EXPLORING THE NEXUS BETWEEN PSYCHOLOGICAL CONTRACT AND TURNOVER INTENTION: CONCEPTUAL FRAMEWORK

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Abstract

The present study investigates the impact of psychological contract on turnover intention in the insurance sector of India which is heavily affected by high employee or agent turnover. This research clarifies the paucity of literature related to psychological contract in Indian insurance industry. Psychological contract, work culture, workforce diversity is considered as the independent variable and turnover intention, work engagement, trust and job satisfaction as dependent variable. A model is proposed which explores the relationship between psychological contract, turnover intention, and work engagement and it is mediated by job satisfaction. Further, relationship between work culture and job satisfaction; workforce diversity and job satisfaction has been studied. The methodology adopted for this study is literature search. On the basis of the literature search and proposed model it is concluded that a fulfilled psychological contract would result in reducing employee turnover. Limitations and Implications are discussed in detail.

Keywords: Psychological contract, work culture, workforce diversity, turnover intention, work engagement, trust and job satisfaction

JEL Classification: M51,D23,J63,O15

Introduction

In the era of globalization and technology driven economy, fulfillment of obligations by both employee and employer stands crucial. Psychological contract is one of the important predictor to understand the employee-employer relationship (Rousseau, de Rosario, Jardat, & Pesqueux, 2014). So an understanding and effective management of psychological contract would help the organizations to flourish (Rousseau, 2004).

India’s insurance sector is the biggest in the world which consists of 53 insurance companies with about 360 million policies and compounded annual growth rate of 12 to 15 percent growth over the next five years. Currently the general insurance business in India is at Rs 78,000 crore premiums per annum industry and is growing at a healthy rate of 17 percent, but still the threat to manage talent exists. Huge attrition of insurance
agents and workforce had weakened the talent pipeline of insurance sector in India. One of the major challenging human resource issues for the Indian insurance industry is to check the turnover rate which has been on high for many years.

This paper is organized as following: First drawing upon a literature review is Psychological contract, Work culture, Workforce Diversity, Job Satisfaction, Trust, Turnover Intention and Employee Engagement. Next, by combining these research variables we suggest a model and testable propositions for future research. Further, methodology adopted for the research has been described. Finally, it ends with conclusion followed by limitation and implications for future research.

**Literature Review**

**Psychological Contract**

Subjectivity of contract refers to olden times which occurs either in written or oral agreement form between two parties. When an individual perceives that contribution he or she makes obligate the organization to reciprocity or vice-versa then a psychological contract emerges (Rousseau, 1989). Psychological contract are differentiated into two types such as relational which is open-ended, foster relationship whereas transactional involve monetizable exchanges (Rousseau, 1990). Over the time shift has occurred from old bureaucratic psychological contract to new adhocracy psychological contract (Kissler, 1994). In the recent past, Cullinane & Dundon (2006) argued that current literature and theorization has missed sources of influences that impact psychological contract. In the era of 21st century, organizations are finding it difficult to fulfill certain component of psychological contract which employee value much such as open and honest communication and it leads to repercussions on job satisfaction, turnover intention, performance (Lester & Kickul, 2001). Application of psychological contract theory extends from industrial or organizational psychology to distributor-supplier relation, information system outsourcing, online marketing, law (Rousseau, 2011). Though psychological contract research has been around for more than fifty years but still some unresolved issues exist in conceptualization such as what belief constitute psychological contract and defining implicit belief (Conway & Briner, 2009).

**Turnover Intention**

Employee’s turnover results in a serious issue that weakens the talent pipeline of the organization incurring heavy organizational cost. Turnover intention is conceived to be a conscious and deliberate wilfulness to leave the organization (Tett & Meyer, 1993). A study found out the relationship of healthcare workers turnover intent with individual characteristic, work environment variables and organizational factors (Beecroft, Dorey & Wenten, 2008). Job satisfaction has been found to have inverse relationship with turnover intention (Trevor, 2001).

**Work Engagement**

Engagement is defined as a positive and fulfilling state at work that is defined by vigour, dedication and absorption (Schaufeli et al., 2002). Engagement significantly predicted turnover intention and job satisfaction in employed college students (Alarcon et al.,
Engagement is distinguished from constructs such as commitment, job involvement (Hallberg et al., 2006). Engagement and embeddedness are unique constructs and share unique variance with in-role performance and intention to leave (Halbesleben & Wheeler, 2008). In recent literature employee engagement has been identified with four sub-concepts which are stated as, Need-Satisfying approach, Satisfaction-Engagement approach, Burnout Atithesis approach and Multidimensional approach (Shuck & Wollard, 2011).

