

**Moderating Role of Conflicts on Psychological  
Contracts Leading Towards Breach: Impact on  
Satisfaction, Trust and Commitment**

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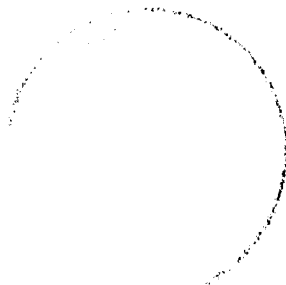
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Contracts Leading Towards Breach: Impact on  
Satisfaction, Trust and Commitment**

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A thesis submitted in partial fulfillment of the requirements for the Degree of Master of  
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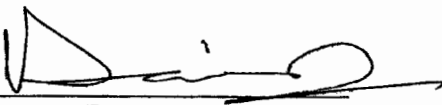
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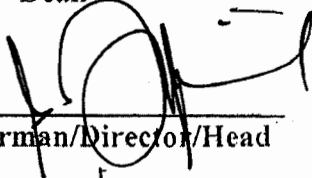
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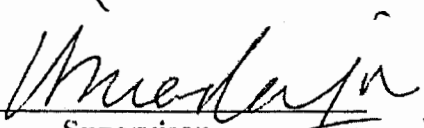
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## **DEDICATION**

I dedicate this thesis to my parents, who have always been there for me, and have never doubted my dreams, no matter how crazy they might be. I also dedicate this to my friend Mahwish who's my inspiration in everything I do. Also to anyone who finds himself at a place in life where the question of why seems unanswerable, you are not alone.

## ABSTRACT

Although psychological contracts have been studied in relation to various personal and organizational outcomes by many researchers, there is still much to be studied about the relation of psychological contracts with interpersonal conflicts. An area worth consideration is the integration of conflict into the empirical models to improve the predictive ability of psychological contracts in explanation of outcomes.

This research examined the combined effects of interpersonal conflicts (relationship conflict, task conflict) and psychological contracts on breach and various personal outcomes. The moderating impact of conflicts is inspected in two different models. One model predicts the perception of breach as mediating variable in the relationship of psychological contract and outcomes while conflicts moderate the relationship between psychological contract and breach. The other model presents conflicts as moderating variables on the relationship of psychological contract and various personal outcomes.

The results support many hypotheses suggesting association of psychological contract type with perception of breach, commitment, satisfaction and commitment. Conflicts tended to moderate the relationship between relational contract and trust. They also moderate the relationship between transactional contract and satisfaction and commitment.

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## DECLARATION

I hereby declare that this thesis, neither as a whole nor as a part thereof, has been copied out from any source. It is further declared that I have prepared this thesis entirely on the basis of my personal effort made under the sincere guidance of my supervisor.

No portion of the work, presented in this thesis, has been submitted in support of any application for any degree or qualification of this or any other university or institute of learning.

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## CHAPTER 1

### 1. INTRODUCTION

Restructuring and downsizing have become recent trend and major source of organizational change in order to attain efficiency and effectiveness (Morrison, 1994). Organizations keep on managing, resettling or re-bargaining and changing the terms of employment relationship. These frequent changes make the employees' relationship with their organization quite ambiguous and unclear (Pate, Martin, & McGoldrick, 2003). Employees are unclear about their obligations to their organization and organization's obligation to the employees. The reason behind is that because of turbulent and dynamic environment the traditional guarantee and promise of job security and stable rewards are no longer present. Employees do not perceive their loyalty and hard work to be beneficial and fruitful anymore. Similarly these turbulent circumstances and uncertainty create difficulties for employers as well. They are unable to fulfill all the obligations and promises made to their employees. Consequently, these unfulfilled expectations and obligations have a profound effect on employees' psychological contracts (Raja, Johns, & Ntalianis, 2004)

Psychological contracts refer to the expectations and perceptions about the obligations in employment exchange relationship. It is an individual's beliefs on the subject of provisions and requisites of the reciprocal relationship between that person and organization. A psychological contract is formed when one of the parties believes that an assurance for a future benefit is made e.g. promotion, a payment in terms of involvement and contribution.



Because of restructuring and downsizing, majority of the employees have the cognition that their employer has not fulfilled the terms of employment relationship (Robinson, Kraatz, & Rousseau, 1994) and therefore they reduce their contributions towards their organization. In such circumstances, psychological contracts have gained increasing importance in literature. They are of central focus in employment exchange relationships. Psychological contracts are important because they are related to majority of employee and organizational outcomes. For example long term psychological contracts have a strong positive relationship with employee satisfaction, trust, commitment, loyalty and extra role behavior (Morrison, & Robinson, 1996; Robinson, & Rousseau, 1994). More satisfied and committed employees give enhanced productivity and increased performance which is the major goal of the organizations. But these desired outcomes can come under threat when the psychological contract is hurt. Employee's contract may shift from relational to the transactional side. A transition in psychological contract to the transactional side may be disparaging for organizations and it can lead to a decrease in outcomes. That is why it is very crucial for the organizations to manage the psychological contracts well in time to bring the employee behaviors to the desired level.

Conflict is one of the threats faced by psychological contracts these days. Where there are people coming in contact, conflict is there. Conflict management is so vital for organizational and career success that every individual (employee or employer) must learn the skills for effectively managing conflict in today's workforce. It is important for the individuals to develop skills to efficiently deal with conflicts in a diversity of workplace situations as the conflict is a natural result of human interaction (Rahim,

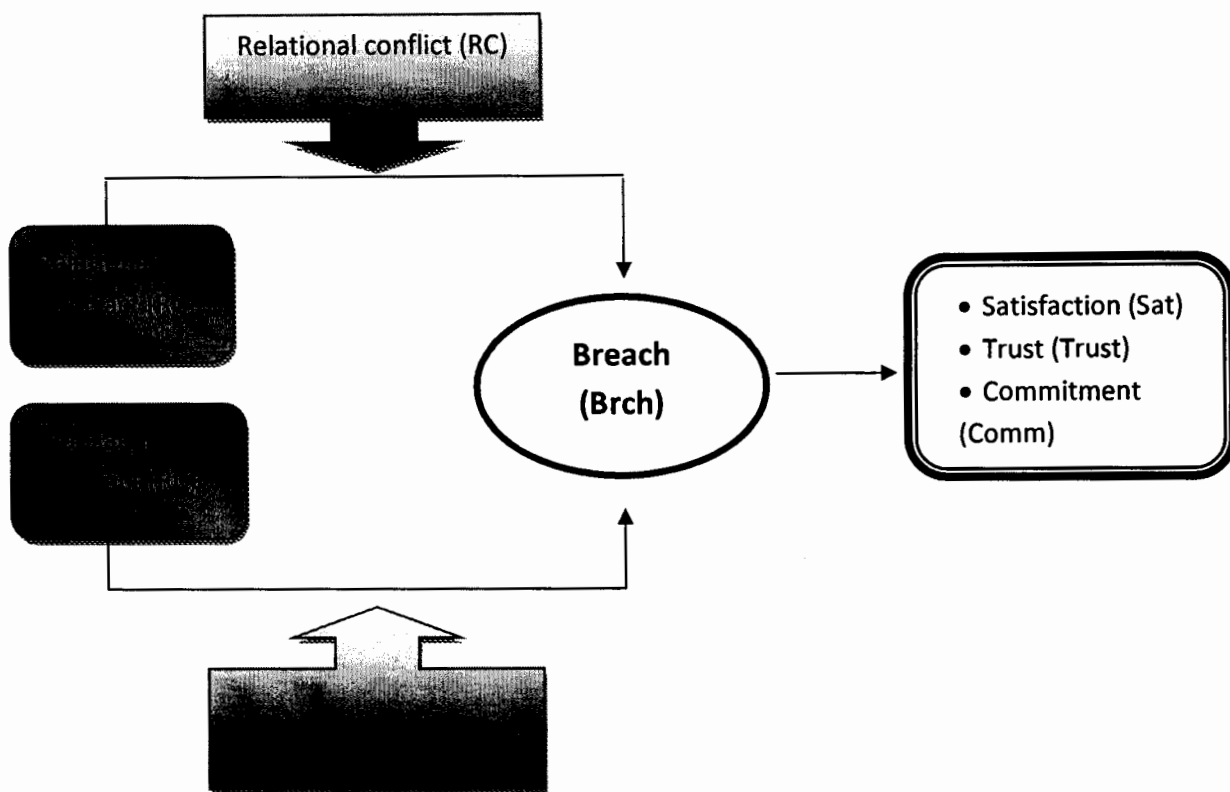
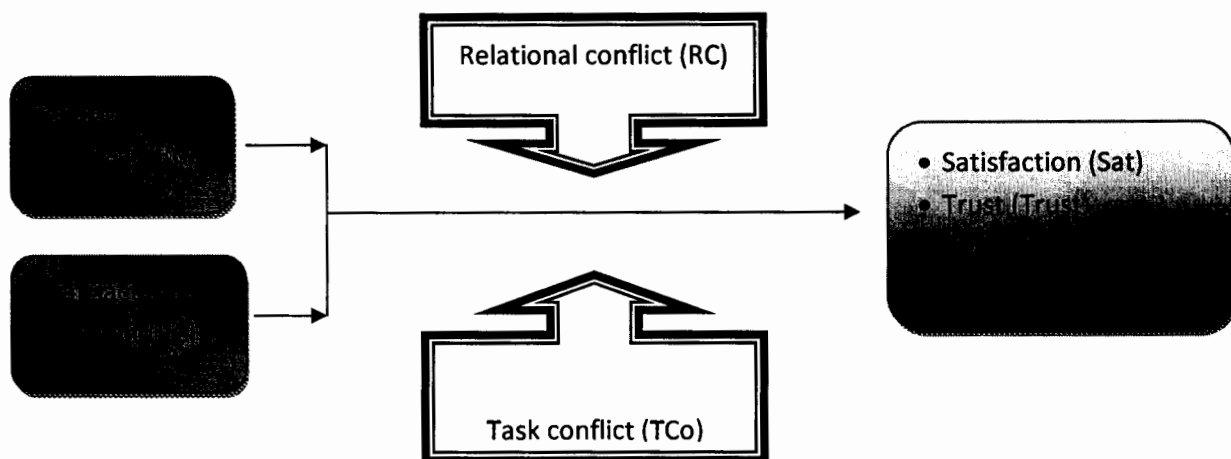
Magner, & Shapiro, 1997). It is a phenomenon to be seen everywhere with interdependencies between people. While talking about organizations, conflicts pervade a huge number of organizational procedures and results. They are omnipresent and very important to be resolved or managed well in time (Barki, & Hartwick, 2001). Conflict management has drawn amplified interest of researchers and scholars in the fields of psychology and organizational behavior. A conflict, unnoticed by the management, may lead to decrease in employees' satisfaction, commitment and overall contributions. Employees may reduce their contributions because they might perceive they are not valued by their managers and their contributions are not taken care of. Such kind of situations may play the role of a catalyst in the breach of a psychological contract. The probability for the perception of contract breach may increase if some conflict is present. Presence of unmanaged conflicts can also increase the likelihood of employee's dissatisfaction and harm to trust and commitment. But this impact has never been studied before. This paper is focused primarily on the conflicts and psychological contracts i.e. how conflicts can accelerate the breach of psychological contracts. Another very interesting relation which will be the focus of this research is the moderating impact of conflicts on the relationship of psychological contracts and outcomes i.e. satisfaction, trust and commitment.

