

# THE IMPACT OF ORGANIZATIONAL CHANGE ON JOB SATISFACTION, AND INTENTION TO QUIT: A MEDIATING ROLE OF PSYCHOLOGICAL CONTRACT VIOLATION

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## Abstract

Organizations today are not in a stable position. The introduction of new advanced technology, increased competition, cost-cutting approach, globalization, have pushed organizations to implement major changes. Change of any type disrupts the existing employment relationships between the employer and employee. This study attempts to examining the relationship between the negative and positive experiences of organizational change (based on mergers and acquisitions, frequent changes, high impact changes, type of changes, history of changes) and job satisfaction, intentions to quit via the mediating role of psychological contract violations. Furthermore, this study reviews papers related to organizational change, and psychological contract with a further view to highlight the importance of psychological contract violations as a consequence of major organizational changes and how employees make sense of these contract violations and organizational changes.

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**Keywords:** Impact of Organizational Change, Employee Relations, Job Satisfaction, Psychological Contract Violation, Intention to Quit

## Introduction:

Organizations now a days are no more stable. To a certain extent organizations today are trying to implement and seek effective organizational changes to stabilize the organizational performance and survival for the current and coming challenges. Somehow, organizational changes happen so frequently in some organizations with a reaction to the disruptive and turbulent environmental concerns that shape the current practices for organizations and result in changes towards the organizational values (Hackman, 1984; Nutt & Backoff, 1997, Smissen et al., 2013).

Organizational change can be defined and conceptualized as a mode of transitional practice or transformational practices in organizations. Most of the research scholars in organizational change concept suggested that organizational change could be the intentional or on-purpose effort by the organization to make the things better towards success (Hellriegel and Slocum, 1979; Kimberly and Quinn, 1984). Organizational changes leads to adapting new practices, and processes to meet the intention or purpose set for implementation of organizational changes.

## **TYOLOGY OF ORGANIZATIONAL CHANGE**

According to Kimberly and Quinn (1984), organizational change consists of three main types: 1) restructuring, 2) repositioning, and 3) revitalizing. Restructuring is the most widely practiced mode of organizational change implementation and are considered as the major or radical organizational changes. In literature, some authors call these changes as transformational changes where organizations adapt major shift in part or in full to the normal business of organization. Restructuring guides the organizations to define the fundamental components of business and integrate the components. Repositioning refers also to major organizational changes but it is concerned with external factors attached to the business of the organization e.g. how can organization position itself in the outside world or markets it operates. The third type 'revitalizing' leads the organizations to change its culture and style of business operations under the umbrella of major organizational changes. Although, these three types of organizational changes are distinctive to each other but they still contain some overlapping characteristics. For example, task relocations and or downsizing are the elements from restructuring type of organizational change but these may have influence from repositioning type of organizational change due to drastic up downs in the market. It may further have influence on change in organizational culture that reflects revitalizing type of organizational change.

The changing nature of recent business environment is having a significant impact on the expectations, promises, and obligations in employment relationships (Kickul et al., 2002). In order to fulfill, these promises, expectations, and obligations organizations are facing increasing pressures to adapt or implement rapid organizational changes to human resources because the need for restructuring, changes in HR policies, implementation of advance IT, changes in operations, downsizing/layoffs to setup an effective workforce for the betterment of the business and favorable employment relationships. Guest and Conway (2001) in their empirical research on organizational change and psychological contract, argued that organizational change implementation during the intervening time had influenced numerous outcomes e.g. job satisfaction, motivation, intention to

quit. In case of negative organizational changes, employees attitude will be decreased and it will also influence employees behavioral responses towards organizational change. Similarly, it is normal to assume that any change whether positive or negative in employees' attitude and behaviors is the result of organizational change.