**Organizational Trust**

Trust is defined as the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trust or, irrespective of the ability to control other party (Mayer, Davis & Schoorman, 1995). A study involving furloughed workers found that in case of psychological contract breach with previous employer the employee might have difficulty in building trust towards new employer (Kim & Choi, 2010). Trust and work satisfaction are the important ingredients for the functioning of the organization (Lee & Teo, 2005). High level of employee engagement reflects a greater trust and a loyal relationship between organization and individual (Biswas & Bhatnagar, 2013).

**Job Satisfaction**

Job satisfaction has been defined in a different way by researchers which include involvement of an employee with his/her job and its facets (Spector, 1997). Job satisfaction defined as “a positive emotional state resulting from appraisal of one’s job or job experience” (Locke, 1976). Most of the research work has linked job satisfaction to turnover intentions but still it suffers from few limitations (Chen, Ployhart, Thomas, Anderson & Bliese, 2011). Individuals experiencing certain level of engagement find their work motivating and results in job satisfaction (Biswas & Bhatnagar, 2013).

**Work Culture**

There has been ample of research concerning the field of organizational culture which plays a vital role. Organizational culture is defined as set of key values, assumptions, understandings and norms that is shared by member of an organization and taught to new member as correct (Daft, 2005, p. 422). A study found significant positive relationship between organizational culture and job satisfaction scores (Sempane et al., 2002). Organizational learning culture positively influences job satisfaction among university employees (Ebrahim, Obaid, Durrishah & Raheleh, 2013).

**Workforce Diversity**

Diversity is often viewed as differences in race, ethnicity, gender, and sexual orientation (Tropman, 1998). More the demographic diversity in groups, lesser is the social cohesion (Williams & O’Reilly, 1998). Elvira & Cohen’s (2001) while investigating records of employees at a fortune 500 company found that diversity in groups leads to turnover. Panel data analysis suggests that diversity has no statistical significance on overall job satisfaction and wages (Longhi, 2011). Organizational diversity, supervisor support, inclusion/exclusion has impact on social worker job satisfaction (Acquavita et al., 2009)
Research gap
Psychological contract literature is abundantly dominated with unfulfilled psychological contract issues leading to psychological contract breach. There has been, not much of research discussing the fulfilled psychological contract and their impact on Indian insurance sector. Hence a research regarding a properly implemented and fulfilled psychological contract would be the need of the hour. Psychological contract can be one of such tool which would help the Indian insurance industry in reducing the turnover intention.

Propositions
Psychological Contract and Job Satisfaction
Relationship exists between psychological contract and facets of job satisfaction (pay, work & people) in a non-profit context. Employees whose psychological contract is breached, experience less job satisfaction as compared to high fulfilled and low fulfilled employees and pay as a facet brought less job satisfaction in low fulfilled employees as compared to high fulfilled employees (Beynon, Haffernan & Mcdermott, 2012). A study in a social enterprise sector found that ideological psychological contract has indirect effect on workers job satisfaction through organizational respect. Hence, ideological psychological contract have a positive influence on job satisfaction and perception of respect (Roman, Battistelli & Odoardi, 2014). Employees response to transactional (psychological) contract is monetary as compare to relational (psychological) contract which is more emotional, socially attached and these relational contract give rise to affect-related outcomes which are commitment and job satisfaction (Walker, 2013). A contradicting research result came in the relation between psychological contract and job satisfaction in case of casual workers as compared to full-time workers. Though transactional (psychological) contract are fulfilled for casual workers but the relational (psychological) contract remains unfulfilled as compared to full time workers and hence casual workers exhibit less job satisfaction (Nelson, Tonks & Waymouth, 2006). A longitudinal study stated that employee work behavior and job satisfaction is positively correlated with organizational contract compliance (Portwood & Miller, 1976). A significant relationship exists between psychological contract, job satisfaction and organizational commitment with expectancy from organization (Mohsen & Zahra, 2011). Thus the following hypothesis has been proposed:

H1(a): Psychological contract will be positively related to Job satisfaction

Psychological Contract and Work Engagement
Perceived organizational support and psychological contract mediates the relationship between distributive justice and engagement which further explains the existence of a positive relation between psychological contract and engagement (Biswas, Varma & Ramaswami, 2013). Psychological (relational) contract mediates the relationship between developmental HRM and engagement. Developmental HRM provide long term support from organization perspective which in turn helps in building the relationship among employee-employer strengthening the psychological(relation) contract and thus it induces employees to reciprocate by becoming more engaged (Bal, Kooij & Jong, 2013). Psychological contract is a predictor of employee engagement (Bhatnagar & Biswas, 2010). Psychological contract and engagement are important
physiological construct which are closely related but not the same (Aggarwal, Datta & Bhargava, 2007). This led to the development of following hypothesis:

