Review

The effects of psychological contract breach on various employee level outcomes: The moderating role of Islamic work ethic and adversity quotient

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This study seeks to explore the moderating role of Islamic work ethic and adversity quotient over the relationship between psychological contract breach and various employees’ level outcomes (job satisfaction, employees’ commitment and intention to quit). After the extensive overview of scholarly research, we have come up with a conceptual model that perception of psychological contract breach has negative relationship with job satisfaction, affective commitment and positive relationship with intention to quit. Islamic work ethics and adversity quotient have positive moderating impact upon the perceived psychological contract breach, and various employee level outcomes are further strengthened, if employees lack adversity quotient and low Islamic work ethic.

Key words: Psychological contract breach, Islamic work ethic, adversity quotient.

INTRODUCTION

Growing tough competition and technological advancement have turned organizational structures and employee-employer relationships (Shore et al., 2004). Developments in varied employee-employer relationships have stimulated researchers’ interest to study employee’s responses in various employment situations (Tsui et al., 1997) including psychological contracts (Shore and Barksdale, 1998).

The definition of psychological contract can be as shared expectation possessed by parties, employer and employee, regarding terms, conditions and consequences of reciprocity (Rousseau and Tijoriwala, 1998). Psychological state of both employee and employer develop mental model, determine expectations and guide behavior patterns for such contractual relationships (Rousseau, 2004). Psychological contract literature thoroughly discussed psychological contract breach, a psychological situation where one party thinks that the other party is not fulfilling required obligation in due course (Morrison and Robinson, 1997). At large, psychological contract breach literature discussed employee's work place attitudes and behaviors after recognition of breach. Such attitudes included lower employee satisfaction, reduced organizational commitment; decline in job performance and higher intention to quit the organization (Coyle-Shapiro, 2002; Kickul et al., 2004; Raja et al., 2004).

Psychological contract breach literature addressed organizational situations for explaining employee-employer (employment) relationship, but individual differences have not been studied at large, to report employees’ response to contract breach. However, Raja et al. (2004) investigated possible effect of individual differences on relation of contract breach and employee work place behaviors. Individual differences reported significant influence on employee contract breach perception and its repercussions (Raja et al., 2004). Existing competitive business environment enhanced the significance of human resources. It has become more important for a manager to understand individual difference for successful execution of contracts. Raja et al. (2004) investigated contingent effect of different personality types (self-esteem, equity sensitivity, conscientiousness, neuroticism, extraversion and locus of control) psychological contract breach and employee work behaviors (outcome) relationship. On similar grounds, this study examines the possible contingent effects of adversity quotient and Islamic work ethic on the relationship of contract breach and employee work outcome (employee’s commitment, employee’s satisfaction and intention to leave). Authors argued that

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employee with higher adversity quotient and Islamic work ethic would be able to cope with frustration and would not lower his commitment with organization, would be in better a position to still be satisfied with their job and would not be intended to leave the organization even after contract breach. Conversely, after contract breach, employee’s commitment, employee’s satisfaction, and intention to leave would be high when employee has lower adversity quotient and Islamic work ethic. To the best of our knowledge, presently, none of the studies has explored such moderating effects of Islamic work ethic and adversity quotient on the relation of contract breach and employee outcome.

PSYCHOLOGICAL CONTRACT

Psychological contracts involve mutual expectation held by both employee and employer to fulfill obligations stemmed from employment relationship (Roussau, 1995; Shore and Tetrick, 1994). Employees observe from organizational environment and work procedures what the organization is responsible to give them in return for their efforts (Rousseau and Parks, 1993). But organizations, sometimes, fail to fulfill obligations they made with their employees. This failure leads to contract breach, where employee thinks that organization failed to meet obligations.

