



RESEARCH PAPER

The Mediating Effect of Leader-Member Exchange on the Relationship between Psychological Contract Breach and Employees Responses

Dr. Anwar Hussain¹ Dr. Bilal Anwar²

1. Assistant Professor, HOD, Lahore Business School, University of Lahore Sargodha campus, Pakistan
2. Assistant Professor, Department of Business Administration, University of Sahiwal, Pakistan

PAPER INFO	ABSTRACT
Received: January 11, 2020 Accepted: March 18, 2020 Online: March 31, 2020	The purpose of this study is to investigate the relationship between Psychological Contract Breach (PCB) and employee's responses through the mediating mechanism of leader-member exchange (LMX). Globally, workplace leadership, employers, and employee's relationship are crucial phenomena to explore. This study explores the impact of the psychological contract breach on employees' active and passive responses through the mediating role of leader-member exchange. Moreover, present study tested these tri-phenomena via a self-administered questionnaire of 250 employees from different organizations. In this regard, present study applied structure equation modeling to evaluate the defined relationship. Furthermore, an employee with high leader-member exchange was less likely to respond to psychological contract breach with exit and voice than the employees with the low leader-member exchange. This study recommends to policy makers, owners and decision makers that leader could play an important role during breach of psychological contract
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Corresponding Author: bilalbzu@yahoo.com	

Introduction

In the past decade, the issue of how psychological contract breach (PCB) affects the employee's response caught the eye of researchers. The Psychological Contract is a set of a person's confidence regarding the commitment which binds two parties equally and benefits established in this relationship (Rousseau, 1995). Psychological contract breach occurs when employee think that their promises are not fulfilled, and they respond negatively. Employee's responses may occur in the form of neglect, loyalty, exit, and voice. Thomas et al. (2003) suggested, different behavioral outcomes generates because of exchange-based motives based on a cultural script that is salient for employees, so that influence whether employees

will respond actively (exit, voice) to breach or passively (neglect, loyalty). In management and organizational science, leader-member exchange (LMX) emerged as a prominent area of research. LMX enhances the employee's affective commitment to the organization and decreases their chances to exit (Gerstner & Day, 1997; Graen & Uhl-Bien, 1995). Leader-member exchange mediates the relationship between psychological contract breach and employee responses.

Academic writers observed that people respond to violations differently according to their different types of psychological contracts. PCB has a negative impact on employee's responses. Researchers have worked on literature relating to effect of psychological contract in workplace when these contracts are breached then employees reduce their performance, withdraw their behavior and show negative attitude to work (Zhao, Wayne, Glibkowski, & Bravo, 2007). Hirschman's (1970) work on responses to organizational decline, and Rusbult's model are closely related. Their studies include four categories: Exit refers to leaving an organization by quitting or thinking about quitting. Voice involves trying to improve the conditions by taking action to solve the problems, seeking help from an outside agency, etc. Loyalty means waiting and hoping for improvement. Neglect means allowing the conditions to deteriorate by negatively behaving in an organization (Rusbult, Zembrodt, & Gunn, 1982). Past research on LMX suggests that in minimizing the negative employment experiences, the quality of supervisor-employee relationships can serve as a form of social support (Erdogan, Kraimer, & Liden, 2004). Turnly and Feldman (1998) found that employees have a cooperative relationship with their colleagues, and supervisors were less likely to leave the organization and show neglect.

The consequences of psychological contract breach on employees' responses and how the leader-member exchange mediates the relationship between psychological contract breach and employees' active and passive responses.

There are two theories regarding leader members exchange social support theory and betrayal theory that suggest that LMX can be used as a mediator. The social support perspective suggests that LMX act as a barrier to the effects of psychological contract breach on employee's responses. However, Betrayal theory suggests that high LMX would worsen the negative effects. The use of these two competing theories is valuable, especially when two or more plausible explanations are suggested by prior knowledge (Armstrong, Brodie, and Parsons, 2001). Behaviorist theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectation & group dynamics, improved productivity. According to this theory, consider employees as individual, resource, and asset.