**H1(b): Psychological (relational) contract will be positively related to Work Engagement**

### Psychological Contract and Turnover Intention

Blomme, Rheede & Tromp (2010) found out that a relationship exists between psychological contract and turnover intention of employees working in hospitality industry with a purpose to research the differences in psychological contract and its relation to turnover intention between highly educated male and female employees. The contextual factors affecting turnover intention in knowledge workers was examined and concluded by a study which states that psychological contract, reward and recognition were strong mediators between perceived supervisors support, innovation and turnover intention (Bhatnagar, 2014). Research stated that there is a strong relation between psychological contract and turnover intention for those with low tenure as compared to high tenure employees (Bal, Cooman & Mol, 2013). Thus the following hypothesis has been proposed:

**H1(c): Psychological contract will be negatively related to Turnover intention**

### Psychological Contract and Trust

A study indicated that employees reacted differently to varying level of fulfilment of their transactional and relational contract and the research concluded that trust is centrally related to relational as opposed to transactional (Montes & Gregory, 2008). Relationship between trust and attitude towards change is mediated by psychological contract fulfilment and perceived need for change (Sjoerd et al., 2015). Psychological contract fulfilment has been found to be positively related with trust (Agarwal, 2014). Hence the following hypothesis is projected as:

**H1(d): Psychological (relational) contract will be positively related to trust**

### Trust and Job Satisfaction

Organizational trust is positively related to job satisfaction but high trust organization results in high job satisfaction as compared to low trust organization (Perry & Mankin, 2007). A study on interpersonal trust (trust in management and trust in peer) and employee job satisfaction reveals that interpersonal trust significantly influence job satisfaction and it is further found out that trust in peers has a stronger impact on job satisfaction than trust in management (Matzler & Renzl, 2006). Study in hospital sector identified that all dimensions of job satisfaction has a significant relationship with organizational commitment and trust and hence the regression analyses mentioned that organizational trust and two dimensions (reward & communication) of job satisfaction were significant predictor of commitment (M. Top et al., 2013). Organizational restructuring create a negative relation between trust and job satisfaction immediate after post restructuring and in the similar study result also found out that after a span of restructuring positive relation exists between trust and job satisfaction and trust contributed to job satisfaction (Lee & Teo, 2005). There is a significant difference between the dimension of job satisfaction and organizational trust in case of public and private sector (Mehmet, Mesut & Menderes, 2015). Thus the following hypothesis has been proposed:

**H2(a): Trust will be positively related to Job satisfaction**
**Trust and Turnover Intention**

A study concluded that trust in top management and CEO is more highly associated with turnover intention than trust in supervisor but group collectivism does not moderate relation between trust and turnover intention (Costigan, Insinga, Berman, Kranas & Kureshov, 2011). Negative linear relationship exists between affect-based trust and turnover intention (Costigan et al., 2012). Turnover intention, trust and affective commitment were more impacted by psychological contract violation in public sector than in private sector (Shahnawaz & Goswami, 2011). Alper Erturk (2014) investigated and found that organizational trust helps in reducing turnover intention of IT employees working in Turkish public sector organization and it was also reported that trust in organization moderates relationship between turnover intention and perceived organizational support where as trust in supervisor moderate relationship between turnover intention and leader-member exchange. Thus the following hypothesis has been proposed:

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H2(b): \text{Trust will be negatively related to Turnover Intention}
\]

**Trust and Work Engagement**

Trust in organization is a driver for engagement. If employees trust their organization then they put full effort and commitment to their work which further refers to the output of the study that signifies a positive association between trust and work engagement (Agarwal, 2014). Another study by Wang & Hsieh (2013) found employee trust as a partial mediating effect on authentic leadership and employee engagement and further engagement started showing a positive relation with employee trust. Research mentioned that organizational trust refers to individual expectation and confidence about the action of their organization whereas work engagement refers to involvement and zeal about their work, which implies influence of the former on latter and hence it is concluded that organizational trust is positively related to work engagement and it acts as a partial mediator between work engagement and its antecedent (Lin, 2010). So the following hypothesis came into existence:

\[
H2(c): \text{Trust will be positively related to Work Engagement}
\]

