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Examining the relationship between the psychological contract and organisational commitment

The mediating effect of transactional leadership in the UAE context

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Abstract

Purpose – The aim of this study is to examine the impact of the psychological contract, relational psychological contract and transactional psychological contract on organisational commitment as mediated by transactional leadership in the United Arab Emirates (UAE) context. The paper also explores the contractual status to determine if the theory remains valid, regardless of the fact whether one is employed as a contingent or permanent worker.

Design/methodology/approach – This research made a longitudinal study spanning a 24-week time period. Data were collected using a self-administered structured questionnaire prepared in English and Arabic, at three stages representing three visits to the participating companies in the UAE. Pearson's correlation analysis and multiple regression analysis were used to examine the research hypotheses.

Findings – The results show that the psychological contracts (transactional and relational) are positively related to transactional leadership. This study categorizes several consequential relationships between transactional leadership and organisational commitment. It also advocates that transactional leadership has only a fractional mediating role in relation to relational psychological contract, transactional psychological contract and organisational commitment.

Practical implications – The findings suggest that practitioners and academics alike should note that the nature of the psychological contract employed will impact upon commitment and retention.

Originality/value – This study makes a significant contribution to the body of literature, being the second part of a longitudinal study that aimed at testing the mediating effect of transactional leadership on organisational commitment within the context of the UAE. In the earlier study, the intent was to analyse the role of transformational leadership as a mediator between the psychological contract and organisational commitment. Typically, transformational leadership has been found to partially mediate the above mentioned relationships. In addition, it also advocates that there may be some value in considering the employees' contractual status with regard to the psychological contract and its impact on organisational commitment.

Keywords United Arab Emirates, Transactional leadership, Relational psychological contract, Organisational commitment, Transactional psychological contract, Work status

Paper type Research paper



Introduction

An employee's decision to remain with an enterprise is dependent on several factors and over the years researchers have come up with various theories and models to examine these factors. Most of the study related to this topic is based on Western experience and cultural norms and the researches on employee retention in the Middle Eastern perspective are very limited. Also, most of the existing literature deals with full time contractual staff. One of the aims of this paper is to find out whether the same rules and assumptions apply to part-time staff. This study is designed to assess the connectivity between psychological contracts, transactional leadership and employee commitment in the United Arab Emirates (UAE). While doing so, the aim was also to shed light on the applicability of the western concepts within the Middle Eastern context. The UAE business environment consists of more than 180 nationalities from a wide range of cultural, religious and ethnic backgrounds, according to the UAE Year Book (2011) published by the Ministry of Information and Culture. The UAE economy is rapidly diversifying into areas of tourism, manufacturing, logistics, banking and finance. The economy has attracted a huge number of international companies, which operate inside and outside the free zones. These companies are attracted to the UAE because of the advanced infrastructure, modern investment laws and the extremely skilled population of expatriates present in the region (Fernandes and Awamleh, 2006). In the UAE, the expatriate population is dominant, accounting for 91 per cent of the total workforce (Bashir, 2012). This study will be a valuable addition to the literature on organisational commitment in the Arab World in general, and in the UAE in particular, where the major workforce comprises of expatriates.

Among the various factors that influence employee commitment are the psychological contract and managerial leadership styles. Explanatory frameworks for understanding employee-organisational linkages are provided by the psychological contract (McFarlane and Tetrick, 1994; Middlemiss, 2011; Parzefall and Coyle-Shapiro, 2011). This research attempts to investigate the impact of the psychological contract (i.e. transactional and relational) on organisational commitment mediated by transactional leadership, a leadership style highly commended by Western academics and practitioners (Birasnav *et al.*, 2011). The study is among the first ones to consider transactional leadership as a mediator between the psychological contract and organisational commitment in the UAE context.

The structure of the paper is as follows: we will first briefly review the literature that deals with the main constructs, namely, the psychological contract, transactional leadership and employees' commitment. Here, it is imperative to mention that our intent was to conduct an indicative, non-contentious review of the literature. We bring in a new variable, contractual status, which is receiving an escalating interest in current research (Carr *et al.*, 2010; Spurr and Abele, 2011). Next, we look at the methodology, followed by the research results and findings. The findings are discussed with regard to their theoretical and contextual implications.

Psychological contracts

The primary focus of the psychological contract is the employment relationship between an employer and an employee at the individual level (Guest and Conway, 2002; Ali *et al.*, 2010). It consists of employees' beliefs regarding what employers owe them and, in turn, what they owe to their employers (Lambert *et al.*, 2003). The social exchange

theory suggests that the perception of employees towards psychological contracts will directly affect their organisational commitment and play a crucial role in an organisation's general performance and competitiveness (Khandelwal, 2009; Passarelli, 2011). However, psychological contract breach (PCB) is a synonym to the non-fulfilment of obligations, which occurs when employees perceive that their organisation did not live up to its promises, whereas they themselves fulfil their part of the deal (e.g. Freese *et al.*, 2011; Turnley and Feldman, 1998; Conway and Briner, 2005). It is found to be negatively related to a wide variety of employee workplace attitudes and behaviours (Schein, 1980; Suazo, 2009). A PCB results in union commitment among employees (Bashir and Nasir, 2013).