“The objective of this study is to develop an understanding of how leader-member exchange is related to employee's responses to psychological contract breach and employee responses. To know how the employee with high leader-

member exchanges will respond differently to those with low leader-member exchange relationships.”

Literature Review

Psychological Contract Breach

The psychological contract is a "set of tacit agreements of mutual promises and obligations between employers and employees" (Robinson and Rousseau, 1994). Psychological contract breach may occur if the organization is unable to fulfill its promised with employee, or vice versa (Turnley and Feldman, 1999). Literature witnessed that psychological contract breach negatively affects the performance of employee. Employees' attitudes and behavior are affected through it, consequently, show divergence behavior in the workplace. Turnley and Feldman (1998) are of the view that job-performance role is directly affected and influenced by psychological contract breach. Voluntarily, employees will not fulfill their obligations; less committed to their work and will not be loyal to the organization (Johnson & O'Leary-Kelly, 2003; Restubog et al., 2007; Suazo, 2009; Suazo et al., 2005; Turnley, Bolino, Lester & Bloodgood, 2003). Similarly, if employees are more qualified and aware of their rights and duties, the performance of the employee will be affected by the psychological contract breach. (Rusbult et al., 1988; Withey & Cooper, 1989).

Effects of Psychological Contract Breach on Employee Responses

From the last 20 years, researchers are showing greater interest in finding out employees' behavior and their responses due to breach of psychological contract (Conway & Briner, 2005; Middlemiss, 2011). PCB affects employee's behavior and attitudes in a wide range. PCB negatively correlated with employee performance (Johnson & O'Leary-Kelly, 2003), job satisfaction (Raja, Johns, & Ntalianis, 2004; Zhao et al., 2007), employee commitment (Lester, Turnley, Bloodgood & Bolino, 2002; Zhao et al., 2007), employee's trust (Zhao, Wayne, Glibkowski, & Bravo, 2007), citizenship behavior (Restubog, Bordia, & Tang, 2007; Suazo & Stone-Romero, 2011; Suazo et al., 2005), remain connected with institution (Suazo et al., 2005; Turnley & Feldman, 1998, 1999, 2000) and positively associated with employees negligence (Turnley & Feldman, 1998, 1999, 2000), job burnout (Chambel & Oliveira-Cruz, 2010), revenge cognitions (Ahmed, Bordia, & Restubog, 2007; Bordia et al., 2008), employee's cynicism (Johnson & O'Leary-Kelly, 2003), job burnout (Chambel & Oliveira-Cruz, 2010) and higher absenteeism (Johnson & O'Leary-Kelly, 2003).

Employee Exit

In any psychological contract breach between employer and employee in the organization, employees behave differently and show different responses in return. One of the most common responses is the exit. Exit refers to employees' negative responses due to dissatisfaction from the organizational environment

(Farrell's, 1983). After evaluating the circumstances, employees decide whether to stay in an organization or quit this employment association (Turnley & Feldman, 1999). The literature demonstrates that psychological contract breach positively relates to employee exit (Roehling, 1997). It happens because if any organization is unable to fulfill its promises, employees' trust will be damaged. Resultantly they may look for better opportunities and employment outside the organization (Rusbult et al., 1988).

Hypothesis 1

Psychological contract breach is positively related to employees' exit.

Employee Voice

Another employee response due to psychological contract breach is voice. Any positive or negative effort through vocal expression to improve organization working conditions is called voice (Rusbult et al., 1988). It is a recuperative response in which employees tries to bring change in the organization through their suggestions, recommendation than to criticize or quit (Van Dyne & LePine, 1998). Rusbult et al. (1988) investigated that voice may be of the different form, i.e., whistle blowing through which employees want to get support from the union in case of breach of the psychological contract. Therefore, it is assumed that;

Hypothesis 2

Psychological contract breach is positively related to employee's voices.

