



# The Impact of Organizational Change on Psychological Breaches of Contract in Pakistan's Private Banking Sector: The Moderating Role of Transformational Leadership

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**Abstract:** *The primary aim of this study is to examine the impact of organizational change (OC) on the psychological contract breach (PCB) of employees in Pakistan's private banking sector. The study highlights the key role of the transformational leadership approach, particularly when a bank experiences OC and PCB. Using a cross-sectional research design and a sample of 288 private bank employees, we carry out simple linear regression and a hierarchical regression analysis. The study also investigates the mediating mechanism of PCB in relation to OC, employee turnover intention (ETI) and organizational identification (OD) and examines the moderating role of transformational leadership in the banking sector. Our findings support the study's hypotheses. We conclude that transformational leadership plays a key role in motivating employees and channeling their energies in the direction of OC, while PCB plays a mediating role between OC and ETI and OD. Given the dearth of studies on PCB in South Asian banks, the study contributes to the literature by targeting the private banking sector in Pakistan, emphasizing employees' reactions to OC and PCB in commercial banks.*

**Keywords:** Psychological contract breach, employee turnover intentions, job identification, organizational change, private banks.

**JEL Classification:** M00, M12, L20, L89.

# **The Impact of Organizational Change on Psychological Breaches of Contract in Pakistan's Private Banking Sector: The Moderating Role of Transformational Leadership**

## **1. Introduction**

An employee's loyalty tends to become compromised when an organization undergoes a colossal change (Anderson & Schalk, 1998; Aujla & Mclarney, 2020; Danial & Nasir, 2020; Tseng & Wu, 2017). Such changes often result in disloyalty among employees, particularly when their expected undertaking—something they hold in high value—is not fulfilled. In addition, the literature shows that, on the psychological front, employees may experience numerous problems rooted in financial matters related to hourly or daily wages, leave and the lack of medical facilities, etc. (Dahl, 2011). In addition, organizations do not always fulfil such promises after a significant organizational change (OC), and such breaches in contracts yield greater employee disloyalty (Gouri, 2018). A range of studies over time have examined this particular issue (see Dixon-Fowler et al., 2020; Hussain & Anwar, 2020; Mmammel et al., 2021; Jhatial et al., 2018). In addition, in the last twenty years, various studies have attempted to resolve employees' psychological issues at an organizational level (Braganza et al., 2021; Carnevale & Hatak, 2020; Zhao et al., 2007).

Globally, organizations face issues regarding the changes they must adopt, not only because of their environment but also owing to the nature of their competition. Therefore, to survive in an increasingly competitive environment, adaptations to their organizational structures and the effective implementation of such changes are imperative to growth (Smollan, 2015). Organizations increasingly need to adopt new technologies and working methods to conform to updated market or government policies. It is axiomatic that most organizations believe in the formula of 'survival of the fittest' (March & Simon, 1958) and consequently engage in continuous adjustment. A common perception is that organizations need to be flexible enough to cope with both local and global challenges (Damawan & Azizah, 2020; Rashid & Ratten, 2021). When organizations decide to undergo restructuring, for example, in their decision-making, hiring and firing policies, and so forth, they essentially commit a psychological breach of contract (PCB), often without accounting for or taking responsibility for it (Turnley & Feldman, 1998).

The causes of OC may stem from various reasons, such as acquisitions, downsizing or mergers (Schein & Bennis, 1965). However, such changes can ultimately influence the employee's loyalty towards an employer: this critical issue has been addressed by several scholars, psychologists and management scientists (Rousseau, 1998; Thomas & Anderson, 1998; Zhen et al., 2019). In this context, the literature reflects a consensus that shows that PCB tends to exert a deep-rooted impact on employees' mental health and well-being, ultimately impacting their level of loyalty towards their organizations (Donohue & Tham, 2019; Duran et al., 2019; Griep et al., 2021; Suazo, 2009).

Additionally, studies such as Islam et al. (2017) have considered PCB as a moderating variable between perceived organizational support and affective commitment. This study focuses on PCB and investigates the influence of OC on PCB, which in turn explores the effect on organizational identification (OD) and employee turnover intention (ETI) associated with the mediating role of PCB in private banks. A major reason for using PCB as a mediating factor has been the realization that PCB can affect OC, ETI, and OD due to the problematic environment in the banking sector. Finally, we examine the moderating role of transformational leadership (TL) between OC and PCB, as leadership is capable of playing a positive role in reducing the strength of the relationship between the two constructs.

It is imperative to mention that while this study concurs with existing research, it also contributes to the literature. In the first instance, the existing studies postulate the viewpoint of research conducted in developed countries (Bravo et al., 2019; Cohen, 2015; Roberts & Douglas, 2020). However, Azeem et al. (2020), while studying the role of PCB and ETI in Pakistan's banking, also show that the relationship had been addressed in a non-Asian context. Researchers largely agree that the cultural context plays a significant role in employees' feelings of contract violation and their relevant outcomes (Agarwal & Gupta, 2018; Cooke et al., 2018; Du & Vantilborgh, 2020; Newaz et al., 2021). Moreover, in a study revolving around digital transformation in the Indonesian banking industry and given the paucity of research in this field, particularly in developing countries, Winasis et al. (2020) suggest future studies in the sector. Consequently, this paper focuses on employees of Pakistani private banks, given the high level of change in information communication and technology in the Pakistani context, paired with a high turnover intention in the recent past (Aslam et al., 2018).