Drawing from three areas of literature, psychological contracts, conflict and behavioral outcomes, I have developed two conceptual models showing the moderating impact of different conflict types on psychological contracts. Mediating impact of breach on the relationship of psychological contracts and outcomes is discussed. Moderating impact of conflicts is studied in two different models. Using same variables, two different

models have been tested presenting very interesting hypothesis. Literature on psychological contracts is presented, then on conflict and in the next section hypotheses are given proposing a relationship between conflicts, psychological contracts and employee behavioral outcomes.

As conflicts are due to diverging interests, every conflict evokes a concern (Bell, & Song, 2005). For example relationship conflict's concern is relationship, task conflict's orientation is the completion of task and process conflict's concern is related to authority and resources. Every employee having a relational or transactional contract has a specific orientation as well. The main focus of relational contract is long term relationship while transactional contract's focus is monetary rewards. According to Jehn (1995), relationship conflict is characterized by stronger emotional hurt as compared to task or process conflicts. Therefore relationship conflict, as compared to other two types of conflicts will lead to more severe and hostile reactions. Relationship conflict may have the potential to harm the relational contract of the employee. Similarly task based conflict may have the potential to harm transactional contract.

Building on this notion, I argue that depending on the type of contract, a conflict having a similar concern as of psychological contract will facilitate the breach of that contract. Relationship conflict will moderate the relationship of relational contract while task conflict will moderate the relationship of transactional contract with breach or outcomes. Following models give a summary of my thesis.

**MODEL 1****MODEL 2**

## CHAPTER 2

### 2. LITERATURE REVIEW

#### 2.1. Psychological Contracts

Formal contracts are referred to certain guarantees for future benefits. Contracts are very important element of an employee's relationship with the organization. Employees contribute more to the organization because they are given the guarantee of future benefits and incentives. Relationships do not last longer without these promises. No one is ready to make contributions unless the assurance of future reciprocal payments is given. Psychological contracts, on the other hand, based on social exchange theory, entail the expectations and perceptions about the employment exchange relationship (Rousseau, 1989). More specifically, psychological contract is a blend of beliefs and expectations held by employees about the obligations of each party and their expectations for certain entitlements in the exchange relationship (Fryxell & Gordon, 1978). Psychological contracts are the perceptions of guarantees for future benefits in exchange for certain contributions by the involved parties. Psychological contract surfaces when one party makes some contribution and believes that a promise for future return has been made e.g. pay for performance or promotion etc (Robinson, & Rousseau, 1994). Psychological contracts are not written like the other contracts and agreements. They are perceptual and the parties believe that they are entitled to a future benefit as they have made certain contributions in the relationship.

Psychological contracts are perceptual and idiosyncratic. Their idiosyncratic nature implies that the beliefs may not be shared by the other party e.g. the agents of the

organization i.e. supervisors or managers (Morrison, & Robinson, 1997). An obligation perceived by an employee may not be perceived by the organizational agents. They might perceive a different set of obligations on the part of organization. Secondly they are based on the perceived promises. These promises may be conveyed through organizational policies and practices, any written document or writing and discussions. This feature shows that these promises may be perceived through any explicit or implicit ways (Rousseau, 1989). Psychological contracts dictate beliefs about what employees' believe they are allowed to receive or should receive because they perceive that their employer express promises to offer those things. The idiosyncratic and perceptual nature of psychological contracts creates differences in the agreement on both sides. Both parties are likely to have somewhat differing and unique beliefs regarding the obligations of each other.

Psychological contract ties up the bond between the employee and employer. It spells out all the convictions about the guaranteed obligations and duties. It specifies certain desirable and acceptable behaviors and standards of culture as well (Rousseau, 1989; Yan, Zhu, & Hall, 2002). Psychological contracts create expectations but sense of obligation as well, that is why it is said to be reciprocal or give and take exchange. The process of exchange is based on the norms of reciprocity, where people give back the benefits received in such a way that creates a cycle. When the benefits will be received, a sense of obligation will originate which in turn generates the provision of benefits and so on (Dulac, Shapiro, Henderson, & Wayne, 2008).

The exchanges are of two types; social exchange and economic exchange. Economic exchange highlights more financial and concrete exchanges by the both

parties while social exchange encompasses the socio emotional features of the barter between two parties (Shapiro, 2002). On the basis of two types of exchanges, two types of psychological contracts are studied and agreed upon by the researchers; Transactional and Relational psychological contracts. Transactional contracts have a sole focus on economic exchange (financial and materialistic), short term association or attachment and are specific. Perceived terms of employment are expected to be calculative and influential with imperfect reciprocity, focusing more on beliefs about remuneration and rewards. They focus more on distributive outcomes and identify and integrate less with their organization (Saunders, & Thornhill, 2006).

Relational contracts go beyond financial exchanges and emphasize on broad expectations of trust and faithfulness in return of job security and growth in the organization (Raja et al., 2004; Yan, Zhu, & Hall, 2002; Shapiro, 2002; Morrison, & Robinson, 1997). The relational contract is expected to develop and grow over time as affiliation builds over time between employee and employer entailing support and affinity between them. Perceived conditions of the contract are expected to be more than monetary, having beliefs about support from the organization. Over the time, fair play and justice are acknowledged resulting in the beliefs being more prominent (Saunders, & Thornhill, 2006).

## **2.2. Contracts and Outcomes**

Satisfaction, commitment and trust are mostly studied as dependant variables in psychological contract literature. Psychological contract and its fulfillment were related to several employee responses, including in-role and extra-role performance, trust, satisfaction, and intention to remain with the organization. (Hui, Lee, & Rousseau,

2004). When terms of psychological contract are fulfilled, employees sense cognition of more job satisfaction, intent to stay with the organization or commitment and trust in the employer (Ho, 2005). But when employees' expectations are not fulfilled they show poor performance, get involved in searching jobs and reduce constructive behaviors within organization (Robinson, & Morrison, 1995; Ho, 2005).

### **2.3. Trust**

Trust is referred to as people's expectations, suppositions, faith and beliefs about the probability that another's future intents will not harm one's interest (Robinson, 1996). In simple words trust is a belief that other party will not take advantage of one's vulnerability (McAllister, 1995). A very important definition of trust is presented by Zaheer, McEvily and Perrone, (1998). According to them trust is the belief that a person can be relied on for the fulfillment of obligations, his behavior can be forecasted and will behave fairly whenever there's an opportunity to take advantage.

Trust is very important guiding people's behavior by interpreting other's in the relationships. Coordination, support and understanding within integrated systems of organizations are very important to be efficient and it is achieved only in the case when interdependent people support each other. Trust between these people is an important factor to determine the support. The most important feature for the efficiency of any relationship is that trust reduces the tendency to protect and defend against opportunistic behavior (Zaheer et al., 1998). Under high quality social exchange relationships trust will be high and individuals are less likely to keep an eye or watch other party's behavior. Or employees having a relational contract will be less vigilant and will not



monitor organization's actions. People are less vigilant believing other party will not take advantage but the truth about a person whom we trust will be harsh as compared to the people we don't trust (Zaheer et al., 1998). Interpersonal trust is an all-encompassing phenomenon in organizations given huge importance. This is trust which lets people to take risks while expecting that being vulnerable to others will not harm them because other will not exploit their vulnerability. Trust gives rise to expectation that one will get what he expects rather than what he fears (McAllister, 1995).

Growth of trust over time is similar to social exchange relationships. Relationships tend to grow over time with steady and continuing addition of more elements of a high quality relationship. At initial stages, risks are very low regarding other party's truthfulness, dependability and behavior. Continuous and repeated social interactions lead the information regarding each other being updated over time. This leads to the addition in the confidence regarding each other's trustworthiness (Zaheer et al., 1998). The increased confidence reduces the need for immediate answer for reward. Employees are confident that the promises will be privileged at some point in future. Psychological contracts impact employee behavior through the construction of trust which induces rules of reciprocity. These norms in turn make it essential for both parties to contribute in the relationship (Robinson, & Rousseau, 1994). When rules and conventions of a relationship are broken, trust declines. When a supervisor deviates from basic rules such as fair play and faith in the relationship with employees, trust falls (Robinson, & Rousseau, 1994).

There are many foundations on which trust stands in social relationships e.g. faith about the other's honesty, intentions, behavioral stability and candidness. Broken

promises can weaken each of these foundations. If employer reneges on an obligation, his honesty comes under doubt. Broken promises also question the intentions of other party. This also leads to the future intentions and actions to be questioned. According to Robinson and Morrison (1995) when employee has a feeling that the employer or supervisor has failed to fulfill an obligation, it weakens the belief in other party and ultimately weakens the trust. That is how unfulfilled promises lead to decrease employee trust. The perception of breach, whether just perceived or actual, has been found to have a negative impact on employee trust (Robinson, & Morrison, 2000).

As a basic social construct, trust is basic component of any relationship and psychological contracts. Psychological contracts have almost always been studied in relation with trust (Simons, 2002; Shappiro, 2002; Robinson et al., 1994) and have a strong association with trust. These researches show that employees having relational contracts have more trusting relationship with their supervisor. Long term social exchanges in relational contracts lead to deep rooted trust. While due to more economical focus in transactional contracts, trust level is low.

#### **2.4. Satisfaction**

Job satisfaction is constructive feeling, or a pleasurable emotional condition originating from evaluation of one's job practices (Locke, 1976). Job satisfaction comes out from the cognition that one's values, needs and beliefs are being fulfilled while being on this job (Locke, 1976). Satisfaction is more leaning towards present and past experiences on the job. An individual's current perceptions about a work environment are dependent on his expectations and his attainment. Similarly his affective reactions depend on the discrepancy between what he attains and what he expects. When

employees perceive a discrepancy, it may lead to a decrease in job satisfaction. When employer reneges on obligation and fails to fulfill obligations and promises, it may become one of the important sources of reduction in job satisfaction (Robinson, & Rousseau, 1994). Under these circumstances employee may be no more motivated to perform efficiently and gain satisfaction out of it. Employer reneging leads to employee cognition that employer further promises can not be relied on.

Job satisfaction has been found to have positive relation with relational type of psychological contracts (Cavanaugh, & Raymond, 1999; Robinson, & Rousseau, 1994). Employees with relational contracts would be more satisfied with their job as compared to those having transactional contracts.