**Work Engagement and Job Satisfaction**

Work engagement has three constructs such as dedication, vigor and absorption. Engagement and job satisfaction are two separate constructs but related one (Alarcon & Lyons, 2011). Increased engagement results in enhanced job satisfaction and the finding of the same study further suggest that engagement partially mediates the relation between authentic leadership and job satisfaction (Giallonardo et al., 2010). Job satisfaction predicts engagement and hence the study established a positive relationship between job satisfaction and employee engagement (Brunetto, Teo, Shacklock & Wharton, 2012). Workplace spirituality and creative process engagement are required to create job satisfaction (Fachrunnisa, Adhiatma & Mutamimah, 2014). When work objectives are achieved individuals may develop a feel of inherent well being and gratified which may lead engagement to have a positive influence on job satisfaction (Biswas & Bhatnagar, 2013). A study in Indian IT industry demonstrated that demographic factor such as age, sex, tenure in company did not affect job satisfaction and has little influence on the
relationship between engagement and job satisfaction (Kamalanabhan, Sai & Duggirala, 2009). Employee engagement and its dimensions (vigor, dedication & absorption) mediated relationship between job satisfaction and organizational identification (Karanika, Duncan, Ponthes & Griffth, 2015). A study in a hotel industry identified that work engagement partially mediates the relationship between tourism involvement and job satisfaction and work engagement is positively related to job satisfaction (Yeh, 2013). Hence the following hypothesis is projected:

\[ H3(a): \text{Work Engagement will be positively related to Job satisfaction} \]

**Work Engagement and Turnover Intention**

With respect to little research that exist related to predictive validity of engagement, it was found that engagement is an effective predictor of turnover intention controlling for traditional predictor such as burnout (Alarcon & Edwards, 2010). Highly engaged employee would find it difficult to detach away from the work of that organization as he has contributed so much to that and it ultimately builds his own identity (Halbeselben & Wheeler, 2008). Negative relationship exists between engagement and turnover intention and affective commitment mediates this relationship (Burnetto et al., 2012). Thus the following hypothesis is proposed:

\[ H3(b): \text{Work Engagement will be negatively related to Turnover intention} \]

**Job Satisfaction and Turnover Intention**

A descriptive cross-sectional multicentre study on Iraqi doctors revealed a significant relationship between job satisfaction and turnover intention and found that job satisfaction is negatively related to turnover intention (Jadoo et al., 2015). A study found that job satisfaction change negatively correlates with turnover intention change considering average level of job satisfaction as constant which further clarifies that decline (increase) in job satisfaction is associated with increase(decline) in turnover intention(Chen et al., 2011). Flexi work arrangements make employees more enriched from work to home which results in enhanced job satisfaction and reduced turnover intention (McNall, Masuda & Nicklin, 2010). Greater an individual is intrinsically, extrinsically and socially satisfied with his/her job greater will be his commitment and such an attitude will make individual to continue within the organization and restrain turnover intention (Biswas, Varma & Ramaswami, 2013). Turnover Intention was found to be negatively influenced by job satisfaction and organization learning culture (Egan, Yang & Bartlett, 2004). Hence the following hypothesis is projected:

\[ H4: \text{Job satisfaction is negatively related to turnover intention} \]

**Work Culture and Job Satisfaction**

Effect of Organizational culture and individual values and a fit between two contribute to explain variance in job satisfaction, intent to quit and willingness to recommend organization (Tepeci & Bartlett, 2002). Research study by Sempane, Rieger & Roodt (2002) stated that a significant positive correlation was found between organizational culture and job satisfaction and job satisfaction is not determined by biographical variables but culture is. Positive moderate relationship exists between
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Learning organization culture and job satisfaction (Dirani, 2009). Organization with hierarchical culture exhibit low job satisfaction of employees as compared to organization with autocratic and clan culture exhibit high job satisfaction. So more efficient and stronger the culture higher is the level of job satisfaction (Zavyalova & Kucherov, 2010). Researcher compared office and field employee and found that it has no impact on job satisfaction but has an impact on different dimensions of organizational culture (Rosenfeld, Richman & May, 2004). A flexible oriented culture positively relates to employee’s job satisfaction and it was further found out that authentic leadership partially mediates the relationship between flexible organizational culture and job satisfaction (Azanza, Moriano & Molero, 2013). Thus the following hypothesis is proposed:

H5: Work Culture which is flexible will be positively related to Job satisfaction

Workforce Diversity and Job Satisfaction

A study found out that hotel manager who perceived a positive diversity climate exhibit more job satisfaction and less role ambiguity and role conflict (Madera, Dawson & Neal, 2013). Research by Campbell, (2011) resulted in a conflicting finding which suggest that in United states gender, race and ethnicity is not a reliable predictor of job satisfaction but in certain situation specific workplace or organization legitimate correlation between diversity and job satisfaction. A study in England found out that diversity has no statistical significant impact on wages and job satisfaction but in case of cross-section data diversity has shown impact on wages but not on job satisfaction. Further evidence during study found out that employee who never changed districts, benefit from diversity in term of wages but not job satisfaction but employee who moves did not gain from diversity (Longhi & Simonetta, 2011). Diversity correlates job satisfaction and inclusion seems to be best predictor of job satisfaction but individuals who feel as excluded (such as women’s and members of racial ethnic group) experience lower job satisfaction (Barak & Levin, 2002). Diversity correlates negatively with job satisfaction (Long, 1998). This led to the formulation of following hypothesis:

H6: Workforce Diversity will be negatively related to job satisfaction.