Additionally, this study focuses on the leadership approaches that could be adopted, given the circumstances that might confront employees.

Finally, it is critical to mention that the literature does not focus on TL, especially concerning PCB and its potential consequences on employees' attitudes (Akhtar & Rong, 2015). Interestingly, these studies have often failed to unearth critical factors such as OD as an outcome of PCB. This paper, therefore, explores new avenues of cognizance and extends the scope of research in this area.

Finally, it is also helpful for human resource departments, as it can aid in formulating policies to retain and entice potential employees in the wake of rapidly changing technological, environmental or structural alterations. This study plays a pivotal role in devising strategies to minimize employee turnover in the Pakistani private banking sector. Thus, the core objectives of this study include the examination and close observation of the impact of OC on PCB. It also aims to determine the effect of PCB on OD and ETI. Moreover, we also examine the mediating role of PCB between OC, OD and ETI. Finally, we consider the moderating role of TL between OC and PCB, particularly in the local private banking sector.

## **2. Literature Review and Hypotheses Development**

Argyris (1962) coined the term 'psychological breach' several years ago. However, earlier studies in this regard may be traced back to the 1930s, which discuss the concept of a psychological breach in several instances. Among the earliest studies, Barnard (1938) emphasized the strong relationship between an organization and its employees to yield superior employee loyalty. Barnard floated this idea to increase organizational productivity and output, primarily via the development of policies that could safeguard the mutual interests of both organizations and employees.

In modern times, organizations recognize the need to win the trust of their employees to perform at their optimal level and extend loyalty to them (Millward & Herriot, 2000). For organizational growth to become a reality, it is essential to develop effective human resource policies around employees (Roehling, 1997). Ideally, human resource policies should be concerned with financial and nonfinancial perquisites, including increments, bonuses, moral support and recognition of the creative ideas of the employees of an organization (Gordon, 2020).

Prior studies in this context have suggested using the observational perception mode, which highlights the mutual relationship between organizations and their employees and emphasizes the significance of the balance in a reciprocal ratio of benefits (March & Simon, 1958). In addition,

such studies have affirmed that employees' psychological breach of contract or psychological contract breach (PCB) plays a pivotal role in developing and retaining employee loyalty or disloyalty towards an organization (Morrison & Robinson, 1997).

In an earlier study, Blau (1964) suggests social exchange theory, emphasizing the give-and-take relationship between organizations and employees. Such exchanges usually center on adopting cultural, social and psychological aspects. These exchanges are not as simple as monetary terms; they rely on intangible factors. Furthermore, other researchers also discuss different dimensions of reciprocal relationships; these relationships essentially involve the creative ideas and the moral values instilled in their employees as they interact with other patrons of the organizations they work for (Kutaula et al., 2020; Taylor & Tekleab, 2004; Sandhya & Sulphrey, 2020).

In 1998, Rousseau published his writings based on other empirical studies conducted in this discipline. He developed a theoretical framework for PCB and thus contributed significantly to the literature, virtually becoming a role model for others. This is evident in the transition from a classical to a modern approach, as shown in Table 1. He essentially developed a modern approach that was a mirror image of the traditional one. Examined in detail, we see that the contemporary approach is a blend of contract relation theory, social exchange theory and human psychology. Several scholars have referred to this modern approach, terming it the employees' psychological contract (Anderson & Schalk, 1998; Coyle-Shapiro & Kessler, 2000). However, Rousseau's modern approach has also been criticized, primarily on the basis that Rousseau only emphasized employees' interests and overlooked or undermined the concerns of employers. As a result, other scholars have incorporated the interests of organizations and their employees in considering the psychological contract extended within an organization (Cullinane & Dundon, 2006; Guest, 2004; Taylor & Tekleab, 2004).

**Table 1: Evolution of PCB from Classical to a Modern Approach**

1930–80	Primitive researchers coin classical approach	Nelson (1991) Blau (1964) March and Simon (1958) Schein and Bennis (1965)
1989	Rousseau invents modern approach	Rousseau and McLean Parks (1993) Rousseau (1998) Rousseau and Tijoriwala (1998)

When examining OC, system theory exhibits the best approach, as it highlights the interrelatedness of the different aspects of the employing organization. This means that if one part of the organization experiences a change, it affects the other parts of the organization. Therefore, equal importance must be given to all the departments of an organization, mainly when introducing agents of change (Rhydderch et al., 2004).

Burns (1978) is considered a pioneer in the proposition of transformational leadership theory. Its objective was to identify and differentiate between leaders who tend to have a motivational relationship with their followers and those who focus on maintaining an exchange with the TL interaction, primarily to obtain maximum output. TL is a cognizant, ethical and transcendent process of equivalent powers between leaders and followers to achieve a common goal or fundamental transformation. Therefore, transformational leaders essentially encourage their followers to foster and nurture their creativity and realize their level of self-actualization to enhance the overall interests of the team, group and ultimately the entire organization. They transform organizational change and create a positive outlook for managers and their associates (Burch & Guarana, 2014). Therefore, TL acts as a moderating factor that can play a positive role in mitigating the effects of OC on PCB.

