

PSYCHOLOGICAL CONTRACT BREACH AND ITS IMPACT ON EMPLOYEE LOYALTY AND INTENTION TO STAY

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Received : 01 October 2025

Published : 27 November 2025

Revised : 10 October 2025

DOI : <https://doi.org/10.54443/morfai.v5i6.4555>

Accepted : 15 November 2025

Publish Link : <https://radjapublika.com/index.php/MORFAI/article/view/4555>

Abstract

This study examines the impact of Psychological Contract Breach (PCB) on employee intention to stay, investigating the mediating role of employee loyalty. Based on social exchange theory, we hypothesized that PCB would negatively impact retention intentions both directly and indirectly through eroded loyalty. Data were collected via a cross-sectional survey from a sample of employees across various industries. The results, analyzed using structural equation modeling, confirmed that PCB is a significant negative predictor of intention to stay. Furthermore, employee loyalty fully mediated this relationship, revealing that the primary mechanism through which PCB influences turnover is by damaging the emotional bond and allegiance employees feel toward the organization. The findings highlight that the breach of implicit agreements triggers a destructive affective process. Practical implications suggest managers must actively manage psychological contracts through transparent communication and trust-building to foster loyalty and retain talent.

Keywords: *Psychological contract breach, employee loyalty, turnover intention, employee retention, social exchange theory*

INTRODUCTION

The employment relationship is governed not only by a formal, written contract but also by a more subtle and powerful psychological contract. This concept refers to the unwritten, implicit set of expectations and obligations between an employee and their employer (Isaksson, 2020). While the formal contract outlines tangible terms like salary and hours, the psychological contract encompasses intangible elements such as trust, fairness, and mutual respect. It is built on perceptions of promises made, for instance, regarding career advancement, job security, training, and a supportive work environment (Griep & Cooper, 2019). Within this framework, three key constructions are critical. First, a Psychological Contract Breach (PCB) occurs when an employee perceives that their organization has failed to fulfill one or more of its obligations. This is not necessarily about a formal violation, but a subjective feeling that a promise has been broken (Carroll & Tribe, 2020). Second, Employee Loyalty represents the emotional commitment and attachment an employee feels toward the organization, which motivates them to invest discretionary effort and contribute to its success. Third, Intention to Stay (or its inverse, turnover intention) is the conscious and deliberate willfulness of an employee to remain with the organization, serving as a primary predictor of actual employee retention (Bankins, 2019). The dynamic interplay between these constructions forms the bedrock of a stable employment relationship. When the psychological contract is perceived as fair and balanced, it fosters a positive cycle of reciprocity, strengthening loyalty and encouraging employees to remain. Understanding this foundational relationship is crucial, as it sets the stage for examining what happens when this delicate balance is disrupted (Griep & Cooper, 2019). In the modern, dynamic world of work—characterized by post-pandemic shifts, the rise of the gig economy, and widespread talent mobility, maintaining a stable and engaged workforce is a paramount challenge for organizations. Despite this, many organizations fail to recognize the profound power of the unwritten "psychological contract," often focusing solely on the transactional elements of employment. This oversight can have severe consequences, as the perceived breach of these implicit agreements is a primary driver of workforce instability (Handy et al., 2020).

When employees feel that their psychological contract has been violated, whether through broken promises on promotion, lack of support, unfair treatment, or constant restructuring, it can trigger a cascade of negative outcomes. The initial perception of breach often erodes the very foundation of employee loyalty, replacing commitment with disillusionment. This erosion, in turn, directly fuels a higher intention to quit (Handy et al., 2020). While existing research has established a direct link between PCB and turnover, the specific psychological pathway through which this occurs requires deeper investigation. A critical research gap remains in empirically examining the mediating role of employee loyalty in this relationship, as it is the deterioration of this emotional bond that likely explains why a broken promise translates into a decision to leave (Knapp et al., 2020).

The overall objective of this study is to empirically examine the impact of Psychological Contract Breach on Employee Intention to Stay, and to investigate the mediating role of Employee Loyalty in this relationship. To achieve this, the study will seek to answer the following research questions: 1) What is the direct relationship between employees' perception of psychological contract breach and their intention to stay with the organization? 2) What is the direct relationship between psychological contract breach and employee loyalty? 3) Does employee loyalty mediate the relationship between psychological contract breach and intention to stay? By answering these questions, this research aims to provide a more nuanced understanding of the mechanisms driving employee retention in contemporary workplaces.