As apparent in the literature, researchers have identified two types of psychological contracts, namely, transactional and relational (DeMeuse *et al.*, 2001; Rousseau, 2001; Raja *et al.*, 2004). Transactional contracts specifically involve economic exchanges between the organisation and its employees. However, relational contracts revolve around trust, respect and loyalty (Cavanaugh and Noe, 1999; Rousseau, 1990, 1995; Turnley *et al.*, 2003).

Following the recent recession, attention has shifted from a paternalistic employee-employer relationship, where the employer took care of the employees by providing them with upward mobility, job security and retirement benefits, to a much more transactional employee-employer relationship, where there is far less job security and fewer provisions for retirement planning (Suazo and Stone-Romero, 2011). As a result of that, organisations nowadays not only expect their employees to execute their assigned tasks appropriately but also anticipate commitment from them and require more than transactional contracts. For instance, good citizenship duties that cannot be reasonably codified and standardised take one into the territory of the relational contract (Bal *et al.*, 2010). Similarly, individual employees might expect organisations to repay them for their loyalty and commitment to non-job tasks, which could be done through a number of non-financial ways such as retention, personal development, flexible working and advancement (Ali *et al.*, 2010; Bal *et al.*, 2010; Parzefall and Hakanen, 2010).

Scholars have not given much attention to the triggers or the antecedents of the two types of psychological contracts. The subsequent section stresses the significance of transactional leadership as an exemplar of the antecedents that might influence the employees' psychological contracts.

Transactional leadership

Over the years, researchers have developed models, theories and assumptions in an attempt to explain effective leadership in organisations. For example, the quality of the relationship between supervisors and subordinates has often been studied via the leader-member exchange (LMX) theory (e.g. Abu Elanain, 2014; Erdogan and Enders, 2007; Harris *et al.*, 2007; Lee, 2005; Levy and Hall, 2006; Liang *et al.*, 2007; Mardanov *et al.*, 2007). LMX can be defined as the interpersonal relationship between a subordinate and his or her leader (Lee, 2000; Schyns *et al.*, 2007). The LMX theory suggests that the relationship between a supervisor and an employee develops as a result of work-related exchanges between the two individuals.

Moreover, leadership behaviours can be grouped into two main styles: transformational leadership and transactional leadership (Bass and Avolio, 1997, 2000; Men and Stacks,

2012). Transformational leaders are charismatic who motivate followers and appeal to their ideals and moral values by creating and representing an inspiring vision of the future (Bass and Avolio, 1997; Yukl, 2006). This form of leadership involves the creation of an emotional attachment between leaders and their subordinates. Transformational leaders take a real interest in the well-being of their employees. Jin (2010, p. 174) suggested that transformational leadership integrates the elements of “empathy, compassion, sensitivity, relationship building, and innovation”. It develops a climate of trust, nurtures employees’ confidence and encourages their individual development (Men and Stacks, 2012).

Transactional leadership is a matter of contingent reinforcement of employees based on performances. It motivates followers by appealing to their personal desires, based on instrumental economic transactions (Men and Stacks, 2012). Transactional leaders generally use the bureaucracy, policy, power and authority to maintain control; this style of leadership is occasionally referred to as authoritative (Bennett, 2009). Previous leadership researchers (e.g. Bass, 1985; Podsakoff *et al.*, 1990) have identified contingent reward, which involves leaders clarifying roles and task expectations and providing contingent rewards on the fulfilment of contractual obligations, as the principal behaviour to represent transactional leadership because it “captures the exchange notion fundamental to transactional leader behaviour” (Podsakoff *et al.*, 1990, p. 113).

It is apparent from the previous literature that transactional leadership has an effect at both the individual and the organisational levels (Yukl, 2006). Transactional leadership represents an active form of strategic leadership that is an important ingredient for organisational effectiveness (Bass, 1990; Bass and Avolio, 1997, 2000; Waldman *et al.*, 2001) and is more common than transformational leadership (Liu *et al.*, 2011). Howell and Avolio (1993) and Lowe *et al.* (1996) suggest that both leader and follower reach an agreement concerning what the follower will receive for achieving the negotiated level of performance. In his seminal studies Bass (1985, 1990, and 1998) summarises several different types of behaviours inherent in transactional leadership that have been thoroughly explored in many independent studies later. For one instance, Walumbwa *et al.* (2005) observe that the leader assigns or obtains agreement on what needs to be done and promises rewards or actually rewards the follower satisfactorily on carrying out the assignment. In case of management by exception – active (MBE-A) behaviour involves monitoring subordinates and correcting action as and when needed to ensure that the work is carried out effectively (Bycio *et al.*, 1995; Walumbwa *et al.*, 2005). management by exception – passive (MBE-P) involves intervening only if standards are not met (Dumdum *et al.*, 2002). The leader uses contingent punishments and other corrective action to respond to obvious deviations from acceptable performance standards (Yammarino *et al.*, 1997). Torka *et al.* (2010) argue that Laissez-Faire behaviour entails avoiding decision-making and abdicating responsibilities. The following part emphasises the significance of organisational commitment as an example of the outcomes of a fair psychological contract and an effective transactional leadership.