### ***2.1. Organizational Change and Psychological Breach of Contract***

A psychological contract is an exchange between two parties and one's perceptions about the rules binding upon both parties involved in this exchange (Kiazad & Kraimer, 2014). Jain (2020) states that mutuality and reciprocity act as pivotal points of the psychological contract that are essentially binding on both parties involved. In another study, Epitropaki (2013) termed downsizing, mergers and acquisitions as mandatory changes for an organization's growth process. Epitropaki emphasized the importance of change in an organization to create an appropriate fit with the environmental changes that result in its ultimate survival amid tough competition.

In another study, Cohen (2015) links the concept of organizational change with employees' psychological change. Cohen posits that a change in the work environment of employees does not always need to bring the desired results to achieve the core objective of an organization. This means that there is an equal possibility of an employee being able to address any new challenges presented. However, a model developed by Freese and Schalk (2011) emphasizes that employees perceive organizational change as

a deviation from the actual binding contract; in turn, employees might feel fear and apprehension, leading to their psychological breach of contract.

Babalola et al. (2016) summarize three ways to bring about changes in organizations. The first is commitment behavior, which suggests that organizational changes occur with a level of acceptance by employees so that they do not lose the feeling of loyalty and commitment to their employer. The second is the feeling of abandonment, which is essentially where organizational change is beyond the acceptable level of employees, resulting in emotional trauma, depression, and anxiety, and ultimately, employees resort to quitting their job or resigning (Azeem et al., 2020; Lee et al., 2015). Finally, the last of these changes are visible in the strategy. Sometimes psychological contracts will produce positive outcomes, particularly when change is mandatory. In this case, the organization usually shares information and provides support opportunities to its employees, which may balance the effects of the psychological contract at the workplace (Freese & Schalk, 2011).

Similarly, research shows that hostile organizational changes bring about a feeling of instability among workers. Van den Heuvel et al. (2016) observe that such instability often invites job insecurity and ultimately results in employee disloyalty towards an organization. In another instance, Bal (2017) defined PCB as employees' cognitive requirements and needs that the organization fails to meet as a part of its obligations in a psychological contract. In PCB, employees perceive to what extent an organization is sincere in fulfilling its contracts and to what level their needs are met. Moreover, when an organization undergoes downsizing, it triggers a survival syndrome among its employees (Mujtaba & Senathip, 2020). Such events can unsettle employees' sincerity and loyalty towards an organization (Wegman & Hoffman, 2020). As per the above discussion, a positive link between OC and PCB is proposed in the following hypothesis.

**Hypothesis 1:** There is a positive link between OC and PCB.

## ***2.2. Psychological Breach of Contract and Organization Identification***

The literature demonstrates that psychological contracts depend on different parameters. These factors include career development, bonuses, pay, job security, and so on, that employees expect from an organization (Yang et al., 2020). Employees' perceptions about organizational actions raise the question of whether organizations meet their promises (Van Gilst et al., 2020) and to what level employees are satisfied. Researchers have



discovered a reciprocal relationship between PCB and employees' urge to quit their jobs (Conway et al., 2014; Nica et al., 2016). Employees often face a clash between the organization's promises and its actual accomplishments, which results in a change in their behaviors (Guchait et al., 2015).

The perception of identification within the organization explains to what extent a member of a society identifies with that particular society (Tufan & Wendt, 2020). OD is defined as one's perception of identifying oneself as a part of an organization (Riketta, 2005). It is noteworthy that OD should not be confused with the job title. It is simply one's perception that allows one to connect oneself to an organization, where one is employed to perform specific predefined tasks to fit the job description in line with organizational goals (Conroy et al., 2017). Past studies have shown a relationship between OD and PCB. The literature suggests that when an employee's psychological contract is breached, especially if they are no longer associated with that organization, their sense of connection to it is apt to decrease. Considering these associations, the following two hypotheses are postulated.

**Hypothesis 2:** There is a negative link between PCB and OD.

**Hypothesis 3:** PCB mediates the relationship between OC and OD.

### ***2.3. Psychological Breach of Contract and Employees' Turnover Intentions***

PCB can be related to adverse outcomes such as job dissatisfaction and may enhance a sense of job insecurity. This could force employees to quit and consider other, more stable and financially secure opportunities. However, their purpose of identification with their current organization is likely to decrease when they start thinking about alternatives. As a result, they will not consider themselves part of such organizations (Tomprou & Bankins, 2019). Research shows that when employees do not perceive themselves as part of a company, their sense of identification with the parent organization lessens and can bring a sense of detachment. Ultimately, this can result in them resigning from their current job (Lee et al., 2015), essentially choosing job withdrawals to avoid the negative consequences of PCB.

Several researchers have concluded that PCB automatically acts as a consequence when employees decide to leave a particular job. However, in such circumstances, they need to have another job to fall back on, thus basing their decision on the availability of other job opportunities, secure financial conditions, the rate of joblessness, and other social and psychological pressures (Dick, 2022; Jackson & Jackson, 2019; Morrison, 1994).