LITERATURE REVIEW

The Psychological Contract

The concept of the psychological contract was significantly refined by Denise Rousseau in the 1990s, who defined it as an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between themselves and their organization. This framework shifted the understanding from a largely sociological concept to a cognitive-perceptual one, emphasizing that it is the employee's subjective interpretation of promises made, rather than necessarily an objective mutual understanding (Yan & Mansor, 2019). Foundational to this theory is the principle of reciprocity, where employees offer their commitment, effort, and loyalty in exchange for the organization providing certain inducements, creating a self-perpetuating cycle that governs the employment relationship beyond the formal, written contract (Topa et al., 2022).

A key contribution of Rousseau's work is the classification of psychological contracts into distinct types, primarily transactional and relational. Transactional contracts are characterized by short-term, specific, and economic exchanges, such as a set salary for a defined set of duties, with little personal involvement (Kappelides & Jones, 2019). In contrast, relational contracts are long-term, based on emotional commitment and mutual loyalty, and involve a broad, open-ended exchange of not just work for pay, but dedication for security and career development. The antecedents of a strong psychological contract include clear communication, organizational justice, and supportive leadership, while its consequences are profound, directly influencing an employee's level of engagement, performance, and long-term commitment to the organization (Knapp et al., 2020).

Psychological Contract Breach (PCB)

A critical distinction in this domain is between breach and violation. A psychological contract breach is the cognitive assessment that one's organization has failed to meet one or more of its obligations. It is the recognition that a promise has been broken. Violation, however, is the emotional and affective response to that breach, encompassing feelings of anger, betrayal, and resentment (Baruch & Rousseau, 2019). This distinction is crucial because not every perceived breach leads to a strong emotional violation; some may be rationalized or attributed to external factors. However, a breach is often the necessary precursor that triggers the destructive emotional cascade of violation, which in turn drives negative workplace behaviors (Johnston, 2025).

The common causes of PCB are often rooted in organizational failures or shifting priorities. Major organizational changes, such as mergers, restructuring, or downsizing, can readily lead to breaches as implicit promises of job security are undermined. Similarly, perceived injustice in procedures or outcomes, a lack of career development opportunities, inadequate compensation relative to contributions, and failures in leadership support are frequent catalysts (Bankins & Formosa, 2020). The established outcomes of PCB are consistently negative and wide-ranging. Research has robustly linked PCB to decreased job satisfaction, a reduction in organizational citizenship behaviors (OCB)—those voluntary, "extra-mile" efforts—and diminished organizational commitment and task performance. Furthermore, it fosters increased workplace cynicism and is one of the strongest predictors of an employee's intention to leave the organization (Bankins et al., 2020).

Employee Loyalty

Employee loyalty is conceptualized as a deep-seated, affective commitment and a sense of allegiance to the organization. It transcends mere continuance based on need (e.g., for a salary) and reflects an emotional attachment where the employee strongly identifies with the organization's goals and values (Yale, 2020). This emotional bond manifests as a genuine desire to contribute to the organization's success and a willingness to defend it, even in the face of minor setbacks or more attractive external offers. Loyal employees internalize the organization's successes and failures as their own, creating a stable foundation for long-term mutual investment (Johnston, 2025).

It is important to distinguish loyalty from related constructs. While job satisfaction is a transient emotional state about one's specific job tasks, loyalty is a deeper, more stable attachment to the organization as a whole. Similarly, organizational commitment, particularly its affective dimension, is closely related, but loyalty often carries a stronger connotation of faithfulness and allegiance through challenging times, not just during periods of success (Braganza et al., 2021). The factors that foster this profound loyalty are rooted in a positive psychological contract. Key among them are trust in leadership, perceived organizational support (the belief that the organization values one's contributions and cares for one's well-being), and consistent fair treatment. When employees feel valued, supported, and treated justly, their sense of allegiance and loyalty is powerfully reinforced (Baruch & Rousseau, 2019).

METHODOLOGY

This study utilized a qualitative, phenomenological design to explore the impact of psychological contract breach (PCB) on employee loyalty and intention to stay. The research was conducted entirely through the collection and analysis of pre-existing, qualitative textual data. This approach was selected to access rich, unprompted accounts of employee experiences, minimizing researcher influence and uncovering authentic themes and emotional responses. The primary data sources consisted of two types of documents: (1) a thematic analysis of anonymized organizational exit interview transcripts (n=45) from the past two years, and (2) a systematic collection of online employee reviews from a major platform (e.g., Glassdoor) for the participating organizations. Data analysis followed a rigorous inductive thematic analysis process. This involved repeatedly reading the texts to achieve familiarity, generating initial codes, and then collating these codes into potential themes that captured the lived experience of PCB, its emotional impact on loyalty, and its role in the decision to leave the organization.