## **2.5. Commitment**

Commitment is a psychological position and mind set that adds to the probability that an employee will continue his relationship with the organization (Hercovitch, & Meyer, 2002; Reichers, 1985). It is an employee's desire to remain with the organization and the extent to which one identifies with the objectives and principles of the organization (Balfour, & Wechsler, 1996). The desire to remain with the organization leads a reduction in turnover. Organizational commitment also referred to as occupational commitment, results in primary outcomes in terms of retention on the job (Hercovitch, & Meyer, 2002). Commitment is related with psychological contracts (Shapiro, 2002).

According to exchange theory based on the principle of reciprocity, people will tend to return proportionately with what they feel they are given or not given by their organization. That is why a failure on the part of employer to fulfill obligations will lead

employees to behave negatively. One of these negative outcomes will be reduced commitment.

People give huge importance to relationships because these relations give them opportunity to feel recognized, appreciated and esteemed. These relationships make them feel worth and identity. In return for the value given to the relationships, people expect to be treated fairly. Fair play signifies the people being taken care and treated in a distinguished and respectful manner. Perceived fairness would lead to an increase in the commitment to the organization. As the tenure of the employees increases, investments in terms of loyalty and extra role behavior increase leading to a raise in the commitment of the employees. Unfulfilled promises and obligations on the part of employer lead to negative effect on commitment of the employee (Taylor, Audia, & Gupta, 1996). Although commitment is beneficial, it has draw backs and risks as well. Increased commitment makes the employees perceive it to be an obligation for the employer to deal the employees favorably and fairly. People with high commitment would show a sharp decline in commitment, in case of an unfair dealing (Brockner, Tyler & Cooper-Schneider, 1992). The notion of sharp decline in commitment of the people having high commitment is akin to psychological contract literature as well. Over the time, people develop a feeling of perceived obligations on the part of their employer in return for the commitment with the organization. Relational elements of the contract will make them expect that they will be dealt fairly and respectfully. Commitment and intent to remain with the organization is positively related to the relational aspect of the psychological contract (Cavanaugh, & Raymond, 1999).

Transactional contracts have an unfavorable impact on job satisfaction, commitment and intentions to remain with the organization (Raja et al., 2004). Employee vigilance is also an important element of the relationship with the organization. Employees holding a transactional contract would be more vigilant (Morrison, & Robinson, 1997). They always would seek information about the current and expected future actions of the other party. More vigilance, in other words, means less trust in other party. These people tend to keep the relationship in a balance. They always expect an immediate repayment in return for a contribution. These employees expect direct and instant return for their input. Expectation for balance is also called equity sensitivity. Employees having transactional contracts are ranked high on equity sensitivity (Morrison, & Robinson, 1997; Raja et al., 2004.). Expectation for immediate compensation shows lower commitment to one's organization as the individual is committed to the extent he is getting enough and instant rewards. Balance and repayment are very critical in transactional contracts showing lack of trust and commitment to the organization.

The organizations are willing to pay for the contributions made by their employees but sometimes they are not able to fulfill their expectation due to lack of resources or any other reasons (Morrison, & Robinson, 1997). Thus employees having transactional contracts will not be satisfied with the organization. On this basis, my first hypothesis is as follows:

**Hypothesis 1.** Transactional contracts will be negatively related to organizational commitment, trust and job satisfaction.

Employees having relational kind of psychological contracts tend to focus more on long term relationship than rewards. Therefore they are willing to give up immediate extrinsic rewards from their employer. They don't expect their organization to readily translate every contribution into reward and therefore don't tend to perceive breach immediately after an unmet expectation. In order to maintain a healthy long term relationship with their organization, they would be focusing more on their contributions and efforts to show their best (Dulac et al., 2008; Raja et al., 2004). Individuals with relational contract may not perceive breach as readily as compared to those having transactional contracts. They might interpret contract breach as a result of natural circumstances. They would believe that realization of promises is postponed rather than left off. e.g. "I haven't received all that was promised, but I will, at some future point in time" (Dulac et al., 2008, p. 5).

As mentioned earlier literature supports the fact that the relational contracts lead to positive personal and organizational outcomes as compared to the transactional contracts (Morrison, & Robinson, 1997; Raja et al., 2004; Shappiro, 2002; Yan et al., 2002). Relational contracts have a strong positive and transactional contracts have a strong negative relationship with personal and organizational outcomes like satisfaction, commitment and trust (Robinson, & Rousseau, 1994; Dulac et al., 2008).

**Hypothesis 2.** Relational Contracts will be positively related to organizational commitment, trust and job satisfaction.

The cognition that one's organization has failed to fulfill promised obligations matching with one's contributions is referred to as contract breach (Raja et al., 2004). It signifies

the cognitive appraisal of the contract execution based on the perceived promises by each party to the other.

Psychological contracts are one-sided, prejudiced; dwelling in the eyes of the spectator (Robinson, & Rousseau, 1994). They are idiosyncratic (Rousseau, 1989) and self-constructed (Raja et al., 2004) and reciprocated (Rousseau, 1989; Robinson, Kraatz, & Rousseau, 1994, Shappiro, 2002). As the employee has certain expectations from his employer in terms of good financial rewards, job security and career development opportunities, employer possesses certain expectations from the employee in terms of loyalty, commitment and trust as well. When the contract is breached, a sense of discrepancy is felt between the desired obligations and expectations. Perceived breach indicates an imbalance in the exchange relationship where the employee's expected promises are not kept or fulfilled (Morrison, & Robinson, 1997).

Morrison and Robinson (1997) identified an important root on which the perception of breach can grow, is employee vigilance. Vigilance is referred as the extent to which the employee actively keeps an eye and check on how well the organization is fulfilling the conditions of psychological contract. Vigilant employees are more likely to identify instances of actual breach but also as they are always in search for such events, they are more likely to feel that the organization has failed to keep its promises even when it is not sure (Raja et al., 2004). Any discrepancy on the part of employer will make them reduce their contributions immediately. They also tend to keep an eye on the organization's actions as to maintain a balance in the exchange relationship. They would not engage in relationship with the organization which demands long term commitments on their part. That is why they would keep track of all the actions of the

organization to maintain balance at each point and are more likely to perceive breach. On the other hand, employees holding relational contract trust their organization and are characterized by less vigilance. Characterized by trust, commitment and relational aspects, relational contracts are less likely to perceive breach.

### **Hypothesis 3.**

3a: Relational contract will be negatively related to contract breach.

3b: Transactional contract will be positively related to contract breach

As argued by Robinson and Rousseau (1994) that the psychological contracts are adjusted and amended throughout the employee's occupancy in the organization. Employees have the option of altering either their own or the employer's obligations. The imbalance of expectations and perceived promises lead to certain outcomes in the organization, most of the times a shift in the psychological contract and many times employees quitting their jobs. Remaining on their jobs and continuing to work for the employer is, in itself, a big payment by the employees (Robinson, Kraatz, & Rousseau, 1994). They desire to maintain a balance between their contributions and of the employer. As argued by Robinson et al., (1994) that commitments and obligations are projected to augment with the trust that develops within growing relationships. Any discrepancy may lead to a decrease in satisfaction, commitment and trust on the part of employee. These reductions will ultimately lead to a reduction in employee contributions. On the whole, previous research puts forward that psychological contract breach is expected to have a persistent negative impact on employees' work attitudes and behaviors (Fryxell, & Gordon, 1978). Psychological contract breach has a strong negative impact on job satisfaction and their in-role and extra-role performance and



positive relation with intent to quit, and negatively related to employees' self-reports of their work attitudes (Robinson, & Rousseau, 1994). Robinson and Rousseau (1994) also found a negative relation of contract breach to employees' trust in employer, intent to remain with the organization. Employee commitment is also suggested to have a negative effect by contract breach (Robinson, & Morrison, 1995). The cognition of breach, whether just perceived or actual, has been found to have a negative impact on employee trust, satisfaction and commitment (Robinson, & Morrison, 2000) which is my fourth hypothesis.

**Hypothesis 4.** Contract breach is negatively related to organizational commitment, trust and job satisfaction.

Robinson and Morrison, (1995) argued that it is contract breach that leads the employees to subtract trust from the psychological contract. Therefore it is likely that perception of breach will lead the psychological contract towards lower satisfaction, trust and commitment. As a result of felt discrepancy and in order to maintain the balance in the social exchange relationship employees will reduce their contributions to their employer. Perceived breach is also reported to have a positive relationship with undesirable outcomes like intentions to quit or reduced commitment and actual turnover (Robinson, 1996). Contract breach is an entirely subjective experience signaling someone's feeling that the other party has failed to fulfill the promised obligations entailed in the contract (Robinson, 1996). It is an employee's feeling that breach has occurred regardless of whether it actually occurred or not and this cognition will lead the contract to a reduction in employee outcomes which is my next hypothesis.

**Hypothesis 5.**

5a: Breach will mediate the relationship between relational contract and employee outcomes (org commitment, trust, and job satisfaction)

5b: Breach will mediate the relationship between transactional contract and employee outcomes (org commitment, trust, and job satisfaction)

**2.6. Defining Conflict**

Conflict is a state of friction due to interdependence among people who have different orientation of needs, values or interests and bear intrusion by each other in fulfillment of these interests (Wilmot, & Hocker, 1998; Bell, & Song, 2005; Barki, & Hartwick 2001; Jehn, & Mannix, 2001; Rahim et al., 1997). It is the recognition of differences, mismatched aspirations or clashing wants (Jehn, & Mannix, 2001; Rahim et al., 1997). Conflict is mainly a supposed and perceived experience. It is all about the perception of individuals who conclude if a conflict is present.

An organization is a mix of humans and their emotion (Bell, & Song, 2005). Individuals bring their specific and unique traits with them in an organization. Groups, teams and units composed of people having various skills, knowledge, capabilities and viewpoints are especially helpful when coming across more of complicated and unconventional matters (Amason, 1996). Teams, groups and flatter structures are becoming more popular in organizations (Jehn, & Mannix, 2001; De Dreu, & Vianen, 2001). When people in a group, work unit or department are working together for a goal, the effectiveness of the groups depends on many factors including each individual's efforts and accomplishment of the target. It also depends on the coordinating activities between the team members to help each other, fulfillment of

obligations and requisites and sharing ideas and opinions (De Dreu, & Vianen 2001). But teams face a serious challenge of conflict to their effectiveness. Conflict among employees can impact effectiveness both positively as well as negatively. Most evident are negative outcomes which include dysfunctional behaviors such as low morale, dissatisfaction originating from anxiety and poor interpersonal relations among employees. Potential constructive outcomes may be improved creativity and decision making, innovative ideas and improved relationships through mutual understanding (Rahim et al., 1997). It can lead to enhanced creativity and new ideas when functional, while it can cause a decrease in effectiveness and other negative outcomes when dysfunctional (De Dreu, & Vianen, 2001).