This is not necessarily a surprising reaction, as it is natural, especially when employees feel that they are being exposed to hostile work conditions and job insecurity (Peng et al., 2016). A breach of contract produces negativity in the workplace and needs to be appropriately addressed; otherwise, it would most likely result in increased job turnover (Xiong et al., 2017). However, some studies have shown that if employees face a dearth of appropriate job options in the market due to government policies or high unemployment, they might not quit the parent organization. Instead, they might strive to accommodate and adapt to the organizational changes required (Fapohunda, 2019). In this theoretical context, the relationships among PCB, ETI and OC are proposed in the following hypotheses.

**Hypothesis 4:** There is a positive link between PCB and ETI.

**Hypothesis 5:** PCB mediates the relationship between OC and ETI.

#### ***2.4. Transformational Leadership as a Moderator***

Prior studies have shown that the most integral person in an organization is the supervisor, who must take effective and actionable steps for the organization's progress. The role of the leader is pivotal in this, especially when an organization brings about a change. Hence, supervisors' responsibility is to curb their employees' negativity, which often arises due to organizational change. The literature shows that the skills and qualities of leaders play a pivotal role in handling employee negativity, primarily by sharing all the information and motivating them to understand the changing business environment (Osisiogu, 2017). Leaders of organizations can motivate employees to change and adapt to the organization's changes through their management skills. The leader is a representative and caretaker of his organizational policies and must understand PCB's communication.

A previous stream of studies elaborates upon leader-member exchange theory (LMX), which successfully explains the leader-subordinate reciprocal relationship (Sparrowe & Liden, 1997). LMX divides management styles into two groups: first, the group where managers share all the necessary information in detail. Second is the group where there is no sharing of information and, consequently, a lack of trust (Wang et al., 2015).

LMX also believes in cooperative working conditions, where there is an element of respect and trust between supervisors and their subordinates. Such mutual trust produces a superior product (Lee et al.,

2019). Similarly, the transformational leadership approach (TL) plays a vital role in the worst work conditions. Transformational leaders praise their employees’ performance and invoke negotiation and communication with them to win their trust. The moderating influence of TL is proposed in the following hypotheses:

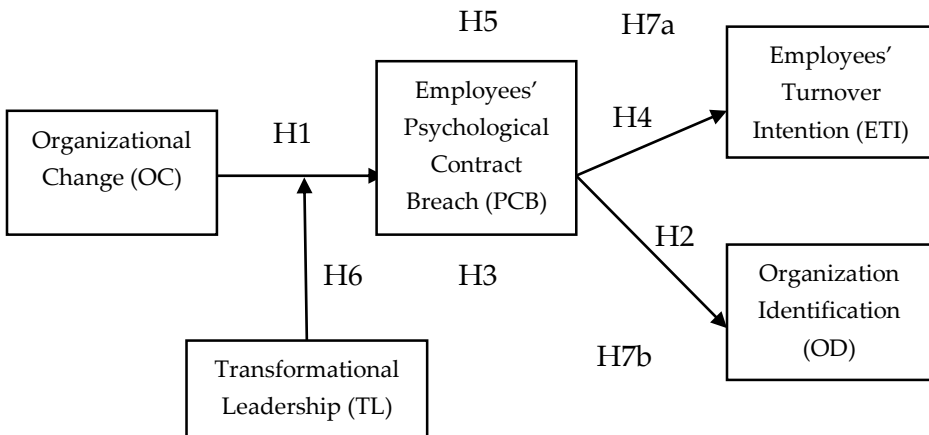
**Hypothesis 6:** TL moderates the relationship between OC and PCB such that the positive relationship will be weaker in the case of high TL.

**Hypothesis 7a:** The mediating effect of OC on ETI through PCB is moderated by TL such that the relationship will be weaker in the presence of high TL.

**Hypothesis 7b:** The mediating effect of OC on OD through PCB is moderated by TL such that the relationship will be stronger in the presence of high TL.

Figure 1 illustrates the study’s research model as per the discussion of the above hypotheses.

**Figure 1: Conceptual Model**



### **3. Research Methodology**

#### **3.1. Sample**

This study uses a cross-sectional survey research design. The unit of analysis is the employees of four private Pakistani banks. Our reason for choosing private banks is because the changes in these particular banks have recently occurred after the adoption of technological advancements. In Pakistan, people have little awareness of research; therefore, banks are often reluctant to share their employees' information. Given this limitation, we collected data using face-to-face survey questionnaires developed for this study. We approached respondents based on their accessibility.

The sample size was selected based on Hair et al. (2010), who recommend that the minimum sample size should be the number of items times ten, which in this case is 250. To achieve the generalizability of the data, four hundred questionnaires were distributed among the employees of these banks, i.e., 100 questionnaires were distributed to different branches of each bank, out of which a total of 288 questionnaires were successfully collected. Keeping ethical considerations in mind, we obtained informed consent from the participants prior to their becoming part of the research, and anonymity for each was duly ensured.

