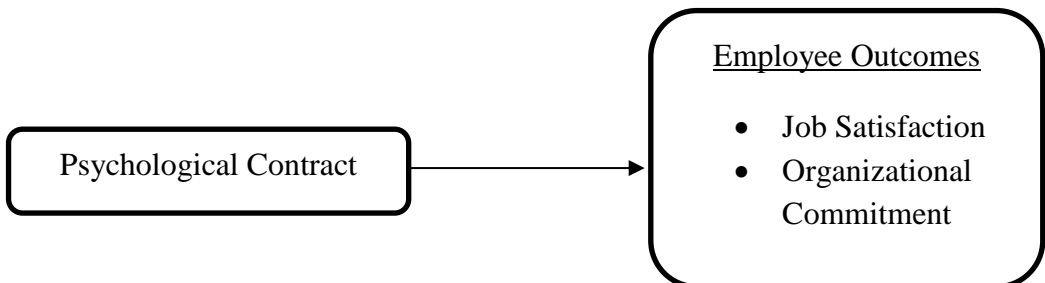
of job satisfaction. Furthermore violation of the transactional obligations such as pay, benefits and promotions of the psychological contract result in decrease in job satisfaction (Anderson & Schalk, 1998).

#### ***4.5 Effects of psychological contract on organizational commitment***

Psychological contract reflects the beliefs system of employees to mutual responsibility and obligation between individuals and organizations. It involves bidirectional relationship which reflects employees' belief to taking responsibilities and the organization taking responsibilities (Casser & Briner, 2011). According to the study conducted by Lou and Yo (2013), psychological contract has a significant impact on organizational commitment. Furthermore employees whom the organization should value the most were most affected by the psychological contract violation (Robinson & Rousseau, 1994).

### **5. Conceptual Framework**

In this study, psychological contract has been considered as the independent variable and the employee outcomes of job satisfaction and organizational commitment have been considered as the dependent variables.



**Figure 01: Conceptual Framework**

*Source: Authors*

## **6. Hypotheses**

**H1:** There is a significant impact of psychological contract on Job Satisfaction

**H2:** There is significant impact of Psychological contract on Organizational Commitment

## **7. Methodology**

### **7.1 Sampling Method**

Simple random sampling method is the technique used by the researchers as sampling method to provide equal opportunities to the population of the sample. Here the sample consists of fifty (50) executive level employees in a leading apparel manufacturing company in Sri Lanka out of 70 employees (population). Sample has been collected from three departments of the company which include marketing, business development unit and merchandising which consists with four levels of employees such as, Merchandiser, Manager, Business development associate and Bank associate.

### **7.2 Method of Data collection**

Primary and secondary data collection methods have been employed in the study. Primary data has been gathered by using a structured questionnaire while through internet, journal articles, text books & publications, secondary data has been collected. The questionnaire consists 48 close ended questions. Researchers used standard questionnaires. The strength of psychological contract was measured by the questionnaire developed by Harold Andrew Patrick (Patrick, 2008). The instrument used to measure job satisfaction is the Job Satisfaction Survey designed by Paul E. Specter (Specter, 1994, as cited in Amburgey, 2005) Employee commitment was measured by the 10-item Employee commitment Questionnaire (OCQ) (Porter et al., 1974, as cited in Luthan, 1998). Five point Likert- scale was used to score the responses.

### **7.3 Data Analysis**

Quantitative method was used to analyze data. The researchers used some statistical tools such as, mean, median, mode & standard deviation,

regression, Pearson correlation coefficient to analyse data and SPSS package version 20.

## 8. Findings and Discussion

### 8.1 Sample Profile

**Table 1: Sample Description**

Factor	Majority	Frequency	Percentage
Gender	Female	26	52.0%
Age	25-29	21	42.0%
Education	Professional	27	54.0%
Experience	2-5 years	16	32.0%
Job position	Merchandiser	22	44.0%
Department	Marketing	30	40.0%

*Source: Survey Data*

In this sample majority respondents are female (52%) in age the age category of 25-29 years. 54% of the respondents have professional qualifications and 32% of the sample have 2-5 years working experience. 44% respondents held Merchandiser position and majority of the respondents (40%) respondents are from the Marketing department.