Antecedents of conflict include real or perceived incompatible wishes and desires and scarce resources, emotional states could be tension or anxiety and cognitive states could be the perception of conflict (Barki, & Hartwick, 2001). Putting it another way perceptions of conflict encompass situational (interdependence), cognitive (incongruity), behavioral (intrusion), and affective (negative emotion) essentials of conflict situation. Unfair distribution of rewards or unfair evaluation can be a strong source of conflict between employees and their supervisors (Rahim et al., 1997). Justice is a matter of huge importance for all employees and that is why employees usually recognize injustice as a source of conflict.

Due to shared values in every organization, the tendency to perceive conflicts is also shared. Some organizations or even different departments within the same organization envision the conflict as harmful and bothersome while in others, conflicts are viewed as a source of opportunity (De Dreu, Dierendonck & Dukstra, 2004).

Conflict could be an easygoing divergence, disagreement, clash or a fight. Outcomes of a conflict vary ranging from hopelessness, anger, anguish to creativity, delight and fulfillment depending on the type of conflict. Conflict presents an overall zero sum state where one party takes something at the cost of another person's interest. It is just like a fixed pie when one of the conflicting parties is correct and the other is always incorrect (Barki, & Hartwick, 2001). Various conflict management strategies are adopted depending upon the situation, because working environments are usually steady and fairly conventional and are easily predictable by the employees. Every organization has a specific setting with shared values and opinions for the tasks to be done and the approach to deal with one another. These values are quite steady and stable (De Dreu et al., 2004). For example, employees come across same colleagues on daily basis and work on almost same tasks and assignments for long periods. Their working environment and incentive structures also do not transform suddenly. They have to go through similar kind of interpersonal issues frequently. Moreover, employees working together also have an influence over one another. This leads to the inference that working units have a propensity to develop a setting of conflicts.

Theory of conflict has been a focus of researchers for a long time (Jehn, 1997; De Dreu et al., 2004; Amason, 1996). It has been studied well in groups (Jehn, 1997; Amason, 1996). Researchers have perceived the outcomes of conflict to be only negative in the past. It was thought that conflict can only be destroying for the organizations and employees' satisfaction and performance (Jehn, 1997). Recent research, however, has studied the advantages of conflict and different methods to

evoke functional conflict as well (Jehn, 1997; 1994; 1995; De Dreu et al., 2004, Amason, 1996).

## **2.7. Types of conflict**

Being a reason of friction, management of conflicts has gained increasing importance over the past few years. Conflicts are thought to weaken the ability of people to work together (Amason, 1996). Therefore managers and employers, even today, consider conflict as devastatingly harmful for the employees' satisfaction and performance and want to resolve it without delay. Management of conflicts is very important as conflicts can be destructive if not tackled well in an appropriate manner.

Although research largely agrees on antecedents of conflict to be the interference in the attainment of goals, yet in many work groups it happens that individuals agree on the goals but still face conflict. They may feel trouble working together successfully even when they generally consent on goals and think they should be working together. They may be working on the same assignment, with shared interests towards the achievement and shared ideas of the ways to complete it. In simple words, they may agree on ends but still face conflict about the means (Jehn, 1997). This division of ends versus means presents a foundation for different types of conflict which can occur in organizations.

With the identification of different types of conflicts, the opinion has changed gradually. Now conflict has been shown to be multidimensional based on the orientation (Amason, 1996). That is why some conflicts are welcomed in the work environment to increase productivity while other conflict types find an aversion.

**2.7.1. Relationship Conflict.** Conflict is harmful and dysfunctional when it involves emotions and personal incongruities and clashes. It is referred to as affective or relationship conflict ( Amason, 1996). It is awareness on the part of parties involved about the interpersonal incompatibilities (Jehn, & Mannix, 2001; Tidd, McnItyre, & Friedman, 2004). This conflict is usually portrayed by resentment, annoyance and many other negative emotions (Barki, Montreal, & Hartwick,, 2004). Conflicts in the organizations occur only because emotions are not controlled (Bell, & Song, 2005) and therefore are a critical constituent of conflict that can have an effect on individual's subjective experience and reaction to conflict. Emotions can influence the individual's conflict management or resolution strategy by encouraging and influencing one towards specific behaviors. Relationship conflict has the potential to intimidate individual's personality and self-esteem (De Dreu, & Vianen, 2001). Relationship conflict is negatively related to productivity and satisfaction (Jehn, 1997,) both at groups and individual level (Tidd et al., 2004). Putting it another way, relationship conflict causes the individuals to lose focus on task related matters. They put their efforts more on interpersonal issues rather than working on the tasks and more time is wasted on such issues. Such conflict can have very damaging effects on productivity. Excessive relationship conflict has a primary effect on the productivity, decision making and satisfaction leading to poor performance (Jehn, 1995).

**2.7.2. Task conflict.** Conflicts are functional when negative feelings and inference behaviors don't follow and they are most likely to encourage creativity and problem solving through constructive discussion leading to better outcomes (Barki, Montreal, & Hartwick,, 2004; Amason, 1996). Task conflict is different in experience

from relationship conflict and results in different outcomes on employees and organization (Jehn, 1997). It is also known as cognitive conflict as this conflict type does not involve emotions and personal frictions. The perceived incompatible wishes and desires are focused mainly on what tasks need to be done in the completion of the assignments undertaken (Barki, Montreal, & Hartwick, 2004; Jehn, & Mannix, 2001, Tidd et al., 2004).

### **2.8. Moderating role of conflicts**

Both parties in an employment association possess a unique psychological contract (Robinson, & Morrison, 1995). Although beliefs in reciprocated obligations encompass a contract, two parties need not consent for each to believe a contract exists (Robinson, & Rousseau, 1994). Both parties, therefore, are likely to have different and unique beliefs about each other's obligations. Different beliefs and perceptions regarding expected obligations may give rise to perception of breach. According to Morrison and Robinson (1997) perception of unfulfilled obligations depends heavily on two grounds; Reneging and incongruence. Reneging occurs when the organizational agents are fully aware that they owe something or are obligated to their employees but could not fulfill the obligation deliberately. On the other hand, incongruence is the difference in perceptions of both parties. It occurs when both parties perceive an obligation differently. One possible reason of reneging may be a change in circumstances. Obligations were created at some other point in time but a change or reduction in resources may cause the organization to be unable to fulfill the obligation now. Reneging may also occur when organizational agents deliberately don't fulfill the

obligations as they are unwilling to do so. Reneging and incongruence can both lead to conflicts in organization. Incongruence, in fact, is the other name of conflict as apparent from the definition of conflict. Conflicts arise due to incompatibilities or incongruities. Hence incongruence is an important constituent of the conflicts in organizations. Reneging may also be perceived by parties perceiving conflict as a result of incongruence.

There could be many reasons of the discrepancy one of which could be a conflict or poor management of these conflicts. When poorly managed, these conflicts can shake the satisfaction, commitment and trust of an individual. Conflict management is argued to be strongly related to the satisfaction and performance (Jehn, 1997). A feeling of injustice due to poor management of the conflict will arise and lead to a decrease in the satisfaction. Reduction or damage of trust can be triggered by many sources. One important source which can weaken the relationship of trust with psychological contract may be conflict. Depending on the contract type, a relationship conflict will be a moderating variable for relational and task conflict for transactional contract's relationship with trust. Because relational contract entails more of relational elements of a relationship with employer, a relationship conflict has the potential to weaken or strengthen its relationship with the trust and this will be my next hypothesis.

Growth of employee's psychological bonding is very important and has a profound effect on the job satisfaction. The growth of such bonding is very vital for the prediction of job satisfaction and such development originates from the job itself (Locke, 1976). Simply job satisfaction will be higher if the individual attains goals regarding his job itself. But conflicts, when introduced in psychological contract, may



have the potential to lower job satisfaction. Task conflict is likely to play moderating role in the relationship between transactional contract and job satisfaction. Similarly relationship conflict will play moderating role in case of relational contract.

People having relational contract will believe that they are fulfilling all the obligations on their part. Those having high expectations will have more negative impacts when some relational issues are not resolved. Relationship conflict may have the potential to hurt these expectations and weaken the commitment. Similarly in case of transactional contract, task based conflict may produce damaging effects. Moderate levels of task conflict are considered constructive. However when task related conflict is high, it can produce damaging effects.

Relational contracts have positive relationship and transactional contracts have negative relationship with outcomes. The relationship will be weakened in case of relationship conflict while it will be stronger in case of task based conflict. Relationship conflict when introduced in a relational contract, have the strength and vigor to weaken the relationship. Task based conflict is usually considered beneficial when observed at moderate levels. Task conflict, however, when reaches intense levels may be very destructive for the contract with the organization and effect the contract – outcome relationship negatively.

#### **Hypothesis 6.**

6a: relationship conflict will moderate the relational contract – outcome (commitment, satisfaction, trust) relationship such that the relationship will be weaker when the relationship conflict is high

6b: task conflict will moderate the transactional contract – outcome (commitment, satisfaction, trust) relationship such that the relationship will be stronger when the task conflict is high

Perception of breach depends greatly on the perception of justice and fairness (Morrison, & Robinson, 1997). Putting it another way, employees value the interpersonal treatment they receive from their employer e.g. truthfulness, admiration, value, concern and adequate justification. Unjust or unfair treatment symbolizes the employee to be disrespected or degraded in the relation which leads to the feeling of breach and unmet expectations. Just like breach, conflict is entirely perceived phenomena. It is a felt state of friction and incongruence in the obligations and cognition of breach may be triggered in presence of a conflict between the parties.

Positive attitudes coming out of high quality relationships are not because everything that takes place in those bonds is essentially ideal, but because when difficulties arise i.e. feelings of broken promises or origin of a conflict, individual's affective answers to these perceptions be at variance because of the relationship quality differ from other relationships (Dulac et al., 2008). Perception of breach may be less established and permanent in strong relationships, yet it is vital to understand how employees perceive, attribute and answer to these feelings when they arise. That is how employees make sense of a conflict arising in different situations and how they respond to these conflicts. Relationship conflict can lead employee's psychological contract towards breach. Relational contract entails more of emotional relationship with the organization. Affective elements are more important in this type of contract and harm to these elements will lead to the breach of relational contract. Relationship conflict can

accelerate the breach by damaging the affective and emotional elements of a psychological contract.

When breach of psychological contract is perceived, subordinates and supervisors will attach different reasons to the breach. Findings suggest that subordinates are more expected to attribute the breach to the organization's deliberate disrespect for the commitments that it had made to the employee. On the other hand supervisors are more prone to acknowledge breach (perceived by employee) to circumstances outside the organization's direct control (Lester, Turnley, Bloodgood, & Bolino, 2002).