#### **3.2. Measures**

The five-point Likert scale, ranging from strongly agree to strongly disagree, was used in the current study to evaluate all the variables except for the control variables effectively. The control variables are measured through nominal and ordinal scales. Moreover, all the constructs were adapted to the scales after being extracted from different studies. Furthermore, the study uses a scale developed by Robinson and Morrison (2000) to measure PCB. We have adopted eight items from this particular scale. Five items have been adapted from MLQ Bass and Avolio (2000) to measure transformational leadership. In addition, we used six items from Mael and Ashforth's (1992) scale to judge the organization's identification. Three items have been adapted from a study by Cummann et al. (1979) to determine employee turnover intentions. To evaluate the extent of organizational change, three items have been used from the scale developed by Turnley and Feldman (1999).

#### 4. Data Analysis

Regression analysis was employed to analyze quantitative data. Moreover, we used hierarchical regression methodology to analyze the moderating effect of transformational leadership (TL). Hierarchical regression has been referred to primarily because the moderation-interaction effect comes into play when the relationship shrinks substantially (Baron & Kenny, 1986). To ensure composite reliability and construct validity (both convergent and discriminant), confirmatory factor analysis (CFA) was conducted using AMOS. The hierarchical regression analysis test was employed using Statistical Packages for Social Sciences (SPSS).

##### 4.1. Demographics

Table 2 shows that the majority of the collected data consist of male respondents, i.e., a total of 64.6 percent of the data consisted of male respondents, whereas only 35.4 percent of the respondents were female. Furthermore, most of the responses (74.7 percent) came from cash tellers, credit officers, cash officers and other lower-level bank employees. In addition, most respondents (75.7 percent) held a master's degree, while only 8 percent acquired an MPhil degree later. Finally, approximately 39.9 percent of the age group of respondents consisted of 26- to 30-year-old individuals, and just 1 percent consisted of those between 46 and 50 years of age.

**Table 2: Demographics**

Variables	N (%)
<i>Gender</i>	
Male	186 (64.6%)
Female	102 (35.4%)
<i>Age</i>	
< 25	61 (21.2%)
26-30	115 (39.9%)
31-35	54 (18.8%)
36-40	18 (6.3%)
41-45	37 (12.8%)
46-50	3 (1.0%)
<i>Education</i>	
Bachelor's	47 (16.3%)
Master's	218 (75.7%)
MPhil	23 (8.0%)
<i>Designation</i>	
General manger	43 (14.9%)
Operational manager	30 (10.4%)
Other (credit, sales, cash officers, etc.)	215 (74.7%)

#### 4.2. Confirmatory Factor Analysis

Inferential analysis usually begins with the development and testing of the measurement model through confirmatory factor analysis (CFA). The measurement model further increases the applicability of the model in this context. Various measures are used to test the fitness of the measurement model. First, we find the CMIN/DF value to be 2.74, which is well below the threshold value of 3 (McIver & Carmines, 1981). Moreover, the goodness of fitness index (GFI) value is found to be 0.902, which should ideally be at least 0.90 to achieve the minimum value (Tanaka & Huba, 1985).

On the third measure of the normed fitness index (NFI), the value stands at 0.904, thus achieving the minimum threshold value of 0.90 (Hair et al., 2017), and the Tucker-Lewis index (TLI) was taken into consideration, with a value of 0.924 (Bentler & Bonnet, 1980). Concerning the CFI, the minimum suggestive value, which should be 0.940 (Hooper et al., 2008), is in this case 0.942. Last, the RMSEA value stands at 0.072, which should ideally be up to 0.080 (Browne & Cudeck, 1993).

To test the convergent validity, three criteria must ideally be met. The first is that the standardized factor loadings (SFL) must be beyond 0.70, which meets the criterion in this study. Second, all the constructs' composite reliability values must be well beyond the threshold value of 0.70 (Nunnally & Bernstein, 1994). Moreover, we have OC with a CR of 0.794, PCB at 0.934, ETI with a value of 0.949, OD with a value of 0.909, and TL with a value of 0.871. Finally, the average variance extracted (AVE) should be at least 0.50 to confirm the convergent validity (Hair et al., 2006), which, as shown in Table 3, contains the values of 0.564, 0.641, 0.863, 0.625 and 0.576 for the OC, PCB, ETI, OD and TL, respectively. Hence, we conclude that this model meets the threshold of convergent validity.

**Table 3: Reliability and Convergent Validity**

Latent construct	Item code	SFL	CR	AVE
Organizational change	OC1	0.831	0.794	0.564
	OC2	0.703		
	OC3	0.712		
Psychological breach of contract	PCB1	0.786	0.934	0.641
	PCB2	0.751		
	PCB3	0.747		
	PCB4	0.802		
	PCB5	0.801		
	PCB6	0.855		
	PCB7	0.823		
	PCB8	0.832		

Latent construct	Item code	SFL	CR	AVE
Employee turnover intention	ETI1	0.982	0.949	0.863
	ETI2	0.830		
	ETI3	0.967		
Organizational identification	OD1	0.756	0.909	0.625
	OD2	0.745		
	OD3	0.786		
	OD4	0.903		
	OD5	0.809		
	OD6	0.732		
Transformational leadership	TL1	0.787	0.871	0.576
	TL2	0.736		
	TL3	0.751		
	TL4	0.717		
	TL5	0.800		

Note: SFL = standardized factor loadings, CR = composite reliability, AVE = average variance extracted.