## **OLD PSYCHOLOGICAL CONTRACT OR NEW PSYCHOLOGICAL CONTRACT**

Psychological contract construct has attained prominent consideration in leading texts related to organizational behavior, organizational psychology, and human resource management discourse. This increasingly important consideration of construct is due to the complexity of managing employee-organization relationships in contemporary large organizations. Since the re-conceptualization of the construct 'Psychological Contract' by Rousseau (1989; 1990), there is a superfluity of psychological contract related research. A psychological contract (PC) is defined as terms and conditions of a mutual exchange relationship developed between employee and employer (Rousseau 1990). PC emerges when employees consider the promises made by the employer against their contributions in return for future benefits. These perceptions of promises, obligations, and expectations between employer and employee are based on exchange relationship. Previously, psychological contracts were considered as expectations only but re-conceptualization of the construct by Rousseau has transformed the concept from expectations to be more focused on promissory side of contract. What employees feel about promises made by their employer? Earlier studies tried to locate a balance between inputs by employees and the employer but Rousseau emphasized looking into the violation side of the contract.

Once the already existing relationship between employee and employer is replaced due to organizational changes result in what authors called it in literature as 'New Psychological Contract' (Hendry and Jenkins, 1997; Martin et al., 1998; Sims, 1994; Stone, 2000; Sparrow, 1996; Rousseau, 2001 ) or 'Psychological Contract Changes' (Bellou, 2006), or 'New Deal' (Herriot and Pemberton, 1995; Hiltrop, 1995; Sturges et al., 2005; Martin et al., 1998; Hendry and Jenkins, 1997; Anderson and Schalk, 1998; Nadin and Cassell, 2007; Whitener, 1998). Employees are likely to reexamine the relationship with their employer when planned or major changes are introduced in the organization e.g. layoffs, downsizing, HR policies and procedures, mergers and acquisitions, etc. which ultimately causes considerable impact on employment relationships (Rousseau and McLean Parks 1993; Bellou, 2006).

Most of the authors have found changes alter the existing psychological contract (Turnley et al., 2003; Robinson et al., 1994).

According to Bellou (2006) in case of mergers and acquisitions, the already existing 'psychological contract formation ceases to exist' because the new contract is understood to be transformed by acquiring or holding organization (Catwright and Cooper, 1992, 1994; as cited in Bellou, 2006). Considering the situations faced by organizations due to these stated changes, there is a greater need to revise the changed psychological contract or 'New Deal' by looking at different factors affecting the employee-organization relationship to further manage the relationship for the existence of acquired or holding company e.g. social and cultural environment, internal and external business factors do affect the psychological contract. Jean-Marie Hiltrop's work (1995) "The Changing Psychological Contract: The Human Resource Challenge of the 1990s" is considered a seminal work in comparing 'Old' v 'New' conception of psychological contract. "There is no job security. The employee will be employed as long as he or she adds value to the organization, and is personally responsible for finding new ways to add value. In return, the employees have the right to demand interesting and important work, has the freedom and resources to perform it well, receives pay that reflects his or her contribution, and gets the experience and training needed to be employable here or elsewhere (Hiltrop, 1995, p. 289)."

**Table 1.1: OLD VERSUS NEW PSYCHOLOGICAL CONTRACT**

<b>Characteristics</b>	<b>Old Psychological Contract</b>	<b>New Psychological Contract</b>
Focus	Security, continuity, loyalty	Exchange, future employability
Format/ Change environment	Structured, predictable, stable	Unstructured, flexible, open to (re)negotiation
Culture	Paternalism, timer served, exchange for security for commitment	Those who perform get rewarded and have contract developed
Underlying basis	Tradition, fairness, social justice, socio-economic class	Market forces, saleable, abilities and skills, added value
Rewards	Paid on level, position, and status	Paid on contributions
Employer's responsibilities	Continuity, job security, training, career aspects	Equitable (as perceived) reward for added value
Motivational currency	Promotion	Job enrichment, competency development
Promotional basis	Expected, time served, technical competence	Less opportunity, new criteria, for those who deserve it
Mobility expectations	Infrequent and on employee's terms	Horizontal, used to rejuvenate organization, managed process
Redundancy/tenure guarantee	Job for life if perform	Lucky to have a job, no guarantee
Employee's responsibilities	Loyalty, attendance, satisfactory performance, compliance with authority	Entrapreneurship, innovation, enacting changes to improve performance, excellent performance
Contractual relations	Formalized, mostly via trade union or collective	Individual's responsibility to barter for their services (internally or externally)