Organisational commitment

Porter *et al.* (1974) have defined commitment as the psychological attachment that an individual holds towards an organisation. More specifically, it is the emotional attachment to the organisation that can be judged on the basis of the following factors: absenteeism, staff turnover, sickness absence, developmental engagement and

attitudinal surveys (Mowday *et al.*, 1979). Afterwards, Meyer and Allen (1984, 1991) clearly conceptualised organisational commitment as a three-dimensional construct consisting of affective commitment, continuance commitment and normative commitment. Thus, each component leads to the same main behavioural consequence, remaining with the organisation, but with different antecedents (Lubich, 1997). In their study, Meyer and Herscovitch (2001) have shown commitment as comprised of three dimensions:

- (1) A strong belief in, and acceptance of, the organisation's goals and values.
- (2) A willingness to exert considerable effort on the organisation's behalf.
- (3) A strong desire to maintain membership in the organisation.

More recently, Khandelwal (2009); Ismail *et al.* (2011) have argued that commitment to an organisation involves three attitudes:

- (1) A sense of identification with the organisation's goals.
- (2) A feeling of involvement in organisational duties.
- (3) A feeling of loyalty to the organisation.

The individual values, particularly the more traditional and conservative ones, relate to commitment forms above and beyond the effect of the demographic variables (Cohen, 2011).

Contractual status

For the past two decades, organisations have been functioning under increasingly conflicting environmental pressures in this highly competitive, turbulent and globalised world (Thorsteinson, 2003). Consequently, there is a need to achieve more flexible, non-permanent, labour resource (Moorman and Harland, 2002) through the services of temporary workers, for example, (Chambel and Castanheira, 2006), or by utilising part-time workers (Kidder, 1998; Chang *et al.*, 2011). However, the majority of commitment style surveys have been conducted within traditional (i.e. full-time, permanent or regular) employee settings (Kristof-Brown and Stevens, 2001; Cable and DeRue, 2002; Moen *et al.*, 2011). Over a decade ago, researchers realised the need to address new forms of contractual engagements, i.e. contingent work (McLean Parks *et al.*, 1998; Spurk and Abele, 2011) and also acknowledged the difficulties in such studies, such as the excess of contractual forms and transient employment patterns (Kidder, 1998; Moen *et al.*, 2011). Four characteristics that describe contingent employment are:

- (1) job insecurity;
- (2) irregular work time;
- (3) lack of access to benefits; and
- (4) lack of attachment to the company (Chambel and Castanheira, 2006).

The growth in contingent employment or workforce externalisation has been mainly due to the following reasons: labour cost reduction, increased scheduling flexibility and diminished responsibility for employees (McLean Parks *et al.*, 1998; Spurk and Abele, 2011).

The literature on organisational behaviour indicates that it is necessary to understand the impact of these temporary contracts on the attitudes and behaviours of employees at work. In accordance with the social exchange theory and reciprocity norms, it can be hypothesised that the temporary workers make a lesser contribution to the organisation and its competitiveness as these workers receive fewer inducements and are not considered for promotion and long-term employment (Marchese and Ryan, 2001; Chambel and Castanheira, 2006). However, research results have been irresolute and inconsistent. Pearce (1993) did not find any significant differences in the teamwork or affective commitment of contingent and regular engineers and technicians in an aerospace firm.

In short, we still lack insights into the extent of the impact of the nature of the contract of employment upon organisational commitment.

Theoretical model and conceptualisation

Based on the literature review, the authors propose that the level of an employee's organisational commitment is influenced by the transactional and relational psychological contracts, mediated by the impact of the transactional leadership style adopted (Figure 1). Organisational commitment may be seen as the criterion variable and the psychological contract as a predictor. Here, the core hypothesis is that the impact of the psychological contract on organisational commitment will be mediated by transactional leadership. In addition, from the literature review and the author's collective experience, we posit that the contractual work status of the respondents will act as a moderator variable. In addition, the following relationships are hypothesised:

- H1.* There will be a positive relationship between the perceptions of transactional psychological contract and organisational commitment.
- H2.* There will be a positive relationship between the perceptions of relational psychological contract and organisational commitment.
- H3.* Transactional leadership will be positively related to organisational commitment.