Cognitive consistency plays an important role in the perception of breach. Cognitive consistency refers to the phenomenon when people tend to act in ways that protect their prior knowledge base, insights, schemata and memory. They tend to preserve the prior knowledge through selective perception and selective attention. People look for and concentrate on the information that verifies their prior knowledge and cognition and they tend to avoid those stimuli which disconfirm their prior comprehension (Robinson, 1996). Cognitive consistency operates in case of psychological contracts. People tend to seek out and attend information which does not harm their prior contract. In case of relational contract, breach might not be perceived so easily through a task based conflict. People having a relational orientation would not give importance to little things and conflicts on task related activities. For them relation with their organization and employer is more important and only relationship conflict may have the potential to make them perceive breach. Feelings of breach influence the employee behavior negatively leading worthy employees to change their psychological

contract in terms of either reduced contribution or to quit their jobs (Robinson, Kraatz & Rousseau, 1994).

Kind of relation with one's employer, which an employee perceives, has strong effect on the contributions of the employee towards organization (Shapiro, 2002). A long term and relational contract with the employee may lead one to contribute more in the relation even in times of temporary conflict. Temporary conflicts may not effect their contributions and relationship. Employees having relational contract may not perceive breach immediately. Perception of breach may be triggered by a relational conflict as they value relational matters more than task related matters. According to Robinson (1996) perception of breach depends not only on the actions of the employer but also on the specific social context within which the perception occurs. Thus cognition of contract breach should be dependent on social and psychological features relating to the relationship or contract type. Next two hypotheses are based on this notion. Building on this idea, I argue that relationship conflict has the potential to accelerate the breach in case of relational contract and hence it will moderate the relationship between relational contract and breach.

**Hypothesis 7.** Relationship conflict will moderate the relationship between relational contract and breach such that the relationship will be stronger when relationship conflict is high.

Task related conflict can contribute to the growth and improvement of organizational performance through a better and in depth understanding of various ideas and alternatives. Individuals' competencies, aptitude and prior knowledge are utilized better due to task based conflict as compared to when the focus is relationship conflict

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or when there is no conflict (Jehn, 1997). Discussion of various viewpoints is necessary to bring innovative ideas and to reach better conclusion which is stimulated through task based conflict. Task conflicts have the potential to perk up the decision quality through making use of techniques like Devil's Advocacy. Such techniques encourage constructive criticism and help improve decision making outcomes and effectiveness (Amason, 1996). An absence of task conflict may lead to the lack of constructive criticism and discussion to augment the performance and productivity. It accelerates the discussions and personal excitement and is usually lacks negative emotions experienced in relationship conflict (Jehn, & Mannix, 2001). Task conflict enhances the decision quality because the blend that surfaces from the conflict is usually better to the individual viewpoints themselves.

Task conflict can have an influence on the transactional contracts. Main focus of employees having transactional contracts is monetary rewards and lack emotional attachment with the organization. Their main center of attention is their job and to grow while learning new skills and knowledge regarding their job. In this scenario, a task based conflict can make these employees, with transactional contracts; feel breach of their promises if the task conflict exceeds moderate levels. Moderate level of task conflict is considered productive but excessively high intensity of even task conflict can have destructive outcomes, which is my argument and next hypothesis.

**Hypothesis 8.** Task conflict will moderate the relationship between transactional contract and breach such that the relationship will be stronger when task conflict is high.

## CHAPTER 3

### 3. RESEARCH METHODOLOGY

#### 3.1. Data Collection and Sample

Cross sectional design was used for this research to detect the relationships between the psychological contracts and behavioral outcomes. Convenience sampling technique was used for data collection. Data was collected from employed individuals in various departments and specializations to ensure variety in the sample. Survey was administered personally in all the organizations. Participation in the study was voluntary. A cover letter was attached with the survey to explain the objective and scope of the research and to ensure their provided information will be kept in strict anonymity.

**3.1.1. Population and Instrument.** Data was collected from 13 different organizations comprising both public and private sectors ranging from small entrepreneur ventures and large multinational organizations to large public sector organizations. For example two of the organizations were leading telecom organizations. Sample also included leading universities, research organization, software houses etc. A total of 350 questionnaires were distributed, out of which 300 were received back with 85% response rate. Out of 300, 259 questionnaires were complete and usable for analysis showing 86.33% response. The sample characterizes a variety of professions comprising of software engineers, research managers, marketing managers, finance professionals, clerical and secretarial staff as well. Sample included

employees ranging from clerical cadre to upper management. Respondents' educational qualification ranged from Matriculation to PhD. 73% of years with an average experience of 7.32 (SD=7.6) years.

### **3.2. Measures**

I made use of established measures that were easy to comprehend using simple language. Further, as I personally administered the questionnaires, and was present there to address any respondent's concerns regarding the understanding of the items. All measures used a Likert type scale with anchors of 1 = strongly agree and 5 = strongly disagree. Items for conflict used Likert type scale with anchors of 1 = not at all, 5 = to a great extent.

**3.2.1. Psychological contracts.** Psychological contacts were measured with the help of 18 item scale used in (Raja et al., 2004) which is shortened version of Millward and Hopkins (1998) scale. Alpha reliability for relational and transactional dimension was .87 and .78 respectively. Items used to measure relational contract dimension included "To me working for this organization is like being a member of a family", "I feel this company reciprocates the efforts put in by its employees". Items for transactional contracts included "I work only the hours set out in my contract and no more", "I prefer to work a strictly defined set of working hours", "I only carry out what is necessary to get the job done" etc.

**3.2.2. Breach.** Breach was measured by the scale developed by Robinson & Morrison (2000). The five item scale showed an Alpha reliability of .71. Example of items used to measure breach were "Almost all the promises made by my employer

during recruitment have been kept so far (reversed)” and “I feel that my employer has come through in fulfilling the promises made to me when I was hired”

**3.2.3. Conflict.** Task and relationship conflict was measured by the scale developed by Jehn (1995). Alpha reliability for task conflict scale was .79, and relationship conflict was .81. Items of task conflict scale were “How much conflict of ideas is there in your work group”, “How frequently you have disagreements within your work group about the task of the project you are working on”. Examples of items for relationship conflict included “How much anger is there among your workgroup for each other “and “How much personal friction is there in your workgroup”.

**3.2.4. Satisfaction.** I used the 6 item shortened version of the Brayfield and Roth (1951) scale which uses 18 items to describe overall job satisfaction. Sample items included “I feel fairly well satisfied with my present job”, and “I find real enjoyment in my work”. The Cronbach alpha reliability of the scale in my dataset was .73.

**3.2.5. Commitment.** The Organizational Commitment Questionnaire (OCQ) developed by Mowday, Steers and Porter (1979) was used in the study to measure organizational commitment. The 15 item scale, showing a reliability of .70 includes items such as “I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful” and “I talk up this organization to my friends as a great organization to work for”.

**3.2.6. Trust.** Trust was measured with the 11 items scale developed by McAllister (1995). Examples of the items included “We have a sharing relationship. We can both



freely share our ideas, feelings, and hopes”, “I can talk freely to this individual about difficulties I am having at work and know that (s)he will want to listen”, “We would both feel a sense of loss if one of us was transferred and we could no longer work” and “If I shared my problems with this person, I know (s)he would respond constructively  
The scale showed a reliability of .90.

**3.2.7. Control variables.** Age of the respondents reported in years was used as control variable in all the analysis.

## CHAPTER 4

### 4. RESULTS

The method of data collection, reliability of scales and area where the study was conducted discussed in detail in previous chapter. Now in this chapter the results are shown and interpreted in detail. The collected data was entered in the statistical software SPSS (Statistical Package for the Social Sciences), in order to test my hypothesis.

#### 4.1. Hypotheses

Hypothesis 1: Transactional contracts will be negatively related to organizational commitment, trust and job satisfaction.

Hypothesis 2: Relational Contracts will be positively related to organizational commitment, trust and job satisfaction.

Hypothesis 3:

3a: Relational contract will be negatively related to contract breach.

3b: Transactional contract will be positively related to contract breach.

Hypothesis 4: Contract breach is negatively related to organizational commitment, trust and job satisfaction.

Hypothesis 5:

5a: Breach will mediate the relationship between relational contract and employee outcomes (org commitment, trust, and job satisfaction)

5b: Breach will mediate the relationship between transactional contract and employee outcomes (org commitment, trust, and job satisfaction).

Hypothesis 6

6a: relationship conflict will moderate the relational contract – outcome (commitment, satisfaction, trust) relationship such that the relationship will be weaker when the relationship conflict is high

6b: task conflict will moderate the transactional contract – outcome (commitment, satisfaction, trust) relationship such that the relationship will be stronger when the task conflict is high.

Hypothesis 7: Relationship conflict will moderate the relationship between relational contract and breach such that the relationship will be stronger when relationship conflict is high.

Hypothesis 8: Task conflict will moderate the relationship between transactional contract and breach such that the relationship will be stronger when task conflict is high.

## 4.2. Descriptive Statistics and Bivariate Correlation

Descriptive statistics for all the variables are given in the table 1a. The table shows means and standard deviations for all the variables of interests in this study. The means for relational contract ( $M = 2.48$ ,  $SD = .72$ ), transactional contract ( $M = 3.23$ ,  $SD = .65$ ) and breach are ( $M = 3.32$ ,  $SD = .82$ ). Means for commitment ( $M = 2.33$ ,  $SD = .63$ ), satisfaction ( $M = 2.4$ ,  $SD = .66$ ) and trust are ( $M = 2.46$ ,  $SD = .82$ ).

Table 1b presents the correlation matrix for all variables. All correlations above .10 were significant at  $p < .05$  (2-tailed). All the dependent variables were significantly positively correlated. The highest correlations obtained for dependent variables were between satisfaction and commitment ( $r = .63$ ,  $p < .01$ ).

**Table 1a.** Means and standard deviations of variables of interest in this study

	Mean	Std. Deviation
Age	30.44	8.76
RC	2.48	0.72
TC	3.23	0.65
Breach	3.32	0.82
TCo	2.77	0.87
RCo	2.46	0.93
Comm	2.33	0.63
Sat	2.4	0.66
Trust	2.46	0.82

**Table 1b.** Correlations and reliabilities for the main variables of interest in this study

	1	2	3	4	5	6	7	8	9
1 Age	1								
2 RC	-0.12	(0.87)							
3 TC	-0.06	-0.2	(0.78)						
4 Breach	0.09	-0.48	0.19	(0.71)					
5 TCo	-0.06	0.17	0.004	-0.09	(0.79)				
6 RCo	-0.03	0.39	-0.28	-0.26	0.42	(0.81)			
7 Comm	-0.13	0.72	-0.39	-0.38	0.14	0.4	(0.73)		
8 Sat	-0.17	0.59	-0.46	-0.31	0.05	0.34	0.63	(0.73)	
9 Trust	-0.05	0.62	-0.31	-0.57	0.3	0.5	0.53	0.48	(0.89)

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

\*\* Correlation is significant at 0.01 level (2 tailed)

$n = 259$ ; alpha reliabilities are given in parentheses.