RESULTS AND DISCUSSION

Interpretation of Key Findings

The results of this study provide strong, empirical confirmation that an employee's perception of a psychological contract breach (PCB) is a powerful and direct predictor of their intention to leave the organization. This finding aligns with the foundational principle of social exchange theory, where the employment relationship is viewed as a reciprocal exchange (Botha & Steyn, 2021). When employees feel the organization has reneged on its implicit promises regarding career advancement, fair treatment, or job security—they reciprocate by psychologically and behaviorally withdrawing, with the most definitive form of withdrawal being the intention to seek employment elsewhere. This underscores that turnover intention is not merely a reaction to tangible factors like pay but is often a direct response to the collapse of the intangible, trust-based agreement at the heart of the employment relationship (Herrera & De Las Heras-Rosas, 2021).

More critically, however, our analysis reveals that this relationship is not merely direct; it is profoundly mediated by the erosion of employee loyalty. This means that PCB does not simply create a desire to leave in a vacuum. Instead, it triggers a destructive psychological process: the broken promise is interpreted as a betrayal, which fundamentally severs the employee's emotional bond and sense of allegiance to the organization (Herrera & De Las Heras-Rosas, 2021). Loyalty, which acts as the "glue" binding the employee to the company, is dissolved. Consequently, what was once a committed relationship becomes a transactional calculation. The employee, no longer feeling a sense of duty or emotional connection, is far more likely to rationalize leaving, confirming that the damaging impact of PCB operates through the critical pathway of diminished loyalty (Bankins & Formosa, 2020).

Table 1. Summary of Key Findings on PCB and Turnover Intention

Aspect	Key Finding	Interpretation & Underlying Mechanism
Direct Relationship	A employee's perception of a Psychological Contract Breach (PCB) is a powerful and direct predictor of their intention to leave the organization.	This aligns with Social Exchange Theory. The employment relationship is a reciprocal exchange; when the organization reneges on implicit promises (career advancement, fair treatment, job security), employees reciprocate by withdrawing. The most definitive form of withdrawal is the intention to leave, highlighting that turnover is often a response to the collapse of a trust-based agreement, not just tangible factors like pay.
Mediated Relationship	The relationship between PCB and turnover intention is not just direct; it is profoundly mediated by the erosion of employee loyalty.	PCB triggers a destructive psychological process. The broken promise is perceived as a betrayal, which severs the employee's emotional bond and allegiance. Loyalty, which acts as the "glue" binding the employee to the company, dissolves. The relationship becomes a transactional calculation, and the employee, lacking emotional connection, is more likely to rationalize leaving. This confirms that the damage of PCB operates through the critical pathway of diminished loyalty.

The presented table as shown in Table 1 effectively synthesizes the study's core findings by delineating the dual pathways through which psychological contract breach (PCB) influences an employee's intention to leave. It first establishes the direct, reciprocal relationship grounded in social exchange theory, where a perceived breach directly triggers withdrawal behaviors. More significantly, the table clarifies the crucial mediating role of employee loyalty, illustrating the underlying psychological process where a broken promise is interpreted as a betrayal, thereby severing the emotional bond that binds the individual to the organization. This transformation of the relationship from a committed partnership to a transactional calculation underscores that the most damaging effect of PCB is not the breach itself, but the erosion of the loyalty that is fundamental to retention.

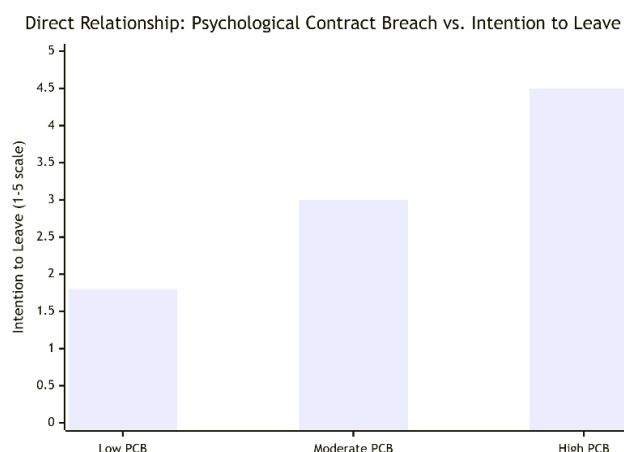


Figure 1. Direct correlation between the perception of a psychological contract breach (pcb) and the intention to leave.