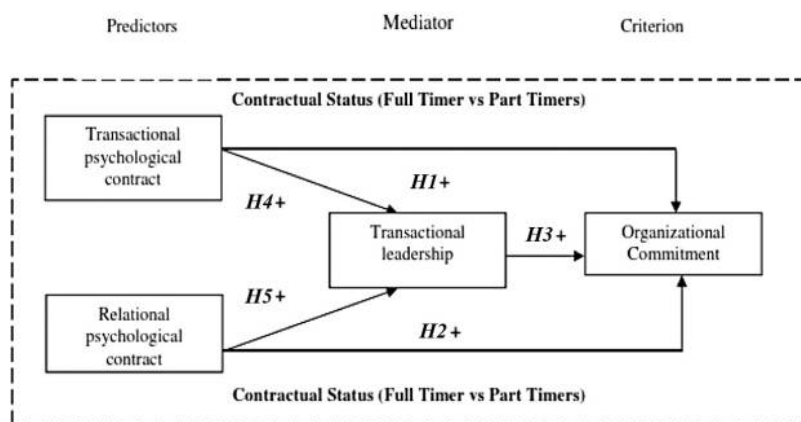


Figure 1.
Theoretical model
and research
hypotheses

- H4.* Transactional psychological contract will be positively related to transactional leadership.
- H5.* Relational psychological contract will be positively related to transactional leadership.
- H6.* Contractual status will positively influence the mediation effect of transactional leadership between transactional and relational psychological contracts and organisational commitment.

Research methods

Sampling and procedures

This paper made a longitudinal study spanning a 24-week time period. Data were collected using a self-administered structured questionnaire prepared in English and Arabic, at three stages representing three visits to the participating companies (real estate, transportation, communication, tourism, banking and legal services industries, etc.). Visit 1, made at the beginning of November 2010, was mainly about introducing the research idea, the purpose behind this investigation and the process by which the data would be collected. The survey instrument was modified slightly after the first visit. In January 2011, Visit 2 was made which followed up with the data collection and addressed the various issues identified by the participants during the period of time since the first visit. The purpose of this visit was also to encourage more participation. In March 2011, which is referred to as Visit 3, the completed questionnaires, which were returned by the respondents via a sealed envelope to a secured drop-off box, were collected by the researchers themselves. The contact details of the researchers were given to the potential respondents for any questions regarding the procedure and they were assured that participation was entirely voluntary. Confidentiality and anonymity were assured, the need for which was previously emphasised by Podsakoff *et al.* (2003). A total of 600 copies of the questionnaire were distributed first. To capture their responses, a structured questionnaire, prepared in English and Arabic, was delivered in person or by email. The translation was done by a bilingual expert. Once the Arabic questionnaire was completed, it was translated back into English by the translator for the better understanding of the researchers. Also, the researchers were well versed with the Arabic language that eased the translation process and understanding of the content. A total of 456 questionnaires were collected on Visit 3 with the respondents recording a high response rate of 76 per cent. Of these, 433 questionnaires were found to be usable. The required sample size was determined using Cohen's power analysis procedure (Cohen and Cohen, 1983) to ensure statistical validity. The power of a statistical test is the probability that the test will detect an effect in a sample when, in fact, a true effect exists in the population (Aiken and West, 1991). Using a target power of 0.80 and an effect size of 0.10 with an alpha of 0.05 (Cohen and Cohen, 1983), the estimated sample size for the study was 432 subjects. Therefore, the sample of 433 was found satisfactory. It is worth noting that efforts were made to minimise bias as per McGrath's (1986) recommendations. The researchers did not provide any information on the specific objectives of the research to the respondents. Some of the items in the measurement scales were negatively ordered; the scales were randomly structured within the questionnaire and all the measurement scales were selected from previously established scales. The outcomes of this longitudinal study were two research papers

with the same structure but with different mediators. More specifically, the first research paper was about testing the mediation effect of transformational leadership between the psychological contract and organisational commitment, whereas in the current research paper, the transactional leadership was used as the mediator.

Sample characteristics

The sample consisted of respondents belonging to different age groups. In total, 37.1 per cent were between the age of 20 and 30 years, 42.6 per cent between 31 and 40 years and 20.3 per cent were of the age of 40 or above. The sample comprised 45 per cent females, of which 32.1 per cent were in the age category of 20-30 years. The sample had 58.7 per cent local citizens (Emiratis), of which 43 per cent were permanent workers and only 15.7 per cent were contingent workers. It is important to mention that the sample comprised 41.3 per cent expatriates, of which 26.6 per cent were employed as permanent workers. In addition, the majority of the respondents (58.7 per cent) had less than five years of experience with the current employer, with 24.9 per cent of them working in the customer service department. To minimize the risk of correlation inflation due to common source bias (Podsakoff *et al.*, 2003), the same questionnaire was administered on contingent workers and permanent workers. Of the total sample size, 43.8 per cent of the respondents were contingent workers and 56.3 per cent were permanent workers. The respondents' level of education was relatively high: 43 per cent had master's degrees, whereas 57 per cent had bachelor's degrees in various disciplines. In total, 32.7 per cent respondents occupied managerial positions and 67.3 per cent were at the non-managerial level.