Employee Loyalty

“According to Graham (1991), loyalty is any demonstrating authenticity towards any organization by protecting it against hurdles and hardships, putting an extra effort for its reputation, and for its interest, always collaborate with others. The loyal employee keeps on moving with the organization in hardships by keeping forwarding its mission and tasks (Borman, Penner, Allen, & Motowidlo, 2001). However, research indicated that the royalty of the employees decreases due to breach of psychological contract (Turnley and Feldman, 1999). Robinson, Kraatz, and Rousseau (1994) discover that psychological contract breach diminishes loyalty, respectively. Another study by Orvis and colleagues (2008) supported this negative relationship by conducting a longitudinal survey in different universities and academics. Therefore, it is hypothesized that”:

Hypothesis 3

Psychological contract breach is negatively related to loyalty.

Employee Neglect

“Neglect is another response by employees that may arise due to psychological contract breach (Turnley and Feldman, 1998). Employees start eradicating their job-role voluntarily, reducing productivity, completing task with minimum accuracy standards, absentees in workplace, not completing office hours and even not attending meetings (e.g., Farrell, 1983; Naus et al., 2007; Rusbult et al., 1988; Turnley & Feldman, 1999; Withey & Cooper, 1989). Another study conducted by (Chen, Tsui, & Zhong, 2008) also supported that psychological contract breach has a positive and direct influence on employee performance, i.e., negligence.”

Hypothesis 4

Psychological contract breach is positively related to employee neglect.

Mediating Role of Leader-Member Exchange (LMX)

The quality of the relationship between employer and employee is called LMX, which is described by the LMX theory (Graen & Uhl-Bien, 1995). The strength of this association is different between each member with his/her supervisor. Different aspects like material resources, social support, physical /mental effort, and information play a very important role in this respect (Graen and Uhl-Bien, 1995). A high-quality LMX refers to a strong association among members and its leader. Conversely, a low-level of LMX propounds a very little exchange of support, ideas, efforts, and resources among employers and subordinates.

“Research witnessed that employees may not show a negative response due to breach of psychological contract if there are high LMX and vice versa (Zagenczyk et al., 2009). In the case of high LMX leader may explain this breach that is very helpful for employee support and changing their attitude towards the breach. Supervisor moral, material career and even advocate support to subordinates (Erdogan, Kraimer & Liden, 2004). Therefore, when there is high LMX in the organization, employee responses will be mitigated that may occur due to psychological contract breach. However, when employees do not enjoy high LMX, they respond negatively due to psychological-contract breach. Therefore, it is hypothesized that.”

Hypothesis 5

Leader-member exchange mediates the relationship between psychological contract breach and employees exit.

Hypothesis 6

Leader-member exchange mediates the relationship between psychological contract breach and employee voice.

Hypothesis 7

Leader-member exchange mediates the relationship between psychological contract breach and employee loyalty.

Hypothesis 8

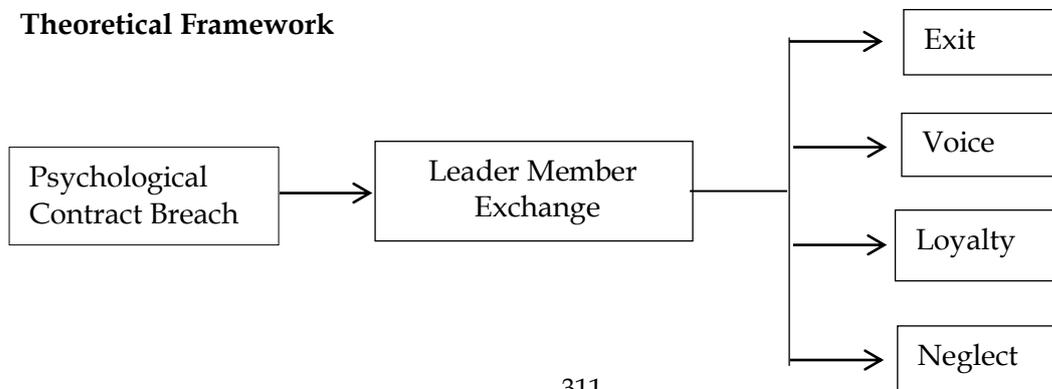
Leader-member exchange mediates the relationship between psychological contract breach and employee neglect.

