

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

**The Impact of the Psychological Contract on Intention to Leave in the
Royal New Zealand Navy**

A thesis presented in partial fulfilment of the requirement for the degree of

Master of Business Studies (Management)

at

Massey University, Albany

New Zealand

Layamon John Bakewell

2012

ABSTRACT

Over the last two years, the New Zealand Public Sector has experienced significant organisational change. In particular, the New Zealand Defence Force (NZDF) has instigated a number of reform programmes, most recently the Civilianisation Project. The aim of the Civilianisation Project was to analyse the workforce and identify jobs that were no longer required to be filled by people wearing a uniform. On 28 June 2011, 308 people from the NZDF were informed that they would be released from the service. Since this time, morale and satisfaction are at the lowest point recorded in the last eight years. This has had a dramatic effect on attrition, and since July 2011, NZDF personnel numbers have decreased by 1015 people (a decrease of 10.6%), and at the same time the attrition rate has increased from 10.7% to 21.3% per annum.

The present study sought to examine the employment relationship in the Royal New Zealand Navy (RNZN) utilising the framework of the psychological contract - the system of beliefs and perceptions of obligations between an employee and employer. The primary purpose of this study was to investigate the relationship between relational/transactional orientation of the psychological contract and intention to leave the organisation. The mediating role of affective commitment in employment relations was also examined. Data was collected from 619 members of the RNZN in a cross-sectional survey.

Hypothesis testing was carried out using structural equation modelling. Analysis confirmed that relational contracts have a strong and significant direct impact on intention to leave ($\gamma = -.752$, $\rho = .000$, $\beta = -.446$). The model also supported the path between transactional contracts and affective commitment, demonstrating a particularly strong linkage ($\gamma = -.719$, $\rho = .000$, $\beta = -.381$). A mediating role for affective commitment was also confirmed.

The present study suggests that the psychological contract orientation is both an important predictor of intention to leave, as well as providing a valuable insight into how employees view their career in the Navy. The results of the study suggest that human resource managers in the RNZN should focus on the relational aspects of the psychological contract in order to improve retention. Opportunities for future research include replicating this study across the wider NZDF and New Zealand public sector.

ACKNOWLEDGEMENTS

This thesis would have never gotten past the ‘good idea’ stage if it hadn’t been for the support and assistance of many people.

Firstly, thank you to my supervisor, Dr Darryl Forsyth, and my co-supervisor, Dr Kaye Thorn. Your assistance, guidance, attention to detail, and reviews of long manuscripts were invaluable. Without Darryl’s encouragement I would have never have had the confidence to take on such a large undertaking.

Approval for this research was obtained from the Massey University Human Ethics Committee Albany. I wish to extend my thanks to the committee for taking the time to review my application, and for the valuable feedback they provided.

I am indebted to the Royal New Zealand Navy for permitting this research to go ahead. In particular I would like to thank the Deputy Chief of Navy, Commodore Wayne Burroughs, MNZM, RNZN for granting approval for this study, and my boss, the Maritime Component Commander, Commodore John Martin, ONZM, RNZN for allowing me the time off work to complete this thesis. I would also like to extend my sincere thanks to every one of the 619 sailors and officers who took time out of their busy careers to complete the survey.

It is also important to acknowledge Heather and Vicky, who work in the Naval Base Mail Distribution Office. My sincere thanks to them both for sorting and posting the 1818 questionnaires and ensuring that I received every response in a timely manner.

I would also like to thank my mother, Wendy, for taking the time to conduct one of the final proofs of the overall document.

Finally, I need to thank my wife Rachelle and daughter Victoria. Without their love and support this thesis would never have been completed. Thank you both for your patience, and ability to always put any minor set backs into perspective.