Efforts were made to minimise bias as per McGrath's (1986) recommendations. The researchers did not provide any information on the specific objectives of the research to the respondents. Some of the items in the measurement scales were negatively ordered; the scales were randomly structured within the questionnaire and all the measurement scales were selected from previously established scales.

Scales and reliability

The transactional/relational psychological contract was measured by Millward and Hopkins (1998) psychological contract scale. This adapted 17-item scale was used to describe the types of psychological contract related activities: answered, once again, on a seven-point Likert-type scale ranging from 1 (strongly disagree) to 7 (strongly agree).

Transactional leadership was measured using a modified form of the Multifactor Leadership Questionnaire (MLQ) (Bass and Avolio, 1997; Avolio *et al.*, 1999), which employs three subscales, namely contingent reward, MBE-A or MBE-P, and *laissez-faire*. Each behaviour was rated on a 7-point Likert-type scale ranging from 1 (strongly disagree) to 7 (strongly agree).

A modified version of the organisational commitment questionnaire (OCQ) (Mowday *et al.*, 1979) was used to measure the organisational commitment where the 15-item scale employs a 7-point Likert-type scale ranging from 1 (strongly disagree) to 7 (strongly agree).

The contractual status is coded as "0" (contingent or part-time worker) and "1" (permanent or full-time worker).

The questionnaire has acceptable internal total consistency reliability with Cronbach's alpha coefficients equal to 0.800. Cronbach's alpha coefficients for all

dimensions considered in this study are 0.755 (transactional leadership), 0.853 (transactional psychological contract), 0.760 (relational psychological contract) and 0.833 (organisational commitment), which were considered acceptable and all dimensions will be considered in all further analysis (Nunnally, 1978).

Statistical techniques

A descriptive statistics for the demographic variables was conducted. The study used Pearson's correlation analysis to test the collinearity among managers' transactional leadership behaviours, the transactional and relational psychological contracts and organisational commitment. Subsequently, a multiple regression analysis was used to examine the research hypotheses.

Statistical analysis and results

The interrelation among the research variables

The correlation between the transactional psychological contract, relational psychological contract, transactional leadership and organisational commitment were assessed using the bivariate correlations – Pearson's correlation coefficient. Transactional leadership is found to be positively correlated with both transactional psychological contract and relational psychological contract ($r = 0.478, p < 0.01$) and ($r = 0.421, p < 0.01$), respectively. Hence, the transactional leadership style helps in fulfilling the organisation's promises toward the employees at both the transactional and relational psychological contracts types. However, the results show that the transactional leadership style is moderately correlated with organisational commitment ($r = 0.309, p < 0.01$). This may be attributed to the negative effect of the financial hardship and recession in the UAE that leads to the employees' dissatisfaction and frustration. Employees need caring and charismatic leaders who give them a sense of job security and empathy (Behery, 2011). The results demonstrate that both transactional psychological contract and relational psychological contract are positively correlated with organisational commitment ($r = 0.408, p < 0.01$) and ($r = 0.525, p < 0.01$) respectively. This means that having a fair psychological contract is associated with higher levels of organisational commitment. However, it is worth mentioning that the employees are more committed when they have a fair relational psychological contract rather than monetary and transactional contracts through which a long-term organisational social responsibility toward the workforce is carried out.

The mediation effect of transactional leadership

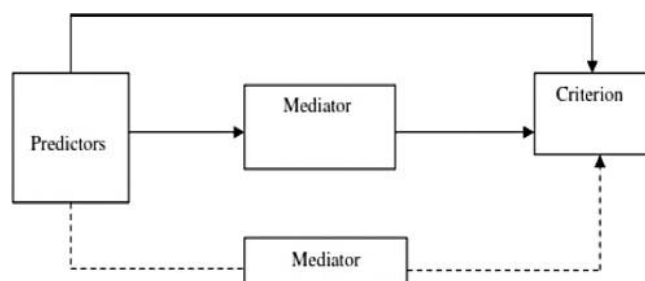
The statistical analysis and the results have been organised within what we have termed "models", of which there are two, the first relating to transactional and the second to relational, psychological contract predictors. The analysis was conducted in two parts: Study 1 (permanent worker) and Study 2 (contingent worker). For each analysis, two series of regression analyses were performed. In both series of analyses, the predictor variables were transactional and relational psychological contract, with organisational commitment being the criterion variable. In each study, the mediating effect of the transactional leadership was assessed to determine whether these scores could be used to account statistically for the relationship between the predictor and the criterion variables (Baron and Kenny, 1986, Grimmer and Oddy, 2007).