With respect to the psychological contract and behavioral outcome variables, relational contract was significantly positively correlated with all the outcome variables. Correlations with satisfaction ( $r = .59, p < .01$ ) and trust ( $r = .62, p < .01$ ). The highest correlation was with commitment ( $r = .72, p < .01$ ). Transactional contract was significantly negatively correlated with all the outcomes with the highest with satisfaction ( $r = -.46, p < .01$ ). Correlations of transactional contract with commitment were ( $r = -.39, p < .01$ ) and trust ( $r = -.31, p < .01$ ). Breach had significant negative correlations with outcome variables as well as independent variables but with a negative sign. Correlations of breach with commitment were ( $r = -.38, p < .01$ ), satisfaction ( $r = -.31, p < .01$ ), trust ( $r = -.57, p < .01$ ), relational contract ( $r = -.48, p < .01$ ) and transactional contract ( $r = -.20, p < .01$ ). The highest correlations of breach, among all variables, were with trust.

### 4.3. Regression Analysis

#### Model 1

Results of the main effect regressions are presented with the help of tables. These results show that relational contract is significantly related to organizational commitment ( $\beta = .71$ ,  $\Delta R^2 = .50$ ,  $F = 134.54$ ,  $p < .001$ ), satisfaction ( $\beta = .59$ ,  $\Delta R^2 = .34$ ,  $F = 74.06$ ,  $p < .001$ ) and trust ( $\beta = .60$ ,  $\Delta R^2 = .37$ ,  $F = 76.14$ ,  $p < .001$ ). Transactional contract is significantly negatively related to commitment ( $\beta = -.40$ ,  $\Delta R^2 = .17$ ,  $F = 26.84$ ,  $p < .001$ ), satisfaction ( $\Delta R^2 = .23$ ,  $\beta = -.48$ ,  $F = 43.85$ ,  $p < .001$ ) and trust ( $\Delta R^2 = .12$ ,  $\beta = -.34$ ,  $F = 16.48$ ,  $p < .001$ ). Breach was significantly related with relational contracts ( $\Delta R^2 = .20$ ,  $\beta = -.46$ ,  $F = 34.44$ ,  $p < .001$ ) and transactional contract ( $\Delta R^2 = .05$ ,  $\beta = .22$ ,  $F = 7.43$ ,  $p < .001$ ). Breach is significantly related to commitment ( $\Delta R^2 = .13$ ,  $\beta = -.36$ ,  $F = 21.37$ ,  $p < .001$ ), satisfaction ( $\Delta R^2 = .09$ ,  $\beta = -.30$ ,  $F = 17.64$ ,  $p < .001$ ) and trust ( $\Delta R^2 = .32$ ,  $\beta = -.56$ ,  $F = 58.13$ ,  $p < .001$ ).

**4.3.1. Commitment.** Results of regression analysis are given in the table. With respect to independent variables, relational contract ( $\beta = .71$ ,  $p < .001$ ) and transactional contract ( $\beta = -.40$ ,  $p < .001$ ) were significantly related to organizational commitment, with relational contract being positive and transactional contract in negative direction.

**Table2a.** Regression analysis for the main effects of relational contract on organizational commitment

Predictors	$\beta$	R <sup>2</sup>	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		.01		
<b>Step2:</b>				
Relational contract	.71***	.52***	.50***	.000

\*\*\* $p < .001$

**Table2b.** Regression analysis for the main effects of transactional contract on organizational commitment

Predictors	$\beta$	R <sup>2</sup>	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		.01		
<b>Step2:</b>				
Transactional contract	-.40***	.17***	.16***	.000

\*\*\* $p < .001$

The relational contract explained a unique variance ( $\Delta R^2 = .50$ ,  $p < .001$ ) in predicting the organizational commitment over and above the control variables whereas transactional contract accounted for a significant incremental portion of variance ( $\Delta R^2 = .16$ ,  $p < .001$ ) in organizational commitment, over the control variables. Hypotheses 1

and 2 predicted the effects of relational and transactional contracts on commitment. H 4 predicts the impact of breach on commitment. The analysis revealed that breach has a significant relationship ( $\beta = -.36$ ,  $p < .001$ ) with 13% variance ( $\Delta R^2 = .13$ ,  $F = 21.37$ ) in organizational commitment.

**Table3.** Regression analysis for the main effects of breach on commitment

Predictors	$\beta$	$R^2$	$\Delta R^2$	<i>Sig</i>
<b>Step 1:</b>				
Controls		.01		
<b>Step2:</b>				
Breach	-.36***	.14***	.13***	.000

\*\*\* $p < .001$

**4.3.2. Satisfaction.** With respect to main effects, all variables, psychological contract type and breach had significant relationships with satisfaction. Relational contracts had a significant positive relationship ( $\beta = .59$ ,  $p < .001$ ) with job satisfaction. Relational contracts explained 34% ( $\Delta R^2 = .34$ ,  $F = 74.06$ ,  $p < .001$ ) of the variance in job satisfaction. Transactional contracts were found to have a significant negative relationship ( $\beta = -.48$ ,  $p < .05$ ) explaining 23% ( $\Delta R^2 = .23$ ,  $F = 43.85$ ,  $p < .001$ ) of the variance in job satisfaction.



**Table 4a.** Regression analysis for the main effects of relational contract on job satisfaction

Predictors	$\beta$	R <sup>2</sup>	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.03		
<b>Step2:</b>				
Relational contract	.59***	.37***	.34***	.000

**Table 4b.** Regression analysis for the main effects of transactional contract on job satisfaction

Predictors	$\beta$	R <sup>2</sup>	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.03		
<b>Step2:</b>				
Transactional contract	-.48***	.26***	.23***	.000

\*\*\* $p < .001$

**Table 5.** Regression analysis for the main effects of breach on Satisfaction

Predictors	$\beta$	$R^2$	$\Delta R^2$	<i>Sig</i>
<b>Step 1:</b>				
Controls		0.03		
<b>Step 2:</b>				
Breach	-.31***	.12***	.09***	.000

\*\*\* $p < .001$

This shows that hypothesis 1 and 2 are fully supported. Similarly breach also showed strong negative significant relationship ( $\beta = -.31$ ,  $p < .001$ ) with the job satisfaction. Breach was found to show 9% ( $\Delta R^2 = .08$ ,  $F = 17.64$ ,  $p < .001$ ) of the variance in job satisfaction. Hypothesis 3 was also fully supported this way. As mediation of breach for the outcome variables was not found to occur, it was not significant for satisfaction as well.

**4.3.3. Trust.** Trust is also found to have significant relationships in all the hypotheses predicting main effects. Relational contracts had a significant positive relationship ( $\beta = .61$ ,  $p < .001$ ) with trust according to the expectations. Relational contracts explained 37% ( $\Delta R^2 = .34$ ,  $F = 76.14$ ,  $p < .001$ ).

**Table 6a.** Regression analysis for the main effects of relational contract on trust

Predictors	$\beta$	$R^2$	$\Delta R^2$	<i>Sig</i>
<b>Step 1:</b>				
Controls		0.002		
<b>Step2:</b>				
Relational contract	0.61***	0.38***	0.37***	.000***

\*\*\* $p < .001$

**Table 6b.** Regression analysis for the main effects of transactional contract on trust

Predictors	$\beta$	$R^2$	$\Delta R^2$	<i>Sig</i>
<b>Step 1:</b>				
Controls		0.002		
<b>Step2:</b>				
Transactional contract	-0.34***	0.12***	0.12***	.000***

\*\*\* $p < .001$

Transactional contracts also had a significant but negative relationship, as expected ( $\beta = -.34, p < .001$ ) while explaining 12% variance ( $\Delta R^2 = .12, F = 16.48, p <$

.001) in trust. Similarly, according to hypothesis 3, breach has a significant negative relationship ( $\beta = -.56$ ,  $p < .001$ ). It explained 32% ( $\Delta R^2 = .32$ ,  $F = 58.13$ ,  $p < .001$ ) of the variance in trust.

**Table 7.** Regression analysis for the main effects of breach on trust

Predictors	$\beta$	$R^2$	$\Delta R^2$	<i>Sig</i>
<b>Step 1:</b>				
Controls		0.002		
<b>Step2:</b>				
Breach	-0.56***	0.32***	0.32***	0

\*\*\* $p < .001$

**4.3.4. Breach.** Only hypotheses predicting the direct effect of breach on outcome variables (commitment, satisfaction and trust) and psychological contract type (relational and transactional) on breach were supported as discussed earlier. Hypothesis 5 predicting the mediating effects of breach didn't find support. Similarly hypotheses 7 and 8 predicting the moderating effects of relationship and task conflict on the relationship of relational and transactional contract, respectively, with breach were not supported.

**Table 8a.** Regression analysis for the main effects of relational contracts on breach

Predictors	$\beta$	R <sup>2</sup>	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.008		
<b>Step2:</b>				
Relational contract	-.46***	.21***	.20***	.000

**Table 8b.** Regression analysis for the main effects of transactional contracts on breach

Predictors	$\beta$	R <sup>2</sup>	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.008		
<b>Step2:</b>				
Transactional contract	.22***	.05***	.05***	.000

\*\*\* $p < .001$

#### 4.4. Model 2

Model 2 predicts the moderating effects of conflicts on the relationship of psychological contracts and employee outcomes i.e. commitment, satisfaction and trust.

**4.4.1. Relational Contract.** Hypothesis 6a predicted the moderating impact of relational conflict on the relationship of relational contract and outcomes (commitment, satisfaction and trust). Results shown in the table 9 show that the interaction involving relational contract and relationship conflict was the only significant interaction term ( $\beta = .69, p < .005$ ) in case of trust.

**Table 9.** Results of Moderator Analysis for trust

Predictors	$\beta$	$R^2$	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.002		
<b>Step 2:</b>				
Relational contract	0.13			
Relational conflict	-0.15***	.45***	.45***	.000
<b>Step 3:</b>				
Rel. Contract x Rel. Conflict	.69**	.46**	.01**	.004**

\*\* $p < .01$ , \*\*\* $p < .001$

It explained 1% ( $\Delta R^2 = .01$ ,  $F = 56.23$ ,  $p < .001$ ) of the variance in trust over and above the main effects. Relational contracts did not have significant interaction term for commitment and satisfaction either.

**4.4.2. Transactional contract.** Hypothesis 6b predicted the moderating impact of task based conflict on the relationship between transactional contract and outcomes. Results show that transactional contract had significant interaction term ( $\beta = -1.22$ ,  $p < .001$ ) and explained 4% ( $\Delta R^2 = .04$ ,  $F = 19.08$ ,  $p < .001$ ) of the variance in commitment over and above the main effects.