Job Satisfaction as a Mediator

Earlier researchers have found out that there is a significant relationship between psychological contract, organizational commitment or job satisfaction and turnover intention. Affective commitment is a mediating variable for relationship between psychological contract and turnover intention in hospitality industry (Blomme et al., 2010). Job attitude such as job satisfaction and organizational commitment mediate the impact of psychological contract breach and turnover intention (Harttman & Rutherford, 2015). Though there is not much empirical evidence to state the mediation but the researcher has proposed the following hypothesis:

H7(a): Job satisfaction will mediate the relationship between Psychological contract and Turnover intention

A study found out that psychological contract that are unfulfilled decreases job satisfaction of employees and a dissatisfied employee results in becoming more
disengaged and less committed and the study concluded by stating that job satisfaction mediate the relationship between psychological contract breach and work engagement (Bruce, Rayton & Zeynep, 2014). So work engagement will occur when employee feels that psychological contract is in place and employees are satisfied with their jobs. Hence the following hypothesis is proposed:

*H7(b): Job satisfaction will mediate the relationship between Psychological contract and Work Engagement*

Research study mentioned job satisfaction as a mediating variable between work environment and turnover intent (Lambert, Hogan & Barton, 2001). Job satisfaction predicts work engagement and commitment which further mention that this organizational commitment partially mediates the relationship between engagement and turnover intention (Brunetto, Teo, Shacklock & Wharton, 2012). So it can be inferred that as job satisfaction predicts commitment and commitment mediates the relationship between engagement and turnover intention hence job satisfaction can be considered as a mediator in the relationship between engagement and turnover intention. These argument help in proposing the following hypothesis:

*H7(c): Job satisfaction will mediate the relationship between Employee engagement and Turnover intention*

![Proposed Model](image)

**Figure 1: Proposed Model**

**Method**

**Literature Search**

This paper is conceptual in nature which is based on review of literature and developing a theoretical framework. Research article were searched during the period of January 2016 and March 2016. Researcher followed several steps to conduct such search. At first online resource such as google scholar, scopus, ebscohost was adopted as the
medium. Secondly, in order to make the search efficient relevant keywords such as psychological contract, job satisfaction, turnover intention, trust, work engagement, work culture and workforce diversity etc., were searched. Thirdly, on the basis of relevancy we either accepted or rejected an article for our study. A thumb rule was used in which psychological contract, work culture, workforce diversity were selected as independent variable and turnover intention, job satisfaction, trust, employee engagement as dependent variable. We selected 61 peer reviewed article for our study which excludes dissertations.

**Discussion**

On the basis of the review of the literature and formulated hypothesis, it was found that a positive relationship exists between psychological contract and job satisfaction; psychological contract and trust; psychological contract and work engagement. But a negative relationship exists between psychological contract and turnover intention. Similarly, it was found out that a positive relationship exist between trust and job satisfaction; trust and work engagement & a negative relationship exists between trust and turnover intention. It was also found out that a positive relationship exist between work engagement and job satisfaction whereas, a negative relationship exists between work engagement and turnover intention. Negative relationship exists between job satisfaction and turnover intention. Further, it was found that work culture is positively related to job satisfaction whereas, work diversity is negatively related to job satisfaction. Finally, it was found that job satisfaction act as a mediator for relationship between psychological contract and turnover intention; psychological contract and work engagement; work engagement and turnover intention.

**Conclusion**

On the basis of the literature search and proposed model, it is concluded that a fulfilled psychological contract would result in reducing employee turnover and thus help in managing the talent across organization.

**Limitations**

There is dearth in the availability of literature related to fulfilment of psychological contract in insurance organization. So research has considered allied industry which is categorized as service sector. The findings of the study are the propositions which need to be tested empirically in Indian insurance sector to arrive at the valid results.

**Implications for future research**

This research has some implications for future research. The phenomenon of outcomes can be approached by researcher in the field of psychology, organizational behavior and human resource management. This study can be extended in finding out other variables as mediator such as trust. Similar study can be taken up in other organization as well to observe the impact of psychological contract.
References