The process of determining mediation follows the model displayed in Figure 2, and the results will be explained for each regression analysis in turn. A fairly strong positive correlation was seen between the level of transactional psychological contract and

relational psychological contract ($r = 0.517$, $p < 0.01$). This raised the issue of multicollinearity for the regression analyses. However, the correlation was not greater than the rule of thumb of ($r = 0.700$) suggested by Tabachnick and Fidell (1983), and thus was considered acceptable.

Model 1 (permanent – full-time workers): The transactional leadership as a mediator between transactional and relational psychological contract (the predictors) and organisational commitment (the criterion).

In the first series of analyses, the possible mediating effect of transactional leadership (the mediator) on the relationship between transactional psychological contract and relational psychological contract (the predictors) and organisational commitment (the criterion) was assessed. Three steps of regression analysis were performed to assess this mediation effect (see Table I below). The first step in the process of determining mediation is to demonstrate a significant relationship between the predictor and the criterion. This was found to be the case. Transactional psychological contract and relational psychological contract were significant predictors of organisational commitment [$F(0.74) = 2.722$, $p < 0.05$, and $F(0.263) = 9.012$, $p < 0.01$, respectively]. The adjusted R^2 value was 0.222, which indicates that 22.2 per cent of the variance in



Source: Frazier *et al.* (2004)

Figure 2. Diagram of predictor, mediator and criterion relationships

Predictors	Beta	<i>t</i> -Statistic	<i>F</i> statistics	R^2 change	D-W test statistic
<i>Step 1</i>					
Transactional leadership	0.455	16.232***	263.480	0.328	1.595 ^b
Transactional psychological contract	0.074	2.722**	76.791	0.219	1.500 ^a
<i>Step 2</i>					
Relational psychological contract	0.263	9.012***			
<i>Step 3</i>					
Transactional psychological contract	0.012	0.490	103.267	0.0364	1.580 ^a
Relational psychological contract	0.136	4.779***			
Transactional leadership	0.361	11.005***			

Notes: Dependent variable is organisational commitment; the regression equations are free from multicollinearity ($VIF < 5$). ***Significant at the level 1%; **significant at the level 5%; *significant at the level 10%; ^aD-W test significant at 2%; ^bD-W test significant at 5%; ^cD-W test significant at 10%

Table I. The transactional leadership as a mediator between transactional and relational psychological contract (the predictors) and organisational commitment (the criterion) controlled by the contractual status (permanent–full-time workers) ($N = 301$)

organisational commitment can be attributed to the fair psychological contract in both the short term and the long term. This also formed a beta weight of 2.063 ($t = 20.854$, $p < 0.01$), which signifies a positive relationship between transactional psychological contract, relational psychological contract and organisational commitment. The second step is to demonstrate that the mediator is related to the criterion. It was established that the transactional leadership significantly predicted organisational commitment [$F(0.455) = 16.232$, $p < 0.01$]. The adjusted R^2 value of 0.330 indicates that 33 per cent of the variance in organisational commitment scores can be credited to the transactional leadership style. The beta weight of 1.638 was also significant ($t = 16.520$, $p < 0.01$) and revealed a positive relationship. The final step in the process of demonstrating mediation is to show that when the effect of the presumed mediator is controlled for, the effect of the predictors is minimised or becomes insignificant altogether. This was assessed using hierarchical multiple regression in which transactional psychological contract and relational psychological contract were added to the equation after transactional leadership to determine whether each added significantly to the amount of variance accounted for in organisational commitment. In this case, relational psychological contract added significantly to the equation [$F\text{-change}(103.267) = 4.779$, $p < 0.01$], but transactional psychological contract was not a predictor of organisational commitment since it was not statistically significant [$F\text{-change}(103.267) = 0.490$, $p > 0.05$]. These results indicate that transactional leadership did not completely mediate the effect of the predictor variables on organisational commitment. The R^2 change was only 0.368, which indicates that the amount of additional variation accounted for was a minimal 3.68 per cent. Further, the beta weight for transactional psychological contract and relational psychological contract, when each was added after the transactional leadership, dropped from its initial level of 1.638 to 1.455; second beta weight was still significant ($t = 13.910$, $p < 0.01$) but demonstrated that the effect of the predictor was reduced when the mediator was introduced. Thus, transactional leadership satisfied the requirements of being a partial mediator in the relationship between the predictors and the criterion variables.

Model 2 (contingent – part-time workers: The transactional leadership as a mediator between transactional and relational psychological contract (the predictors) and organisational commitment (the criterion).