Table10: Results of Moderator Analysis for commitment

Predictors	$\beta$	$R^2$	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.01		
<b>Step 2:</b>				
Transactional contract	0.21			
Task conflict	1.17***	.19***	.17***	.000***
<b>Step 3</b>				
Trans. Contract x Task Conflict	-1.22***	.235***	.04***	.000***

\* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$

Similarly it had significant interaction term ( $\beta = -.84$ ,  $p < .05$ ) explaining 2% ( $\Delta R^2 = .02$ ,  $F = 24.29$ ,  $p < .001$ ) of the variance in satisfaction over and above the main

effects. The hypothesis was supported partially because interaction in case of trust was not significant.

**Table 11.** Results of Moderator Analysis for satisfaction

Predictors	$\beta$	$R^2$	$\Delta R^2$	Sig
<b>Step 1:</b>				
Controls		0.03		
<b>Step 2:</b>				
Transactional contract	-.06*			
Task conflict	.75***	.26***	.23***	.000
<b>Step 3:</b>				
Trans. Contract x Task Conflict	-.847*	.28*	.02*	.05

\* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$



## CHAPTER 5

### 5. Discussion

#### 5.1. Overview

Overall I found good support for my hypotheses. In all, five out of eight hypotheses were supported. Out of eight, four were main effect hypotheses all of which found strong support. One hypothesis was mediation hypothesis with breach as mediator and it didn't find support. One hypothesis predicted moderation. Here conflict was hypothesized to moderate the relationship between psychological contract and breach and it found good support. Full moderation was found for the relationship between relational contracts and trust while no moderation was found in case of satisfaction and trust. Similarly full moderation was found where I hypothesized that task conflict will moderate the relationship between commitment and satisfaction while no moderation was found for trust.

#### 5.2. Main Effects Hypotheses

All of the main effect hypotheses found good support. Hypothesis 1 found strong support where transactional contract is significantly negatively related to commitment ( $\beta = -.40, p < .001$ ), satisfaction ( $\beta = -.48, p < .001$ ) and trust ( $\beta = -.34, p < .001$ ). Relational contract is significantly related to organizational commitment ( $\beta = .71, p < .001$ ), satisfaction ( $\beta = .59, p < .001$ ) and trust ( $\beta = .60, p < .001$ ). The results are consistent with the study of Raja, Johns & Ntalianis (1994). Because of their long term focus, relational contracts have stronger commitment, satisfaction and trust with their

organization. As they tend to stay for long periods with their organization, they have strive to build trust with their employer and longer periods of their tenure provide them opportunities as well. Transactional contracts, on the other hand always focus on short term goals. Their association with the organization is not for longer periods and they do not come up with high levels of satisfaction, trust and commitment. They don't tend to develop long term affiliation with the organization. Similarly relational contracts were negatively related to breach and transactional contracts are positively related to breach. Having more elements of trust, satisfaction and commitment, relational contracts have negative relationship with breach. It is usually seen that employees who serve an organization for long trust their employer, have stronger satisfaction and commitment with organization. It's not the tenure but their long term relationship with the organization which builds the affiliation and bonding. These people are those who are very loyal to their organization and stand with the organization through thick and thin. It is their psychological contract which is operating behind. These people are not prone to perceive breach as they trust their employer. But people having transactional contracts tend to perceive breach because they don't invest enough in the relationship and expect more in terms of monetary rewards. They are always looking for bonuses and promotion and immediate rewards. Sometimes organizations face certain situation when it needs more contribution from its employees in terms of efforts, time, patience and many other investments. Employees having transactional contracts do not stand with the organization in difficult times while relational contracts are the driving force behind people still contributing a lot even when the employers are renegeing. Hypothesis 4 was also supported strongly. Breach was hypothesized to be related negatively with

outcomes. The analysis revealed that breach has a significant relationship with organizational commitment, trust and satisfaction.

### **5.3. Mediating hypothesis**

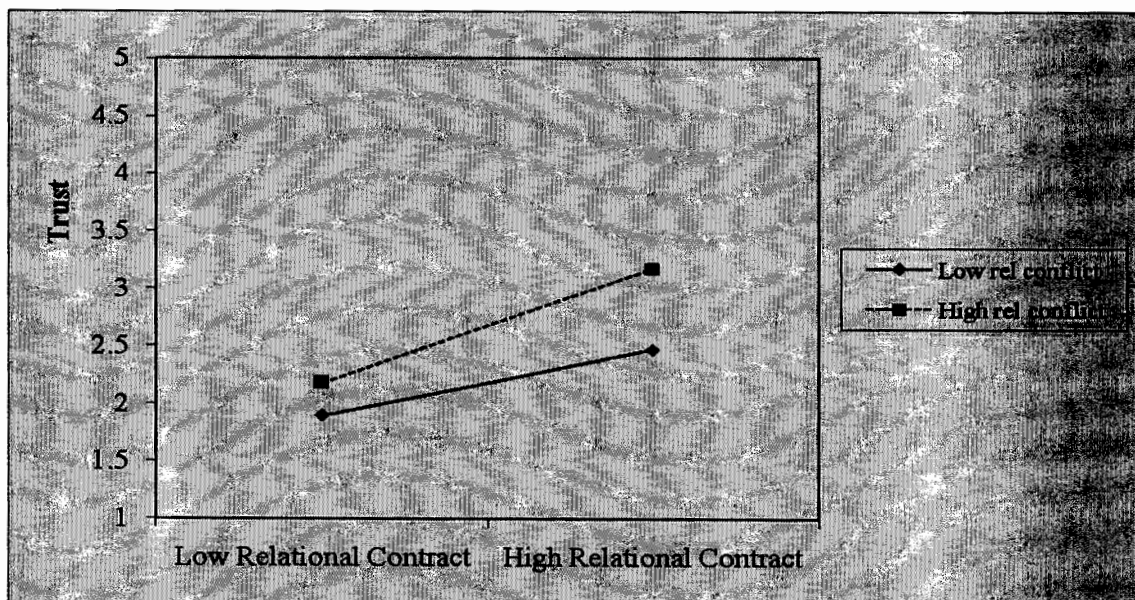
Hypothesis 5 refers to the mediating impact of breach on the relationship of psychological contract and outcomes with two sub-hypothesis. But none of the both hypotheses was supported. According to Baron and Kenny (1986) all the direct relationships in a mediation relationship should be significant. All the direct relationships which belong to first four hypotheses were significant. Relational and transactional contracts have strong significant relationship with the outcomes and breach as well. Breach has strong relationship with outcomes. But I found no mediation by breach in the relationship. It may be because psychological contracts have strong proximal impact on the outcomes which is not significant when breach is introduced in the equation and the impact becomes more distal. According to Baron and Kenny (1986), in case of full mediation the impact of independent variable should become zero when the mediating hypothesis is introduced in the equation. Here it didn't become zero because the direct impact of psychological contracts would be as important in proximal relationship with the outcomes as in the presence of breach, when becomes distal. A perception of breach leads to decrease in employee outcomes but there might be some other factors as well that are contributing in this relationship.

#### 5.4. Moderation Hypotheses

Conflict was hypothesized to moderate the relationship between psychological contracts and breach. Hypothesis 7 and 8 predicted this relationship but no moderation was found. It might be because there would be some other factors included which are contributing to the relationship. Relationship conflict and task based conflict do have some impact but there might be some other factors involved in leading the relationship towards breach. A temporary delay in promotion and bonuses may also lead to breach.

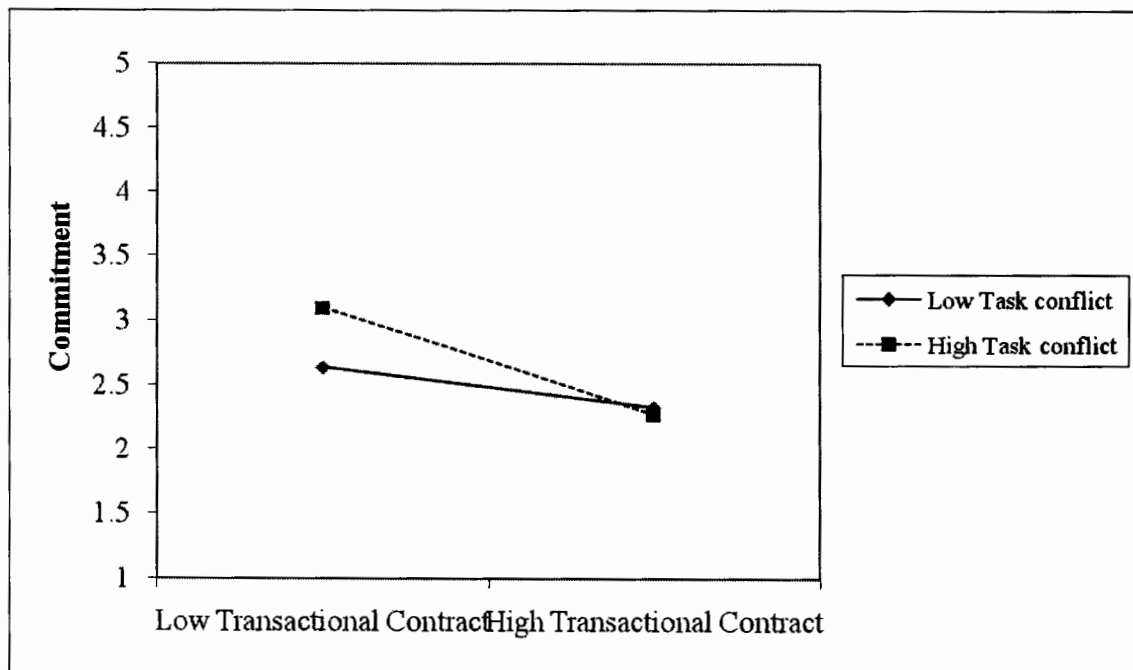
Hypotheses 6a and b predict the moderating impact of relationship and task conflict on the relationship of relational and transactional contracts respectively, with outcomes. Relationship conflict weakens the relationship while task conflict strengthens the relationship. The interaction term for relational contract and relationship conflict was significant but it could not support my hypothesis.