Types of psychological contract

Psychological contract literature identified two types of contracts; transactional contracts and relational contracts (Rousseau 1990, 1995; Millward and Brewerton, 1999; Manning and Kidd, 1997; Millward and Hopkins, 1998). Relational psychological contracts focus on relational (loyalty, socio-emotional and support, etc.) types of sentiments and not merely based on monetary objectives. Relational contracts pose ways of thinking of affection between employer and employee, facilitate greater involvement of employee in organizational activities and increase individual commitment with employer. Likewise employer side, with such relational contracts, is willing to provide attractive and justified remuneration for employee efforts, focus on individual development with training, career building and job security. Conversely, transactional contracts, normally based on short term relationships, concentrate on monetary objectives without intention of any extra involvement. Employees are well connected with their personal interests without any intention of organizational engagement and relationship. Rousseau and McLean (1993) stated that both types of contract differ with regard to basic element of contract, time period, reliability and capacity. Relational contracts focus on, mutual obligations which are, by nature, emotional and intrinsic, long-term relationships based on loyalty and mutual development, pervasive and general relationship with situational modifications to keep intact for longer time. Alternatively, transactional contracts can be define as a mutual obligation that are monetary and extrinsic in nature, short-term relationship limited in capacity and specific to terms. Consequently, relational contracts have broader scope and less extrinsic obligations than transactional contracts.

Rousseau et al. (1993) and Rousseau (1995) reported that psychological contract theory has better and positive organizational and individual outcomes for relational contracts as compared to transactional contracts. Research supports that there is positive relationship of relational psychological contracts (and negative in case of transactional contracts) and commitment to the organizations, satisfaction and job tenure (Millward and Hopkins, 1998; Rousseau, 1990).

Psychological contract breach

Morrison and Robinson (1997), define psychological contract breach as employees’ perception that organization failed to meet obligations associated with reciprocity. Employee’s feelings of contract breach lead to negative repercussions for both individual and organization such as, lowered organizational and job commitment and satisfaction, reduced job performance and citizenship behavior, and higher turnover intention in organizations (Robinson et al., 1994; Robinson and Rousseau, 1994; Robinson, 1996). Literature suggests that employees feel uncertainty when organizational changes take place and employee’s feelings of contract breach arise during this phase of organization (Turnley and Feldman, 1998; Morrison and Robinson, 1997; Robinson and Rousseau, 1994). Psychological contract stipulates expectations with predictions and control to employees to perceive organizational obligations owed to them and if these obligations are not fulfilled then employees’ ability to control and foresee is decreased (Shore and Tetrick, 1994; Tetrick and LaRocco, 1987). Decreased employee ability may result in stress and negative repercussions (Maslach et al., 2001; Sutton, 1990).

Social exchange theory contends that transparent and balanced employee-organization relationship motivates employees (Homans, 1961). When employees feel that psychological contract breach takes place, there is a difference between what organizations owes to fulfill and what organization, in reality, is giving to them (Morrison and Robinson, 1997; Rousseau, 1995). Such inconsistency and difference in social exchange relationship is characterized as distributive injustice (Sheppard et al., 1992). In order to balance new emerging situation, employee, in return, decrease their organizational engagement and commitment (Turnley et al., 2003).

Previous research on psychological contract breach suggests negative relation with employee performance,
Figure 1. Conceptual model.

Proposition 1: Perceptions of psychological contract breach has a positive impact on intention to quit and negative impact on employees’ commitment and job satisfaction.

Differing reactions to contract breach: The role of adversity quotient

As a result of psychological contract breach, its consequences have considerable variation and a number of variables helped to explain this variation of how different perceptions can change these relations (Zhao et al., 2007). For example, the equity sensitive people would react differently when they perceive contract breach (Kickual and Lester, 2001).

Different individuals may have different personality traits; therefore, they may observe, perceive and interpret a single situation in different ways. Much of the research literature focused on this issue, for example, Griffin (2001) attempted to investigate how individuals’ personalities could predict work reactions in different ways. Griffin’s research work revealed that job satisfaction and negative work affect were significantly predicted by extraversion and neuroticism. In fact, Griffin’s work demonstrated that personality traits perception can influence work outcomes. Likewise, Scheck and Kinicki (2000) identified that individual difference in personality perceive an event in different ways based on their dispositions. Raja et al. (2004) investigated moderating effects personality types (neuroticism, extraversion, conscientiousness, self-esteem, equity sensitivity and locus of control) on the relations of contract breach and possible work outcomes. On similar grounds, current study tends to explore the combined effect of contract breach and adversity quotient on employee job satisfaction, intention to leave and affective commitment.