In the second series of analyses, the same analysis was performed with transactional psychological contract and relational psychological contract as the predictors, organisational commitment as the criterion and transactional leadership as the mediator. The same three steps of regression analysis were performed to assess this mediation effect. The first step in the process of determining mediation is to demonstrate a significant relationship between the predictor and criterion. Transactional psychological contract and relational psychological contract were significant predictors of organisational commitment [$F(0.104) = 3.585$, $p < 0.01$, and $F(0.219) = 6.040$, $p < 0.01$, respectively]. This produced an adjusted R^2 value of 0.165, which indicates that 16.5 per cent of the variance in organisational commitment scores can be attributed to the fair psychological contract for both the short term and the long term. This also produced a beta weight of 2.093 ($t = 17.070$, $p < 0.01$), indicating a positive relationship between the predictor and the criterion. The second step was to demonstrate that the mediator is related to the criterion. It was found that the transactional leadership significantly predicted organisational commitment [$F(0.409) =$

12.402, $p < 0.01$]. The adjusted R^2 was 0.269 showing that 26.9 per cent of the variation in organisational commitment could be accounted for by having a transactional leadership style. The beta weight of 1.796 was also significant ($t = 15.628$, $p < 0.01$) and revealed a positive relationship. The third step in the process of demonstrating mediation was to show that when the effect of the presumed mediator is controlled, the effect of the predictors is minimised or becomes insignificant altogether. This was assessed using hierarchical multiple regression in which transactional psychological contract and relational psychological contract were added to the equation after transactional leadership to determine whether each added significantly to the amount of variance accounted for in organisational commitment. In this case, relational psychological contract did add significantly to the equation [F -change (57.126) = 2.812, $p < 0.05$], but person-job fit was not a predictor of organisational affective commitment because it was not statistically significant [F -change (57.126) = 1.417, $p > 0.05$]. These results indicate that psychological contract did not completely mediate the effect on organisational affective commitment. The R^2 change was only 0.293, which indicates that the amount of additional variation accounted for was a minimal 2.93 per cent. Further, transactional psychological contract and relational psychological contract dropped from its initial level of 1.796 to 1.581, when each was added after the transactional leadership. This second beta weight was still significant ($t = 12.372$, $p < 0.01$) but demonstrated that the effect of the predictor was reduced when the mediator was introduced. Consequently, transactional leadership satisfied the requirements of being a partial mediator in the relationship between the predictors and the criterion variables (Table II).

Discussion, theoretical and managerial implications

As discussed earlier, the psychological contract provides a reasonably better way of understanding behaviours and attitudes of an employee's work commitment (Van Dyne and Ang, 1998; Torka *et al.*, 2010). Previous studies (Millward and Hopkins, 1998; Bunderson, 2001; Raja *et al.*, 2004; Rousseau, 1990; Coyle-Shapiro and Morrow, 2006) have argued that employees' perception about the nature and stability of their

Predictors	Beta	<i>t</i> -Statistic	<i>F</i> statistics	R^2 change	D-W test statistic
<i>Step 1</i>					
Transactional leadership	0.455	16.232***	153.807	0.269	1.578 ^b
Transactional psychological contract	0.074	2.722**	124.103	0.314	1.722 ^c
<i>Step 2</i>					
Relational psychological contract	0.263	9.012***			
<i>Step 3</i>					
Transactional psychological contract	0.012	0.490	57.126	0.288	1.548 ^a
Relational psychological contract	0.136	4.779***			
Transactional leadership	0.361	11.005***			

Notes: Dependent variable is organisational commitment. The regression equations are free from multicollinearity (VIF < 5). ***Significant at the level 1%; **significant at the level 5%; *significant at the level 10%; ^aD-W test significant at 2%; ^bD-W test significant at 5%; ^cD-W test significant at 10%

Table II.
Study 2: the transactional leadership as a mediator between transactional and relational psychological contract (the predictors) and organisational commitment (the criterion) controlled by the contractual status (contingent-part-time workers) ($N = 132$)

contractual relationships has a significant impact on their loyalty. Similarly, this research has established a significant relationship between organisational commitment and relational and transactional psychological contracts within the UAE context, and is in alignment with the previous research conducted by [Bal *et al.* \(2010\)](#). This is not unique ([Millward and Hopkins, 1998](#)) but of interest as this study was conducted within a non-Western context and, to the best of the authors' knowledge, the first to address the relationship between the psychological contract and employee commitment in the Middle East in general and the UAE in particular. However, the global economic recession, which coincided with the beginning of the research, might have impacted upon the results of the research.

A series of findings regarding the employment status, permanent or contingent and the levels of employee commitment have been discussed in the earlier researches. Our analysis suggests that regardless of the contractual status, the impact of the psychological contract on the employees' commitment to their organisation is the same. The result is in alignment with the preceding studies, for instance, [Still \(1983\)](#), [McGinnis and Morrow \(1990\)](#), [Krausz *et al.* \(2000\)](#), [Khandelwal \(2009\)](#).