**Figure 1.** Two-way interaction effects of relationship conflict on trust



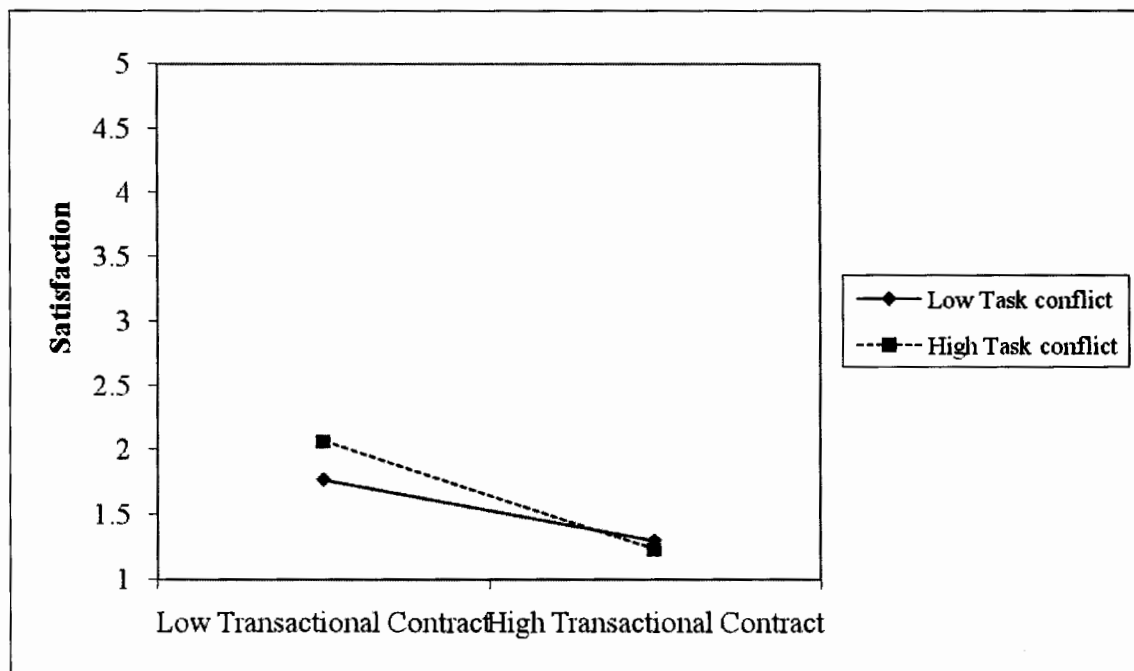
The hypotheses 6a predicted the relationship between relational contract and trust to be weakened when the relationship conflict is high. But from the plot of unstandardized variables we can see that the hypothesis is not supported. Plot shows that the relationship between relational contract and relationship conflict gets stronger when the relationship conflict is high which is contrary to the expectations. The reason would be some other very strong factor which does not let the trust go down. High benefits and salaries, job security, bright career prospects, long term friendly relationship with boss, might be the contributing factors. In the presence of an old relationship with boss, a temporary relationship conflict might not weaken the trust. Cross sectional design of the study might not detect conflicts prevailing over long periods and leaving intense effects on relationships.

**Figure 2.** Two-way interaction effects of task conflict on commitment



Hypothesis 6b was supported for commitment and satisfaction. Relational contract did not reveal to have significant interaction term for commitment and satisfaction while transactional contract didn't show for trust. It may be because job satisfaction has more of job or task related elements and that is why its interaction term was significant with task conflict. Similarly trust is more of relationship oriented and that's why its interaction term with relational contract and relationship conflict was found to be significant.

**Figure 3.** Two-way interaction effects of task conflict on satisfaction



Both plots for commitment and satisfaction show that when task conflict is high, negative relationship between transactional contract and satisfaction becomes high which is shown by the steep slope of high task conflict.

### **5.5. Limitations**

Hypotheses found strong support. Main effects were strongly significant and some moderation hypotheses found strong significant and others found partial support. This study consists of some limitations. The first very important limitation is the scales used in the study. All the scales which I made use of in this study were developed for American and European cultures. No doubt the scales are well developed and established, but cultural differences do matter a lot. It is possible that the relationships found significant in those cultures might not found support here. It affects the reliability of the results of the study. Secondly, cross sectional design is also a limitation. A longitudinal study would better analyze the relationships which could be generalized. The long term focus of relational contracts would be better studied and analyzed in a longitudinal study.

### **5.6. Implications for Research**

Although the model found strong support, process conflict could not be studied in this study. The variable cross loaded on other variables and was omitted from the study. The impact of process conflict should be tested and analyzed in future researches as the research on process conflict is very limited till now. Future research should focus on the relationship of these variables with more outcomes. As it was a cross sectional study, I

couldn't study the alternate causal orders in the study. Future research would be in a better position to test alternate causal orders for a longitudinal design. Mediation hypothesis was not supported in the study. Future researches should identify the factors involved in the relationship in the presence of which the relationship will find support. Similarly some moderation hypotheses were not supported as well. Future studies should work to answer these unanswered moderations and mediations.

### **5.7. Implications for Managers**

In practical terms, the results suggest the managers to take great care of the conflicts originating in the workplace and manage them in well and appropriate time. To avoid different conflicts employees must be given part in decision making to make them feel their value in the organization. They must be given trainings to enhance their skills. Flexible working hours and attractive reward system in the organization would lead the employees to be satisfied and committed and help them avoid breach. Employees' psychological contracts may become long term which every employer wants.



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## APPENDIX B

### QUESTIONNAIRE

<b>Scale:</b>				
<b>Strongly Agree</b>		<b>Neutral</b>		<b>Strongly Disagree</b>
<b>1</b>		<b>3</b>		<b>5</b>

1. I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful	1	2	3	4	5
2. I talk up this organization to my friends as a great organization to work for.	1	2	3	4	5
3. I would accept almost any types of job assignment in order to keep working for this organization	1	2	3	4	5
4. I find that my values and the organization's values are very similar	1	2	3	4	5
5. I am proud to tell others that I am part of this organization	1	2	3	4	5
6. This organization really inspires the very best in me in the way of job performance	1	2	3	4	5
7. I am extremely glad that I chose this organization to work for over other organizations I was considering at the time I joined	1	2	3	4	5
8. I really care about the fate of this organization	1	2	3	4	5
9. For me this is the best of all possible organizations for which to work for	1	2	3	4	5
10. I am often bored with my job	1	2	3	4	5
11. I feel fairly well satisfied with my present job	1	2	3	4	5
12. I am satisfied with my job for the time being	1	2	3	4	5
13. Most days I am enthusiastic about my work	1	2	3	4	5
14. I like my job better than the average worker does	1	2	3	4	5
15. I find real enjoyment in my work	1	2	3	4	5
16. I expect to grow in this organization	1	2	3	4	5
17. I feel part of a team in this organization	1	2	3	4	5
18. I have a reasonable chance of promotion if I work hard	1	2	3	4	5
19. To me working for this organization is like being a member of a family	1	2	3	4	5
20. The organization develops/rewards employees who work hard and exert themselves	1	2	3	4	5
21. I expect to gain promotion in this company with length of service and effort to achieve goals	1	2	3	4	5
22. I feel this company reciprocates the effort put in by its employees	1	2	3	4	5
23. My career path in the organization is clearly mapped out.	1	2	3	4	5

24. I am motivated to contribute 100% to this company in return for future employment benefits	1	2	3	4	5
25. I have a sharing relationship with my supervisor. We both freely share our ideas, feelings and hopes.	1	2	3	4	5
26. I can talk freely to my supervisor about the difficulties I am having 27. at work and know that he/she will listen.	1	2	3	4	5
28. We would both feel a sense of loss if one of us was transferred and we could no longer work together.	1	2	3	4	5
29. If I shared my problems with my supervisor, I know he/she will respond constructively and caringly.	1	2	3	4	5
30. I would say that we both have made considerable emotional investments in our working relationship.	1	2	3	4	5
31. My supervisor approaches his/her job with professionalism and dedication.	1	2	3	4	5
32. Given my supervisor's track record, I see no reason to doubt his/her competence and preparation for the job.	1	2	3	4	5
33. Almost all the promises made by my employer during recruitment have been kept so far.	1	2	3	4	5
34. I feel that my employer has come through in fulfilling the promises made to me when I was hired.	1	2	3	4	5
35. So far my employer has done an excellent job of fulfilling his promises to me.	1	2	3	4	5
36. I have not received everything promised to me in exchange for my contributions.	1	2	3	4	5
37. My employer has broken many of his promises to me even though I've upheld my side of the deal.	1	2	3	4	5

**Scale**

<b>Not at all</b>	<b>Strongly</b>	<b>Moderately</b>	<b>Slightly</b>	<b>To a great extent</b>
1	2	3	4	5

<b>My employer:</b>					
38. Offers steady employment	1	2	3	4	5
39. Provides stable benefits to employees' families	1	2	3	4	5
40. Shows concern for my personal welfare	1	2	3	4	5
41. Sacrifices short-term organizational interests for employee interests	1	2	3	4	5
42. Gives wages and benefits I can count on	1	2	3	4	5
43. Is responsive to employee concerns and well-being	1	2	3	4	5
44. Makes decisions with my interests in mind	1	2	3	4	5
45. Shows concern for my long-term well-being	1	2	3	4	5
46. Provides secure employment	1	2	3	4	5
47. Provides stable wages over	1	2	3	4	5



Scale				
Significantly low		Moderate		Significantly High
1		3		5

48. How much conflict of ideas is there in your work group?	1	2	3	4	5
49. How frequently do you have disagreements within your work group about the task of the project you are working on?	1	2	3	4	5
50. How often do people in your work group have conflicting opinions about the project you are working on?	1	2	3	4	5
51. How often are there disagreements about who should do what in your work group?	1	2	3	4	5
52. How much conflict is there in your group about task responsibilities?	1	2	3	4	5
53. How often do you disagree about resource allocation in your work group?	1	2	3	4	5
54. How much anger is there among your workgroup for each other?	1	2	3	4	5
55. How much personal friction is there in your workgroup?	1	2	3	4	5
56. How much are personality clashes between members in your workgroup?	1	2	3	4	5
57. If I may choose again, I will choose to work for current organization.	1	2	3	4	5

Scale				
Not at all		Moderately		To a great extent
1		3		5

<b>My employer:</b>					
58. Provides short-term employment	1	2	3	4	5
59. Makes no commitment to retain me in the future	1	2	3	4	5
60. Provides employment for a specific or limited time only	1	2	3	4	5
61. Requires me to do only limited duties I was hired to perform	1	2	3	4	5
62. Pays me only for specific duties I perform	1	2	3	4	5
63. Expects our jobs to be limited to specific well-defined responsibilities	1	2	3	4	5
64. Has made no promises to continue my employment	1	2	3	4	5
65. Can terminate my employment any time	1	2	3	4	5
66. s training me only for my current job	1	2	3	4	5
67. Expects my limited involvement in the organization	1	2	3	4	5

Age \_\_\_\_\_ Occupation \_\_\_\_\_ Education Level \_\_\_\_\_

- | Sector                           | Gender                          |
|----------------------------------|---------------------------------|
| <input type="checkbox"/> Public  | <input type="checkbox"/> Male   |
| <input type="checkbox"/> Private | <input type="checkbox"/> Female |

**Occupational Level**

- Clerical/ Secretarial  
 Middle Management  
 Upper Management

Name of organization you're currently working in \_\_\_\_\_

Your Department \_\_\_\_\_

Current designation / grade \_\_\_\_\_ Area of specialization \_\_\_\_\_

How long have you been working with your present organization? \_\_\_\_\_ Years

Total working experience \_\_\_\_\_ Years