Discriminant validity refers to the “extent to which the items measuring one construct are distinct from the items measuring the other constructs” (Hair et al., 2006). All the values of discriminant validity can be achieved when all the correlations among the latent constructs are less than the square roots of AVE (Fornell & Larcker, 1981).

It is evident in Table 4 that all the correlational values are less than the square roots of all the AVEs. Therefore, we can conclude that this study also effectively fulfils the discriminant validity criteria. This means that the participants could distinguish among the latent constructs present in the study. Moreover, the table also shows that the mean values of OC, PCB, ETI, OD and TL are 3.47, 2.89, 2.97, 3.12 and 3.34, respectively. Thus, most of the responses were around the mean value of 3, whereas the dispersion around the mean was at a maximum value of 0.84 for OC and at the lowest value of 0.71 for ETI.

**Table 4: Descriptive Statistics and Discriminant Validity**

	Mean	SD	OC	PCB	ETI	OD	TL
OC	3.47	0.84	0.751*				
PCB	2.89	0.77	0.391***	0.800*			
ETI	2.97	0.71	0.077	0.474***	0.929*		
OD	3.12	0.79	0.221**	-0.334***	-0.383***	0.790*	
TL	3.34	0.81	0.062	-0.421***	-0.447***	0.541***	0.759*

Note: \* = square root of AVE should be less than all the correlations, \*\*p <0.01, \*\*\*p <0.001.

In the first step of our analysis, PCB is entered as a dependent variable, and the demographics of the employees, including gender, age, education, and designation, have been entered as independent variables. The demographics taken into consideration have been used as the control variables. This is primarily because these demographics can effectively influence the relationship between the latent constructs, e.g., due to differences in the age of males and females or because of educational levels or differences in ranks and designations. Table 5 shows that only the employees' designation significantly influences the PCB.

**Table 5: Hierarchal Regression Results**

Dependent Variable	Model 1	Model 2	Model 3
	PCB $\beta$	OD $\beta$	ETI <b>B</b>
<b>Step 1</b>			
Gender	-0.051	0.023	-0.006
Education	0.061	0.117*	-0.090*
Age	-0.013	0.305**	-0.328**
Designation	-0.237**	0.394**	-0.391**
R <sup>2</sup>	0.18*	0.19*	0.20**
<b>Step 2</b>			
Gender	-0.047	0.019	-0.005
Education	0.069	0.128*	-0.098*
Age	-0.016	0.326**	-0.348**
Designation	-0.241**	0.381**	-0.385**
OC	0.380**	-0.323**	0.297**
TL	-0.353**		
R <sup>2</sup>	0.26**	0.24**	0.23**
<b>Step 3</b>			
Gender	-0.041	0.020	-0.008
Education	0.072	0.122*	-0.104*
Age	-0.012	0.321**	-0.352**
Designation	-0.247**	0.376**	-0.378**
PCB		-0.239**	0.195**
OC x TL	-0.425***		
R <sup>2</sup>	0.34**	0.30**	0.27**

Note: OC = organizational change, PCB = psychological breach of contract, ETI = employee turnover intention, OD = organizational identification, TL = transformational leadership, \*p < 0.05; \*\*p < 0.01, \*\*\*p < 0.001

Moreover, the standardized coefficient = -0.237, with a p value = 0.003, shows a significant impact on PCB. In the second step, Table 5 shows that organizational change significantly influences the PCB, as the p value



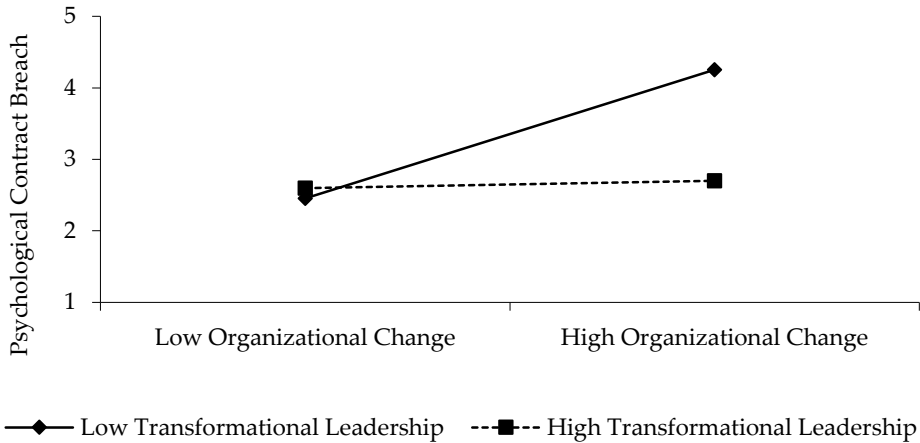
equals 0.002. Moreover, the value of the standardized coefficient is  $\text{Beta} = 0.380$ , which also shows a positive relationship between OC and PCB. Hence, hypothesis 1 is supported. Furthermore, TL has a negative and significant impact on PCB (standardized coefficient =  $-0.353$ ,  $p$  value  $< 0.001$ ).