The positive relationship between transactional leadership and organisational commitment is generally well-established in the literature ([DeGroot *et al.*, 2000](#); [Rangriz, and Mehrabi, 2010](#)). Many studies have investigated transactional leadership and organisational commitment and have found reasonably consistent positive associations between the two ([Avolio *et al.*, 2004](#); [Bono and Judge, 2003](#); [Dubinsky *et al.*, 1995](#); [Dumdum *et al.*, 2002](#); [Walumbwa and Lawler, 2003](#); [Walumbwa *et al.*, 2005](#)). However, this study suggests only a moderate relationship between transactional leadership behaviour and organisational commitment and is supported by [O'Reilly and Roberts \(1978\)](#), [Hampton *et al.* \(1986\)](#) and [Savery \(1991\)](#).

Combining both Model 1 and Model 2 analyses, we can say that arguably the most interesting finding is the partial mediating impact of transactional leadership on the relationship between the transactional and relational psychological contracts and organisational commitment. Moreover, this research demonstrates that both types of psychological contract predict the level of employees' commitment towards their organisations.

The theoretical model and empirical findings of the current study provide several interesting insights. The results being consistent with our predictions, the present study can be said to be one of the first studies that have investigated the impact of the psychological contract on organisational commitment mediated by transactional leadership. We perceive several benefits of maintaining a more differentiated leadership model for future research on transactional leadership, as discussed by [Peccei *et al.* \(2011\)](#). As pointed out by many previous independent studies (see e.g. [Lindebaum, and Cartwright, 2010](#); [Gill *et al.*, 2011](#)), one of the major drawbacks with leadership research is that the factors underlying the conceptualisation and measurement of leadership have been over simplified. A simple one-factor modelling cannot sufficiently represent the range of factors and variables at play ([Middlemiss, 2011](#)). More significantly, this research may be seen as a sign that in non-Western socio-economic systems, some of the underlying logic associated with leadership, psychological contracts and employee commitment could be seen as being less relevant and thus the approaches, models and rationale remain questionable. The researchers deliberately structured their study in a pro-Western manner. Although the results are impacted upon by the recession, there is

clear evidence that Western assumptions and paradigms may directly apply to the Middle Eastern context.

The findings of this study have important implications for human resource management and hiring practices of organisations in a country where limited knowledge exists about these phenomena. The findings can help the decision makers in the UAE job market to understand the nature and direction of their relationships with employees. As the psychological contract is developed, both the employee and the employer are able to understand the “promises” that are made and the obligations that each has on both a transactional and relational basis. This research provides insights into the relationship between psychological contracts, transactional leadership and organisational commitment. This would help organisations in the UAE better manage the psychological contract, which would, in turn, result in an improved job performance and higher organisational commitment.

Conclusion and future research intent

The findings of this study are quite encouraging and emphasise the importance of psychological contracts on commitment. This research demonstrated that both types of psychological contracts predict the level of employees’ commitment towards their organisations. We found that transactional leadership has a partial mediating effect on the transactional and relational psychological contracts and organisational commitment and the impact of psychological contract on organisation commitment is the same on both contingent and permanent workers. Thus, to encourage commitment, HR practices should be designed to foster a tendency toward developing psychological contracts within the workplace.

Although the findings raise important considerations about the relationship between psychological contracts and organisational commitment, there are a number of limitations that should be noted. The generalisability of the results may be limited because the research focused on service industries in the UAE and was carried out when the pressure of the recession was high. The researchers are currently planning to further enhance the sampling frame by securing access to specific employee/managerial levels; adopting a regional rather than a country-specific approach; increasing responses within sector specific industries; and lastly, raising the scale of study from exploratory to the one in which contextual, cultural and theoretical outcomes will be more generalised and robust.

A majority of previous researches on psychological contracts have shown how sets of mutual obligations and responsibilities provide incentives for employees to remain within the organisation. For example, [Turnley and Feldman \(1999, 2000\)](#); [Suazo, and Stone-Romero \(2011\)](#) suggest that work involvement, cooperative coworkers and good relationships with supervisors can help tone down the negative effects of violation of the psychological contract. However, post recession, it was found that contract reliability has a great impact upon organisational commitment ([Ng and Feldman, 2008](#)): the extent to which an individual perceives the likelihood that his/her current psychological contract would be better elsewhere. When employees perceive that they cannot replicate their current psychological contracts, commitment to current employers will be enhanced ([Rousseau *et al.*, 2006](#); [Parzefall and Coyle-Shapiro, 2011](#); [Bal *et al.*, 2010](#)). Ultimately, we intend to undertake a more vigorous investigation of the issue of

employee commitment within the Middle East and hope that this study will spur new research avenues in the region which is seldom explored.

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