Methodology

The targeted population of the present study is 600 from the large population of Pakistan by selecting IT industry, randomly from Lahore, Islamabad, Rawalpindi, Sargodha and Gujrat. The study received 250 questionnaires from respondents, and these are used in estimation. Furthermore, study used the convenient sampling method for collecting data from the respondents. Structured questionnaire was used to collect the data. The questionnaire was adopted by George B. Graen & Mary Uhl. Bien which was used to find LMX, Robinson & Morrison (2000) which was used to find Psychological Contract Breach and Rusbult et al. (1988) for employees responses. The response was required on a five-point Likert scale (endpoint: 1-Strongly disagree, 5-Strongly agree). Structured questionnaire was used as the research instrument, which consist of 31 questions, question of each variable and 5 question for demographic. Questionnaires were distributed among 200 different employees out of which received 156 questionnaires answered. Structure equation modeling is used to analysis the defined relationship.

Abbreviation	Variables Name	References
PCB	Psychological Contract Breach	Robinson and Morrison (2000)
LMX	Leader Member Exchange	Graen and Uhl-Bien (1995)
Exit	Exit	Rusbult et al. (1988)
Voice	Voice	Rusbult et al. (1988)
Loyalty	Loyalty	Rusbult et al. (1988)
Neglect		Rusbult et al. (1988)

Theoretical Framework



Variable Measurement

Psychological Contract Breach

Robinson and Morrison (2000) five item psychological contract breach scale was used to measure contract breach. A sample item is: "I have not received everything promised to me in exchange for my contributions to the organization". Cronbach's α for this scale was .743.

Leader Member Exchange

I used the George B. Graen & Mary Uhl Bien five item scale to measure the leader member exchange. A sample item is: "Do you know where you stand with your leader... do you usually know how satisfied your leader is with what you do?". Cronbach's α for this scale was .811.

Exit

I measure the exit by using the Rusbult et al. (1988) exit scale. A sample item is: "I have recently spent some time looking for another job" Cronbach's α for this scale was .808 (Rusbult et al. 1988).

Voice

I used the Rusbult et al. (1988) voice scale. A sample item is "When I think of an idea that will benefit my company I make a determined effort to implement it". Cronbach's α for this scale was .799

Loyalty

I used the Rusbult et al. (1988) loyalty scale. A sample item is "I generally say good things about my company even when other people criticize it". Cronbach's α for this scale was .675

Neglect I used the Rusbult et al. (1988) neglect scale. A sample item is "Sometimes when I don't feel like working I will work slowly or make errors.

Multi Collinearity

Table 1 presents multi collinearity value which indicates the inter correlations among the exogenous variables measured through variance inflation factor (VIF). VIF values should be less than 5 to ensure that the data is not suffered from the collinearity issues (Hair et al., 2009). VIF values for both the exogenous variables are less than 5 at 5 percent significant level.

**Table 1
Collinearity Assesment**

First Set		Second Set	
Constructs	VIF	Constructs	VIF
Psychological Contract Breach	1.000	Leader-member Exchange	1.238

Reflective Measurement Model

Measurement model results are presented below. Table 2 presents the reliability metrics and convergent validity metric. For reliability analysis, Cronbach's alpha and composite reliability were assessed (Cronbach, 1951). All the values were above the minimum threshold of 0.6 which indicated that the data contained no reliability issues (Hair et al., 2017). Moreover, convergent validity was measured through average variance extracted (AVE) and all the values are above the minimum threshold level of 0.4 (Henseler et al., 2009).

**Table 2
Overview of Results**

Constructs	Composite Reliability	Cronbach's Alpha	AVE
Psychological Contract Breach	0.870	0.819	0.532
Leader-member Exchange	0.788	0.672	0.428
Exit	0.857	0.779	0.602
Voice	0.803	0.634	0.595
Loyalty	0.729	0.622	0.479
Neglect	0.854	0.792	0.505

In addition to the reliability metrics and convergent validity, the study measured the discriminant validity to ensure that all the constructs are discriminately different from other constructs (Hair et al., 2017). All the values in table 3 are above the minimum threshold of 0.5 which indicated that the study is not suffered from the discriminant validity issue.