In model 2, OD is entered as the dependent variable, and demographics are entered as the independent variables. The results indicate that employees' age, designation, and education have a positive and significant impact on the employees' identification of the top organizations (OD) that take into consideration the well-being of their employees. On the other hand, employees' gender has no significant influence on OD. In the second step, similar relationships have been observed as far as control variables are concerned, and OC has a negative relationship with OD. In the third step, we compare PCB against OD. Table 5 indicates that PCB negatively and significantly impacts the organization's identification. The value of the standardized coefficient =  $-0.239$ , and the  $p$  value =  $0.000$ . This demonstrates a negative relationship between PCB and OCB and supports hypothesis 2. In model 3, Table 5 shows that only gender has an insignificant impact on turnover intentions, whereas the employee's age, education and designation have a significant but negative impact on ETI. Similar results are observed in step 2, and the addition of OC has a positive effect on ETI. Furthermore, in step 3, the impact of PCB on ETI is explored. The value of the standardized coefficient is  $0.195$ , and the  $p$  value =  $0.001$ . Therefore, this shows that PCB positively and significantly impacts employees' turnover intentions. These findings thus support hypothesis 4.

To explore the moderation effect, the interaction term (TL\*OC) has been entered as an independent variable, and PCB is taken as the dependent variable, as shown in Model 1. Transformational leadership (TL), as a moderating variable, has a negative and significant influence on the OC and PCB relationship (standardized coefficient =  $-0.425$ ,  $p$  value  $< 0.001$ ). For a low slope, i.e.,  $-1$  SD (TL), the results showed a high significance level (standardized coefficient =  $-0.822$ ,  $p$  value  $< 0.001$ ). However, at a high slope, i.e.,  $+1$  SD (TL), the results remained insignificant (standardized coefficient =  $-0.028$ ). The results show a significant impact of the moderating variable (TL) between OC and PCB. This essentially means that the TL weakens the relationship between OC and PCB at mean and low slopes. These findings provide support for hypothesis 6.

From Figure 2, we also note the convergence of the low level of TL. A high level of TL shows that an element of moderation is present in the model.

**Figure 2: Graphical Representation of the Moderation Effect**



From Table 6, we see the indirect effects of PCB to be significant at a value of 0.11 for EC and ETI. This essentially means that complete mediation existed in the model, hence supporting hypothesis 5. Moreover, for the indirect relationship between OC and OD, the PCB is significant at a value of -0.12, which means that the PCB fully mediates the relationship between these two variables, therefore supporting hypothesis 3.

**Table 6: Results of Mediation Analysis**

Variables	ETI	OD
Indirect effects through PCB	0.11**	-0.12**
R2	0.37	0.44

Note: \*\* = significant at 0.05.

To examine H7a and H7b, the researchers used a statistical technique called moderated mediation analysis, which involved running regression analyses and bootstrapping using PROCESS software (Model 7) developed by Hayes (2013). This kind of analysis is supported by other well-known studies as well (Iqbal et al., 2020; Nyadzayo & Khajehzadeh, 2016). The results are presented in Table 7 and show the effect of the moderator (TL) on the relationship between the independent variable (OC) and the mediator (PCB) and the dependent variables (ETI and OD). The

analysis revealed that for individuals with higher levels of TL, the effect of OC on ETI through PCB was negative and significant (-0.0172), indicating that the mediating effect of PCB was weaker for these individuals. Therefore, H7a was supported. However, for the effect of OC on OD through PCB, the results showed a positive effect for TL (0.0132), but the confidence interval for the difference between the effects did not exclude zero, suggesting that the indirect effect of OC on OD through PCB did not vary significantly across TL. Thus, H7b was not supported.

**Table 7: Results of Moderated Mediation Analysis**

	Index	Bootstrap SE	Bootstrap LLCI	Bootstrap ULCI
ETI	-0.0172**	0.011	-0.0408	-0.003
OD	0.0132	0.015	-0.0150	0.0456

Note: \*\* = significant at 0.05.

## 5. Discussion

Previous studies show that whenever an organization undergoes any major changes, it is frequently accompanied by employees' psychological breach of contract. The extant literature makes it clear that PCB experiences an increase due to the uneasiness and job insecurity that develops among employees. Therefore, it is common to find a breach of contract among employees, particularly in response to organizational changes. This article also reveals that PCB has an impact on OC. In this context, the empirical analysis results show that the p value = 0.002, which is less than 0.05, which concludes that whenever a company fails to meet its promises and obligations, it leads to employees' PCB.

If an organization considers restructuring, scholars have studied the pivotal role of leaders in effectively reducing PCB. Supervisors' efforts can bring about the desired results when developing an instinct for adopting a balanced approach towards their subordinates. Studies show that supervisors and their roles are critical, especially when a company experiences a change such as organizational restructuring (Osisioogu, 2017; Owie, 2019; Velasco & Sansone, 2019). Therefore, the empirical findings of this article show how supervisors transform the situation and channel their employees' energies in the direction of the company's goals. Furthermore, the qualities of effective and efficient leaders play a decisive role in modifying the perceptions of their subordinates. Consequently, we can affirm that TL influences the perceptions of employees and helps reduce the impact of PCB within company requirements.