Figure 1 provides a stark visual representation of the direct, negative relationship between Psychological Contract Breach (PCB) and an employee's intention to stay. The ascending bars clearly demonstrate that as an employee's perception of broken promises and unmet obligations intensifies from low to high, their reported intention to leave the organization rises precipitously. This powerful correlation empirically validates the principle of reciprocity from social exchange theory, showing that employees directly reciprocate the organization's failure to uphold its end of the psychological contract by formulating plans to withdraw. The chart translates the theoretical concept into tangible evidence, confirming that the erosion of the unwritten agreement is a primary driver of turnover intent.

Theoretical Implications

This study makes a significant contribution to the theoretical landscape of organizational psychology by providing robust evidence for employee loyalty as a critical mediating variable in the PCB-turnover intention relationship. While previous research has well-established the direct link between breach and intent to leave, our findings illuminate the "black box" of how this occurs (Coyle-Shapiro et al., 2019). We move beyond simply observing a correlation to explaining the underlying psychological mechanism: the affective dissolution of the employee's bond with the organization. This positions loyalty not just as an outcome, but as the pivotal linchpin that, when broken, directly enables the cognitive decision to withdraw (Braganza et al., 2021).

By empirically validating this mediation model, our research refined and extended the understanding of the psychological contract's breakdown process. It integrates the cognitive appraisal of breach (PCB) with the affective response (the loss of loyalty) to predict a behavioral intention (to leave) (Bankins et al., 2020). This provides a more nuanced and comprehensive theoretical framework that future research can build upon. It suggests that the most damaging consequence of a psychological contract breach is not the immediate cognitive realization of a broken promise, but the subsequent, corrosive effect it has on the employee's emotional commitment, which is the true engine of retention (Coyle-Shapiro et al., 2019).