The American Heritage Dictionary (1976) explains adversity as a “state of hardship or affliction, misfortune.” The possible synonyms of adversity are conflict, hardship and challenge. Stoltz (1997) argued that people can control adversity and challenging situations through successful application of adversity quotient (AQ). By facing challenging situations in organizational environment with greater AQ would enhance individual capacity to respond to such incidents with greater potential. People with higher level of AQ are motivated, productive and have lower attrition attention.
Thus, psychological contract breach and adversity quotient are related to individual's perception. To the best of our information, adversity quotient has never been studied on the relation of psychological contract breach and employee intention to leave, affective commitment and job satisfaction. It is logical to understand that individuals with higher adversity quotient would have greater ability to cope with the frustration after feelings of contract breach and would not lose their satisfaction with their job, would control on their affective commitment with organization and lower adversity quotient would have lower intention to leave the organization.

P3a: The relationship between perceived psychological contract breach and employees’ job satisfaction will be moderated by adversity quotient; such that the relationship will be weak in the presence of adversity quotient. 

P3b: The relationship between perceived psychological contract breach and employees’ commitment will be moderated by adversity quotient; such that the relationship will be weak in the presence of adversity quotient. 

P3c: The relationship between perceived psychological contract breach and intent to quit will be moderated by adversity quotient; such that the relationship will be weak in the presence of adversity quotient.

The role of Islamic work ethic on psychological contract breach

Islamic ethics is the distinction between good and evil in the context of Islamic background (Beekun, 1997) of the right focus. Islamic work ethics are very focused on hard work, dedication, commitment to work, cooperation and creative work (Yusuf, 2001). All parties in Islamic business ethics teaching contracts and transactions (Ahmad, 1995) are involved in the overall direction of mutual obligations.

Ethics, in the study of the Western world by the Protestant Work Ethic (PWE) reports and by Weber (1958), is known as Western philosophy, and it shows that PWE focuses on the responsibility of a person and the relationship between modern capitalism. The PWE is based on guidelines (theory) given to persons involved in crime. To get out of this state, one must engage in hard labor (Bendix Bengal Complete Works, 1962). Weber argued that the Calvinist doctrine of the basic logic of inspiration was an effort to obtain personal financial interests in response to self-denial. As Calvin moved to eradicate satisfaction with the work of creation, it results to low wages in modern capitalism (Bendix, 1962) as compared to the early exploitation of individual rights and religious sanctions. Furnham (1990), in a broader sense of the PWE, opined that hard work, religious duties, negative attitudes, activities, recreation and leisure, speed and efficiency in work, loyalty and commitment, professional pride, sense of achievement and honesty, are indicators of God's blessing to see that humans live above poverty.

Similarly, Islamic philosophy emphasizes the profound compassion, forgiveness and love. Atiyah (1999) reported the cooperation of a high concentration of Islamic thought, sibling relationships, harmony, and avoid conflict. Albasha and Ghazali (1994) have reported a variety of basic principles of Islam as: the basic intent of all actions (Niyat), having a knowledge of all attempts (Itqan), efficiency and capacity (perfection), honesty (Ikhlas), brilliancy (base Farah), relentless self-examination and self-empowerment to continue to meet the Almighty devotion (taqwa), reliance (integrity), equity (Adil), tolerance (sabar), moderation, cleanliness, discipline, dedication and cooperation. Yusuf (2000) suggested that the Islamic work ethic (IWE) to promote", no job, no sense of life, participation in economic activities is an obligation" (p.284).

In summary of the IWE, the principles of Islamic literature in both the Koran and the sayings of the Prophet Muhammad (PBUH) and his methods, based on discussion of values and practices of workplace behavior and general behavior of the application of life a priority are: equality, self-examination, counsel, fairness, cooperation, discipline and the implementation of insurance and commitment, honesty, fairness, humility, diligence, perseverance, and justice (Ali, 2005).