### 8.2 Reliability Statistics

**Table 2: Reliability**

Construct/Variable	Cronbach Alpha	No of Items
Psychological Contract	.854	23
Job Satisfaction	.811	18
Organizational Commitment	.850	07
Overall Questionnaire	.934	48

*Source: Survey Data*

Overall reliability of the questionnaire is 0.9 (Cronbach Alpha Value). Hence, it could be noted that the data are reliable to study.

### ***8.3 Descriptive Statistics***

**Table 3: Descriptive Statistics**

<b>Measure</b>	<b>Strength of Psychological Contract</b>	<b>Job Satisfaction</b>	<b>Organizational Commitment</b>
Mean	4.17	4.05	4.30
Median	4.26	4.17	4.36
Mode	3.91	4.17	4.00
SD	0.35	0.37	0.47
Skewness	-0.56	-0.91	-0.48
Kurtosis	-0.38	1.58	-0.48

*Source: Survey Data*

The mean value of Psychological Contract is 4.17. Therefore the strength of psychological contract is “High”. According to that the mean value of job satisfaction is 4.05 and Std. Deviation is 0.37. Therefore the motivation employee job satisfaction is “High” and also the mean value of Organizational commitment is 4.3 and Std. Deviation is 0.4937. Therefore organizational commitment is “High” in this organization. The data of the present study shows that the statistical values of skewness and kurtosis are between +2 and -0.91. According to Kline (2005) skewness and kurtosis are between +2 and -2, the data is normally distributed on the 0.05 level. So, in this study the data has been distributed properly.

### ***8.4 Regression Analysis***

Following table 4 and 5 depicts the regression analysis of the study.

**Table 4: Impact of Psychological Contract on Job Satisfaction**

<b>Variable</b>	<b>Impact of Psychological Contract on Job Satisfaction</b>
R Square	0.734
Adjusted R Square	0.729
F	132.57
Significance	0.000
B- Constant	0.308
Standardize Beta	0.857

*Source: Survey Data*

According to table 4, R square which is the explained variance is 0.734 at a significant level of 0.0. This suggests that the influence of psychological contract on job satisfaction is significant. This result means that 73% variance (R square) in job satisfaction is explained by the independent variable psychological contract. Therefore, H1 is accepted.

**Table 5: Impact of psychological contract on Organizational Commitment**

<b>Variable</b>	<b>Impact of Psychological Contract on Organizational Commitment</b>
R Square	0.872
Adjusted R Square	0.869
F	326.28
Significance	0.000
B- Constant	0.864
Standardize Beta	0.934

*Source: Survey Data*

According to table 5, R square which is the explained variance is 0.872 at a significant level of 0.0. This suggests that the influence of psychological contract on organizational commitment is significant. This result means that 87% variance (R square) in organizational commitment is explained by the independent variable psychological contract. Therefore H2 is accepted.

### 8.5 Correlation Analysis

Using the Pearson Correlation with two-tailed test of significance, the Correlation analysis was made to investigate the associations between psychological contract and employee outcome of job satisfaction and organizational commitment.

**Table 6: Correlations among Variables**

	<b>Psychological Contract</b>	<b>Job Satisfaction</b>	<b>Organizational Commitment</b>
<b>Psychological Contract</b>	1	.857**	.934**
<b>Job Satisfaction</b>	.857**	1	.837**
<b>Organizational Commitment</b>	.934**	.837**	1

*Source: Survey Data*

**Notes:**

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

According to the table it is noted that psychological contract is positively and strongly correlated ( $r = .857, p < 0.05$ ) with job satisfaction. As well as there is positive and strong relationship between psychological contract and organizational commitment ( $r = .934, p < 0.05$ ).

### 9. Conclusion

The purpose of this research is to identify the impact of psychological contract on employee outcomes of job satisfaction and organizational commitment. To achieve that purpose the researcher selected executive level employees in one of a leading apparel manufacturing company in Sri Lanka. Because of time limitation and convince, this study is limit to executive level employees in only one branch of the leading appeal company. A well-structured questionnaire was employed to gather data from a sample of fifty executive level employees. According to the regression analysis, there is a 76% impact of psychological contract on job satisfaction and 87% impact of psychological contract on organizational commitment.

Further, according to the correlation analysis there is significant relationship between psychological contract and the employees' outcomes in the form of job satisfaction and organizational commitment and it has strong positive relationship. Hence, it could be concluded that having a better psychological contract between the employees and the organization enables to obtain positive employee outcomes in the form of job satisfaction and organizational commitment.

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