	representation	
Career management/ Personal development	Organizational responsibility, inspiring careers planned and facilitated through personnel department input	Individual's responsibility, outspiring careers by personal re-skilling and retaining
Status	Very important	To be earned by competence and credibility
Trust	High trust possible	Desirable, but expect employees to be more committed to project or profession

Source: Developed and extended from (Hiltrop, 1995; Sparrow 1996; Anderson and Schalk, 1998; Freese, 2007).

### **PSYCHOLOGICAL CONTRACT VIOLATIONS AND ORGANIZATIONAL CHANGE:**

The experience of organizational change consist of number of factors associated with the organizational change implementation process: 1) frequent changes, 2) high impact changes, 3) negative experiences of organizational changes, 4) positive experiences of organizational changes, 5) type of organizational changes, and 6) history of organizational changes in the past whether successful or not (Oreg et al., 2011; Smissen et al., 2013). Therefore, it is assumed that the experience of organizational change construct is based on the assumptions that the organizations have faced frequent organizational changes with high impact based on radical organizational changes. The experience of organizational change includes the negative and positive aspects of organizational changes. For instance, downsizing, layoffs, forced retirements etc. are the negative consequences of organizational changes. On the other hand, successful implementation of organizational change for the betterment of organization and its employees is a positive sign of organizational changes. So, it comes to the following proposition:

*Proposition 1: The negative experience of organizational change will be negatively related to job satisfaction and positively related to intention to quit.*

*Proposition 2: The positive experience of organizational change will be positively related to job satisfaction and negatively related to intention to quit.*

The employer or organizational representative in organizations is perceived through the employees (Rousseau, 1989; 1995; 2004). The most important part in considering the usefulness of psychological contract between employer and employee and its impact on employees including their attitudes and behaviors especially when the psychological contracts are violated by the employer. In the circumstances of non-fulfillment of promises, expectations, and obligations made the employer, psychological

contract violation occurs as a result of such violations the employees make sense of such violations as negative experiences with their employer. For instance, decreased loyalty, carelessness and neglect, aggressiveness, increased voice, higher level of turnover or employees start searching jobs elsewhere (Guzzo and Noonan, 1994; Robinson and Rousseau, 1994; Robinson and Morrison, 1995; Turnley and Feldman, 1998; 1999; Kickul, 2001; Lo and Aryee, 2003; Restubog et al., 2006; Suazo, 2009; Temprou et al., 2012; 2015; Bankins, 2015).

In order to renegotiate the terms of psychological contract usually it leads to negative consequences in terms of employees' sensemaking (Turnley and Feldman, 1998; 1999; Lo and Aryee, 2003). However, employees behave also differently with some of the employees have perceived that their psychological contracts are less violated and the rest may perceive that their psychological contracts are more violated due the introduction of major organizational changes in their organizations. With this huge impact of psychological contracts on employees attitude and behaviors, this proposed study will utilize psychological contract violations as an intermediating variables between the experience of organizational change , job satisfaction, and intention to turnover. The study will not only attempt to find out direct relationship of the experience of organizations change with job satisfaction, and intention to turnover, but also the indirect impact via psychological contract violations towards job satisfaction and intention to turnover. Thus, we come up with the following proposition:

*Proposition 3: Psychological contract violation mediates the relationship between the experience of organizational change, job satisfaction, and intention to quit.*

### **PROPOSED CONCEPTUAL MODEL OF STUDY:**

The proposed conceptual model highlights the experience of organizational changes as a cause in psychological contract violations for individual employees and it further leads to the consequences of both the experience of organizational changes and violations in psychological contract leading to lower job satisfaction and higher level of turnover intentions. The proposed study will focus on how the negative experiences of organizational changes cause psychological contract violations and lower level of job satisfactions for individuals and higher intentions to quit.