An organization may change through mergers, acquisitions, and environmental disruptions. Therefore, it should always be ready to face the employee's reactions – positive or negative. In this scenario, the most effective solution is to identify a leader with the appropriate skills who can turn the possible negative results into more desirable ones. These leadership skills, such as interactive behavior and effective sharing of information with employees, can modify employees' perceptions, and they can ultimately better confront the situation (Thamrin, 2012). This study shows that the leadership approach's impact is significantly positive in Pakistan's private banks. We conclude, therefore, that transformational leadership is the ultimate solution that can be used to modify employees' perceptions and, as a result, reduce their negativity.

Employees' turnover intentions and identification with an organization are two attitudes that we have examined in this study. The most crucial attitude of employees is their identification with an organization, that is, the extent to which they consider themselves a part of an organization. Prior literature in this context suggests that the relationship between organizational identification and employees' approach towards their job is a positive phenomenon (He & Brown, 2013). On the other hand, when a company experiences a change, it tends to impact the employees' perception negatively and results in PCB. Therefore, it is clear from our findings that when a bank faces organizational change, it may be violating the psychological contract, which eventually negatively impacts its employees. This ultimately results in decreased employees' sense of identification towards the bank.

This study further reveals that PCB tends to influence the employee turnover rate. The paper demonstrates an exchange relationship between employees' turnover intentions and their psychological breach of contact. The literature written in this context shows that the relationship between the company and its employees represents a psychological bond. This bond carries commitment, loyalty and assurance, thus benefiting both parties (Behery et al., 2016). Consequently, a violation of the psychological contract breaks the employees' bond, resulting in a decrease in loyalty. This distrust can further lead to an increase in their turnover rate.

The findings of this paper also show similar results. Our empirical findings show that when PCB takes place in a bank, it can influence the employee turnover rate. As a result, when employees see that the bank's commitments are not met and they back out of their responsibilities, it is common among employees to undergo psychological trauma that results

in them leaving their jobs for other companies, which offers some stability in this respect. Past studies also confirm similar results, which show that PCB becomes a decisive point for employees; it carries the loss of employee commitment and loyalty (Sandhya & Sulphrey, 2020). Moreover, the findings of this study are also consistent with Blau's social exchange theory. It is a common practice in Pakistani private banks that whenever a violation of a contract occurs, employees perceive it as a disgrace to their honor. They are then likely to detach themselves from the bank psychologically. Noticeable reactions from employees include the loss of job identification and finally resigning.

Last, this study also revealed that the relationship between OC and ETI through PCB is influenced by the level of TL. Specifically, while OC was found to increase PCB and enhance ETI, this effect was weaker for individuals with a higher level of TL. However, we did not observe a similar moderated mediation relationship between TL and the link between OC, PCB, and OD for employees in the banking sector. This suggests that there may be other factors that impact the relationship between OC and OD through PCB that require further investigation. The results imply that the relationship between OC and OD via PCB may not be holistically explored, and other factors may need to be considered, such as personality traits or situational factors.

## **6. Conclusions**

The purpose of our study is twofold. First, it examines the impact of OC on violations of employees' psychological contracts in the local private banking sector. Second, it highlights the crucial role of the transformational leadership approach, particularly when a bank experiences OC and PCB. This paper collected data from 288 employees of four private Pakistani banks. The analysis results showed that organizational restructuring usually led to employees' violation of the psychological contract, which brought negativity and distrust among the employees.

Moreover, employees are more likely to lose their commitment and loyalty towards the organization. To counter this issue, the leader's role becomes vital. Leaders must have the ability to reduce such negativity among employees and, at the same time, mobilize their energies. If employees have faith in their leaders, they face less negativity and take organizational restructuring as part of the organization's routine activities. At the same time, we must also acknowledge that organizations currently

conduct their business in an uncertain environment, particularly in a developing country such as Pakistan.

## **7. Research Implications**

Pakistan's political, legal and social situation is highly uncertain and often volatile. Therefore, organizations should practice an element of carefulness in making specific promises to their employees and be realistic. Banks must communicate policies and commitments to employees transparently during recruitment and prepare them for any change that unfolds due to the transformations experienced in the business environment or government policies.

As far as managerial implications are concerned, this study adds to the knowledge of managers working in the banking sector by focusing on the positive aspects of OC, as they can act as change catalysts and may contribute to less PCB. Managers in private banks can also work on reducing PCB to control the ETI, which may further escalate the OD. In addition, managers must also act as transformational leaders to prevent the disastrous impacts of PCB and consequently focus more on the positive aspects of OC in the banking sector. In summary, this study provides an overall framework for managers to cope with the elements that may occur due to unforeseen events in the Pakistani private banking sector.

## **8. Study Limitations and Future Research Directions**

This study has certain limitations owing to the constraints of resources. Our findings have limited generalizability due to the small sample size. Moreover, the study targets employees only in the private sector. Hence, future scholars must conduct comparative studies between the employees of public and private banks. Additionally, this paper focuses only on the PCB and leadership approach.

In contrast, other factors, including job satisfaction, organizational citizenship behavior (OCB), and employee engagement, have not gained the required attention in this study. Last, the paper adopts a cross-sectional design and collects data at only one point in time. Therefore, future researchers may use the longitudinal design methodology to measure employees' psychological breach of contract over a longer period.

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