TABLE OF CONTENTS

ABSTRACT.....	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS.....	iv
LIST OF FIGURES	vii
LIST OF TABLES.....	vii
CHAPTER 1 – INTRODUCTION	1
CHAPTER 2 – PSYCHOLOGICAL CONTRACT THEORY AND HYPOTHESES	5
2.1 History of the Psychological Contract Concept.....	5
2.1.1 Social Exchange Theory as a Conceptual Foundation	5
2.1.2 Menniger (1958).....	6
2.1.3 Argyris (1960).....	7
2.1.4 Levinson, Price, Munden, and Solley (1962).....	8
2.1.5 Schein (1965)	9
2.1.6 Other Early Writing and Research	10
2.1.7 Summary	10
2.2 Rousseau’s Seminal Work: The Marking of a Transition	11
2.3 Contemporary Approaches to Defining the Psychological Contract.....	13
2.3.1 The Subjective Nature of Psychological Contracts	13
2.3.2 The Function of the Psychological Contract.....	14
2.3.3 Parties to the Psychological Contract.....	14
2.3.4 How does the Psychological Contract Change Over Time	15
2.3.5 The Influence of the Organisation on the Psychological Contract.....	16
2.4 The Contents of the Psychological Contract	17
2.5 Factors that Shape Employee Perceptions of the Psychological Contract.....	21
2.5.1 Factors Outside the Organisation	21
2.5.2 Organisational Factors and Employment Contract Factors.....	22
2.5.3 Individual and Social Factors.....	24
2.5.4 Employee’s Position Within the Organisation	26
2.6 The Psychological Contract as a Tool for Understanding the Employment Relationship	27
2.7 The Changing Nature of Careers and the Content of the Psychological Contract.....	29
2.8 Human Resource Management Strategy and the Psychological Contract.....	32
2.8.1 The Royal New Zealand Navy	33
2.8.2 Psychological Contract Research in the Public Sector.....	35

2.9 The Content of the Psychological Contract and Outcomes	36
2.9.1 Psychological Contract and Affective Commitment.....	38
2.9.2 Psychological Contracts, Intention to Leave, and the Mediating Role of Affective Commitment.....	40
2.10 Gaps in the Literature	42
2.11 Summary.....	44
CHAPTER 3 – METHOD	46
3.1 Research Design Overview	46
3.2 Participants	46
3.3 Measures	49
3.3.1 Psychological Contract.....	49
3.3.2 Affective Commitment.....	50
3.3.3 Intention to Leave	50
3.4 Procedure.....	50
3.4.1 Communication and Survey Distribution.....	50
3.4.2 Data Collection.....	51
3.5 Research Ethics.....	51
CHAPTER 4 – DATA ANALYSIS.....	53
4.1 Data Analysis Overview	53
4.2 Data Entry.....	53
4.3 Missing Data.....	53
4.4 Data Normality and Linearity	54
CHAPTER 5 – RESULTS	56
5.1 Principal Component Analysis	56
5.2 Confirmatory Factor Analysis	58
5.3 Common Method Bias Analysis.....	59
5.4 Model Testing.....	60
CHAPTER 6 – DISCUSSION.....	68
6.1 Descriptive Statistics	69
6.2 Theoretical and Managerial Implications	70
6.3 Limitations and Suggestions for Future Research	72
6.4 Conclusion.....	73
REFERENCES	75

APPENDIX A: QUESTIONNAIRE.....	89
APPENDIX B: RESEARCH ANNOUNCEMENTS ON RNZN INTRANET HOME PAGE..	92
APPENDIX C: MASSEY UNIVERSITY HUMAN ETHICS COMMITTEE APPROVAL LETTER.....	94
APPENDIX D: LETTER GRANTING APPROVAL TO CONDUCT RESEARCH IN THE RNZN.....	95

LIST OF FIGURES

Figure 1-1. Trends in Morale and Satisfaction (NZDF, 2012b, p. 2)	1
Figure 1-2. NZDF Regular Force Attrition by Year (12 Month Rolling Average) (NZDF, 2012a).....	2
Figure 2-1. Contractual Continuum (Rousseau, 1990, p. 390)	18
Figure 2-2. Illustrative Stock and Flow Diagram for Army Trade Career Progression (Cavana et al., 2007, p. 204).....	33
Figure 2-3. Hypothesised Model.....	45
Figure 5-1. Initial Structural Equation Model.....	61
Figure 5-2. Regression Weights of Final Model.....	64

LIST OF TABLES

Table 2-1. Comparing Transactional and Relational Contracts	19
Table 2-2. Past and Emergent Forms of Psychological Contract.....	30
Table 3-1. Descriptive Analysis.....	48
Table 4-1. Descriptive, Skewness and Kurtosis.....	54
Table 4-2. Tests of Normality	55
Table 5-1. Summary of Exploratory Factor Analysis Results	57
Table 5-2. Construct Reliability.....	58
Table 5-3. Descriptive Statistics and Correlation	59
Table 5-4. Initial AMOS Output: Notes for Model.....	61
Table 5-5. Initial AMOS Model Fit Output	61
Table 5-6. Initial AMOS Output: Un-standardised and Standardised Estimates	62
Table 5-7. Does Affective Commitment Mediate the Relationship Between Relational Contracts and Intention to Leave?	63
Table 5-8. Does Affective Commitment Mediate the Relationship Between Transactional Contracts and Intention to Leave?.....	63
Table 5-9. AMOS Output (Final Model): Notes for Model.....	64
Table 5-11. AMOS Output (Final Model): Unstandardised and Standardised Estimates.....	66