This proposed conceptual model is based on cause, content, and consequence based study of Guest (2004). The experience of organizational change is the cause in violations of psychological contracts of individual employees and then employees assess their relationship with the organization on the basis of these violations which result in lower job satisfaction and higher turnover intentions. The main question in this study is why employees

behave low level of job satisfaction and higher turnover intentions in the consequences of contract violations as a result of their experience with organizational changes. To find out answer to this key question, the following relationship is proposed in this study:

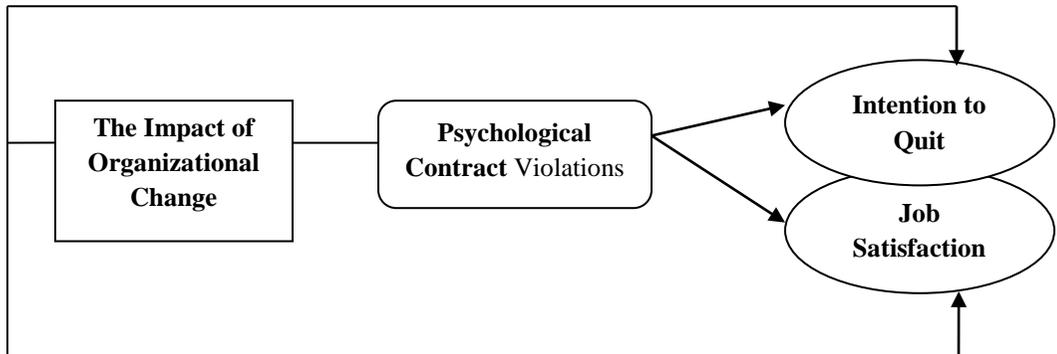


Figure 1.1: Proposed Conceptual Model

Finally, the study will examine the managerial and non-managerial employees working in different commercial banks in Pakistan which have involved radical organizational changes e.g. downsizing, layoffs, mergers and acquisitions in the past two years. The financial sector is the most appropriate sector to find out consequences in major organizational change as a cause and its impact on job satisfaction, and intentions to quit via psychological contract violations. The banking sector in Pakistan have been through the major reforms carried out by central bank of Pakistan i.e. State Bank of Pakistan since 1997. These major reforms reshaped the commercial banking sector in the country by asking the organizations to meet certain targets. Those organizations who have met these targets have survived but the rest who were unable to meet targets set by the central bank have to go through unwanted organizational changes and even some of them have disappeared from the market as a result of these changes. The disappeared organizations have been either acquired or merged into other larger organizations. In such situations employees have been on the risk side because their psychological contracts have been violated. This resulted in lower job satisfaction, lower perceived fulfillment of organizational obligations, and higher level of intentions to quit (Robinson and Morrison, 1994). So, we this brings the following proposition:

*Proposition 4: Psychological contract violations are related to lower job satisfaction and higher intentions to quit.*

The significance and scope of this proposed study is not limited to the experience of organizational change or psychological contract violations only. It will also examine the negative and positive organizational changes along with featured aspects of organizational changes i.e. frequent changes,

history of changes, type of changes, and high impact organizational changes in the selected organizations. The study will also take into account the more important behavioral issues as a result of these contract violations and the negative experience of organizational changes i.e. job satisfaction, and intentions to quit.

The study is highly important for those organizations who have gone through mergers and acquisitions in the past few years time. There is a greater need to study the after effects of major organizational changes towards the employment relationships especially, the perceived fulfillment of organizational obligations and also considering the employees' sensemaking of these organizational changes. This paper reviews selected papers on organizational change, psychological contract, organizational justice literature to further develop understanding and importance of employment relationships in a changing nature of workplace environment. The proposed conceptual model highlights the effects of determinants of organizational on perceived fulfillment of organizational obligations and behavioral responses of employees.

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