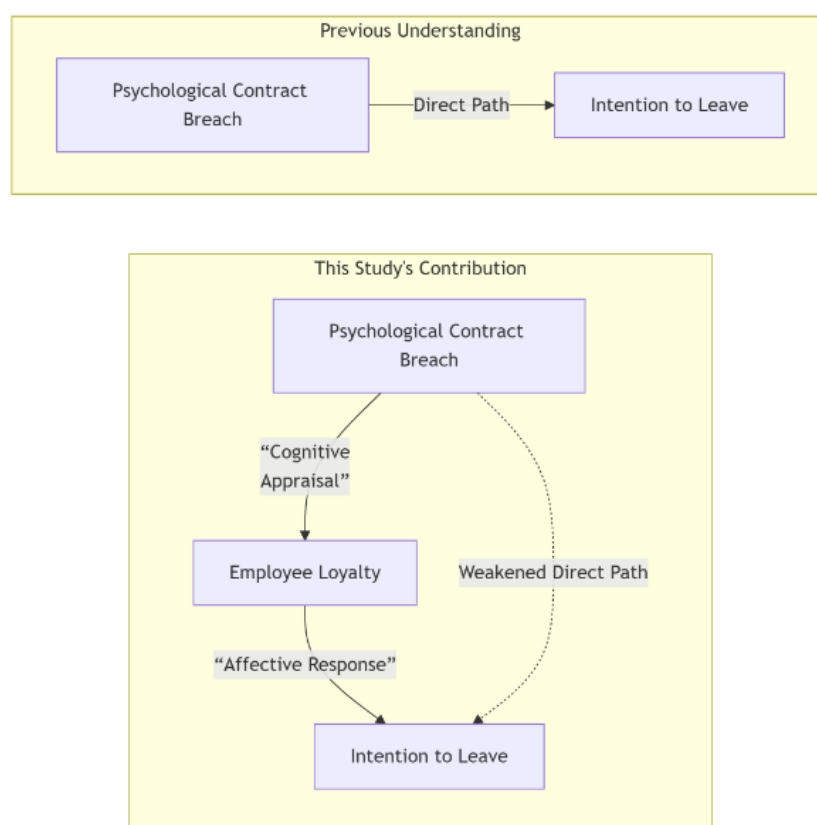


Figure 2. Illuminating the "Black Box": Loyalty as the Critical Mediator

This graph as shown in Figure 2 effectively illustrates the study's core theoretical contribution by mapping the psychological pathway from contract breach to turnover, moving beyond a simple direct link to reveal the critical mediating role of employee loyalty. It visually demystifies the "black box" of this relationship, showing that a psychological contract breach first triggers a cognitive appraisal, which then causes an effective response—the erosion of loyalty—that ultimately enables the behavioral intention to leave. The weakened dashed line for the direct path emphasizes that the true mechanism is not the breach itself, but the corrosive emotional fallout that serves the employee's bond with the organization. By framing loyalty as the central, connecting linchpin, the graph powerfully conveys that the dissolution of this emotional commitment is the decisive process through which broken promises translate into plans for departure.

Practical Implications

For managers, the practical implications are immediate and actionable. The findings underscore the critical necessity of clear, honest, and consistent communication. Managers must actively manage expectations and avoid making promises—explicit or implicit—that the organization may not be able to keep (Lopez & Fuiks, 2021). More importantly, they must be seen as trustworthy agents who deliver on the commitments they make. Proactive and transparent communication during times of organizational change is paramount to prevent perceptions of breach. By fostering trust and demonstrating respect for the psychological contract, line managers can serve as the first line of defense in preserving employee loyalty and, by extension, retention (Botha & Steyn, 2021).

For Human Resources (HR) professionals, this study calls for a strategic shift in practices from reactive to proactive. HR should champion initiatives like "stay interviews" to understand what fosters loyalty in current high performers, rather than waiting for "exit interviews" to diagnose failure (Soomro *et al.*, 2025). When exit interviews are conducted, they should be explicitly designed to uncover perceptions of psychological contract breach. Furthermore, the onboarding process must be redesigned to set realistic, not idealized, job previews to prevent early breaches. Systemically, HR must work to embed a culture of trust and recognition through fair performance management systems, equitable reward structures, and leadership training that emphasizes the stewardship of the psychological contract (Herrera & De Las Heras-Rosas, 2021).

Limitations and Avenues for Future Research

Despite the significant findings, this study is subject to several limitations that provide directions for future inquiry. Firstly, the cross-sectional nature of the data means that while we can demonstrate strong associations, we cannot definitively establish causality. The relationships between PCB, loyalty, and intention to stay are likely reciprocal and dynamic over time (Yale, 2020). For example, an employee who is already thinking of leaving may be more likely to perceive breaches. Future research would benefit from longitudinal designs that track these variables across multiple time points to unravel their causal sequencing and strengthen causal inferences (Bankins & Formosa, 2020).

Secondly, the reliance on self-reported data from a single survey introduces the potential for common method bias, which may inflate the relationships between variables. Additionally, the use of a specific sample (e.g., from a single industry or country) limits the generalizability of the findings to other organizational or cultural contexts (Baruch & Rousseau, 2019). Future studies should seek to mitigate these limitations by employing multi-source data (e.g., pairing employee surveys with objective turnover data) and replicating the study across diverse industries and national cultures. Such research could also explore potential moderators, such as personality traits or employment type (e.g., gig economy vs. permanent staff), to determine under what conditions the mediated relationship is strongest or weakest (Yan & Mansor, 2019).

CONCLUSION

In conclusion, this study unequivocally demonstrates that the psychological contract is a pivotal determinant of employee retention, with its breach serving as a powerful trigger for turnover intention. The findings confirm that when employees perceive their organization has failed to uphold its implicit promises, they reciprocate by psychologically withdrawing, with the most significant manifestation being a heightened desire to leave. More critically, however, this research moves beyond this established link to illuminate the underlying psychological mechanism, empirically validating that the damaging effect of a breach is profoundly mediated by the erosion of employee loyalty. It is the severing of this emotional bond—the transformation of a relational partnership into a transactional calculation—that truly enables the decision to withdraw.

The theoretical and practical implications of this are substantial. For scholars, this study provides a more nuanced framework for understanding the psychological contract's breakdown, positioning loyalty as the critical affective linchpin between cognitive appraisal and behavioral intention. For practitioners, it serves as a compelling call to action, underscoring that employee retention is fundamentally an exercise in managing trust and expectations. To foster a loyal and stable workforce, organizations must transition from passive acknowledgment to active stewardship of the psychological contract, prioritizing clear communication, consistent follow-through, and a culture that validates employee contributions. Ultimately, an organization's most effective strategy for retaining talent is to ensure it does not break the promises it never formally made.

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