The principle of freedom opines that as the trustee of Allah, we have God-given individual rights to property and their personal decision by the provisions of Islamic law or the limits of their property. Besides, the principle of freedom conditions of “free consent”. This means that all parties in the contract must be given freely to the terms and conditions of the consent. The second principle of justice is to give examples of all the mentioned conditions with honesty and sincerity (Oprechten, 1995) to meet the talks. Likewise, leadership principle of Islamic values is based on trust on leader from his followers, that the leader will guide them, protect them, and establish justice system. This is a type of psychological contract between leader and the followers that the leader will treat them with sincerity, honesty and equality. Allah (SWT) says: “behold! Each of you is a guardian, and each of you will be asked about his subjects." Various studies reported the relationship of IWE with organizational commitment (Rokhman, 2010; Yusuf, 2001; Peterson, 2003) job satisfaction (Rokhman, 2010; Yousef, 2001) and with turnover intentions (Sager et al., 1998). Since the psychological contract breach is employee's judgment that the other party is not going to fulfill his due obligations (Morrison and Robinson, 1997), thus, the connection of Islamic work ethics with psychological contract breach and its outcomes would be linked through (Koh et al., 2004). Organizational justice theory holds that individual justice perception can affect his job behavior and outcome. Organizations which are ethically strong in employees' perceptions would be treated as fair organization by employees. Therefore, such organizational
perception increases employee job satisfaction, organizational commitment and reduce their intention to leave the organization (Koh et al., 2004). Several research studies reported influential role of ethical conduct in work environment on organizational commitment, job satisfaction and intention to leave (Weeks et al., 2004; Schwepker, 2001). It could be logical to argue that exercise of Islamic work ethics decrease the feelings of individuals for being unjustly treated, therefore, increase employees satisfaction, organizational commitment and lower intention to quit. Conversely, in the absence or low Islamic work ethics, psychological contracts breach will decrease employee’s satisfaction, affective commitment and increase intention to quit. By considering these, the authors draw the following hypotheses:

Pₚₒ: The relationship between perceived psychological contract breach and employees’ job satisfaction will be moderated by Islamic work ethic; such that the relationship will be weaken in the presence of Islamic work ethic.
Pₚₑ: The relationship between perceived psychological contract breach and employees’ commitment will be moderated by Islamic work ethic; such that the relationship will be weaken in the presence of Islamic work ethic.
Pₚₑ: The relationship between perceived contract breach and intent to quit will be moderated by Islamic work ethic; such that the relationship will be weaken in the presence of Islamic work ethic.

DISCUSSION AND CONCLUSION

The purpose of this study was to explore how individuals react when organizations commit a psychological contract breach with their employees. Literature supports that when psychological contract breach occur from organizations’ side, employees’ perceive low job satisfaction, low organizational commitment and high intention to quit (Raja et al., 2004). On the other hand, literature is silent on how psychological contract breach and employees’ outcomes relationship is influenced by adversity quotient and Islamic work ethics. As individuals have varying degree of compassion to face challenges, uncertain situation and irritation, it is necessary for the employer to determine the strength and abilities of the individual’s emotional reactions when entering into a psychological contract fulfillment or breach. The contribution of this study is how Islamic work ethics and adversity quotient influenced the relationship between psychological contract breach and employees’ outcomes. First, employees high in Islamic work ethics will decrease the relationship between psychological contract breach and employees’ commitment and job satisfaction. Employees high in Islamic work ethics are likely to face challenges and unforeseen situation with patience and limited effects, when organizations breach the psychological contract. But if employees’ are low in Islamic work ethics, it will have a negligible impact on the relationship between psychological contract breach and employees’ outcomes (job satisfaction, employees’ commitment and intention to quit). Therefore, Islamic work ethics have influence on the relationship between psychological contract breach and employees’ outcomes (employees’ commitment, job satisfaction and intention to quit).

The second important contribution of this study is that adversity quotient influence the relationship between psychological contract breach and employees’ work outcomes. Employees who are high in adversity quotient are likely to face challenging situations in organizations as compared to those who are low in adversity quotient. So, employees high in adversity quotient will face the contract breach easily than those who are low in adversity quotient. This study proposes that organizations must try to understand the individual differences and beliefs while taking any action regarding the psychological contract breach or fulfillment.

Future direction

There are few suggestions for the future research. First, empirically test the model whether the results come in the same direction or are different and collect the data from the different sector to increase the generalizability of the study. Secondly, it is suggested that other moderating variables are used to check whether they influence the relationship of psychological contract breach and outcomes variables. Thirdly, it is also suggested to check the same model with other outcome variables such as in-role behavior of the employees, OCB, etc.

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