**Table 3
Outer Loadings**

Scale Items	PCB	LMX	Exit	Voice	Loyalty	Neglect
PCB1	0.512					
PCB2	0.738					
PCB3	0.728					
PCB4	0.786					
PCB5	0.825					
PCB6	0.747					
LMX1		0.744				

LMX2	0.552
LMX3	0.687
LMX4	0.658
LMX5	0.616
Exit1	0.776
Exit2	0.855
Exit3	0.637
Exit4	0.818
Voice2	0.890
Voice3	0.893
Voice4	0.442
Loyalty1	0.600
Loyalty2	0.606
Loyalty4	0.842
Neglect1	0.407
Neglect2	0.719
Neglect3	0.839
Neglect4	0.768
Neglect5	0.796
Neglect6	0.646

Henseler et al. (2009) have suggested that heterotrait-monotrait ratio (HTMT) is more useful metric than Fornell Larcker and others. Therefore, the study also assessed HTMT values and the maximum threshold of HTMT values is 0.9 (table 4). Bias-corrected and accelerated (BCa) was used on a resample of 1000 by employing one-tailed t-tests to warrant an error probability of 5 percent (Henseler et al., 2017). All the values are significantly below than the threshold indicating no validity issues in our data.

Table 4
Heterotrait-Monotrait Ratio (HTMT)

	Exit	LMX	Loyalty	Neglect	PCB	Voice
Exit	0.678 CI _{.900} [0.6430;0.747]					
LMX		0.550 CI _{.900} [0.474;0.601]				
Loyalty			0.676 CI _{.900} [0.594;0.746]			
Neglect				0.867 CI _{.900} [0.795;0.900]		
PCB					0.885 CI _{.900} [0.851;0.927]	
Voice						0.89711 CI _{.900} [0.848;0.932]

	0.800	0.643	0.535	0.789	0.765
Voice	CI _{.900}				
	[0.750;0.851]	[0.573;0.694]	[0.455;0.612]	[0.727;0.829]	[0.716;0.829]

Structural Equation Model

Path Coefficients (β)

The researchers assessed the structural model after measuring the measurement model. Path coefficients (β) are presented in table 5. Standardized β values must range between -1 and +1. The values close to 1 indicate strength of the path and vice versa (Hair et al., 2017). The significance was tested through bootstrapping on a resample of 1000 and t values and p values were assessed for analyzing the path coefficients. Results indicate that all the direct path coefficients values support our hypotheses (H1, H2, H3, and H4) at 5 percent significance level. In addition, mediation analyses also significant at 5 percent significance level, thereby, confirming the rest of hypotheses, i.e., H5, H6, H7, and H8.

Table 5
Path Coefficients (β)

Hypotheses	Paths	Exp. Sign	Path Coeff. (β)	Standard Error ($\hat{\sigma}_e^*$)	Empiric t-value	P-value	BCa 95% Confidence Interval
H1	PCB→E	+	0.417***	0.067	6.210	0.000	[0.276; 0.534]
H2	PCB→V	+	0.206***	0.078	2.657	0.008	[0.062; 0.370]
H3	PCB→L	-	-0.316**	0.057	5.564	0.000	[-0.420; -0.192]
H4	PCB→N	+	0.401***	0.051	7.907	0.000	[0.300; 0.490]
H5	PCB→LMX→E	+	0.337***	0.034	4.340	0.000	[0.083; 0.213]
H6	PCB→LMX→V	+	0.515***	0.039	5.722	0.000	[0.153; 0.298]
H7	PCB→LMX→L	-	-0.427**	0.030	6.301	0.000	[-0.242; -0.192]
H8	PCB→LMX→N	+	0.532***	0.039	5.722	0.000	[0.152; 0.304]

***Significant at $p < 0.05$ (1.96)

Coefficient of Determination (R^2)

Coefficient of determination (R^2) was assessed to measure the predictive power of the structural model. R^2 values are presented in table 6. R^2 values for leader-member exchange, exit, voice, loyalty, and neglect were 0.192, 0.410, 0.397, 0.399, and 0.630 respectively. Structural equation model is presented in Figure 1.

Table 6
R² Values for Latent Variables

Endogenous Latent Variables	R ² Values	Assessment
Leader-member Exchange	0.192	Weak
Exit	0.410	Mediate
Voice	0.397	Mediate
Loyalty	0.399	Mediate
Neglect	0.630	Substantial

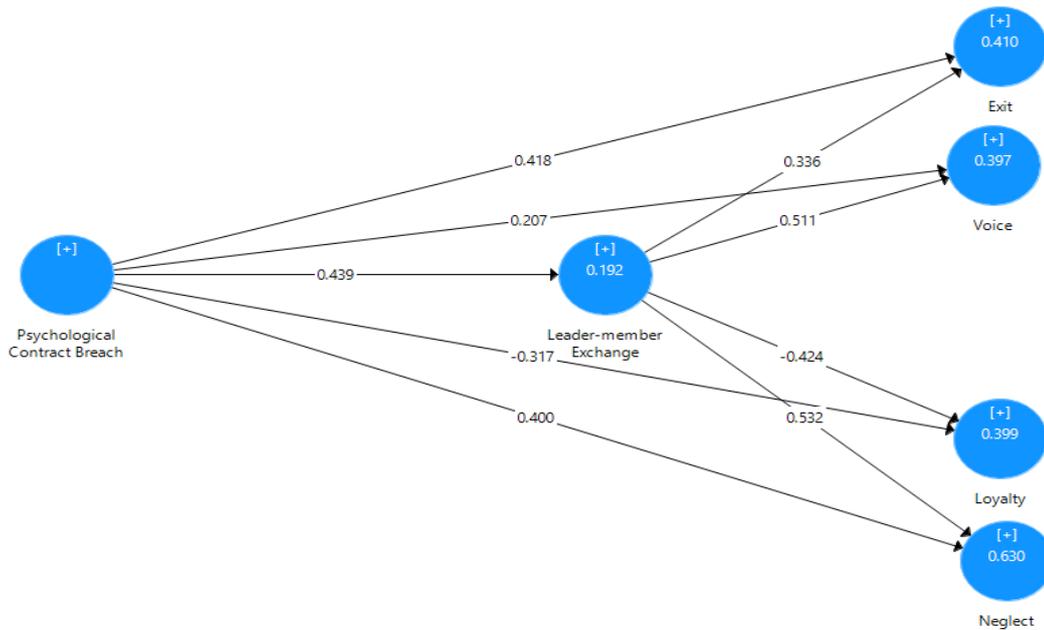


Figure: Structural Equation Modeling

Conclusion and Recommendations

The results of this study determine that managers should be aware that the employees with higher leader member exchange will actively respond to breach than people with lower leader member exchange. The managers should be familiar to working with leader member exchange so that employees’ responses can be controlled. Breach is associated with increase neglect and decrease loyalty so managers must assume that all employees will response in same fashion. Employees must be qualified so that they can understand their rights and duties and respond effectively. Employees are more qualified and aware about their rights and duties; performance of employee will obviously be affected by psychological contract breach. (Rusbult et al., 1988; Withey and Cooper, 1989).

Employers should fulfill the positive demands and requirement of employees that were dealt at the time of involvement to increase the company’s goodwill. Managers should enhance the socially responsible initiative. Managers should make the rational decision making and employees must be educated and give them effective training.

Limitation and Future Study

The sample size of the study is not enough for more efficient and reliable findings and the data is also taken from some regions and investors. The questionnaire was distributed for collection of data in which the common bias was involved, and further studies need to avoid these limitations. Sample size should be larger for collecting the reliable and accurate data. Should collect data from different organizations of Karachi, Islamabad and Lahore the leadership must be conducted on multi-domain basis. The neglected area of leadership must be studied more closely as well as to check how followership and relationship domains interact that effect leadership domain.

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