Effect of Psychological Contract on Employee’s Performance with Employee Engagement as Mediator

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ABSTRACT

Employee performance is affected by employee psychological contract fulfillment and breach with employee performance as a mediator. The written or non-spoken psychological contract of a corporation or an organization is not discussed clearly in past studies with employee engagement. Fulfillment of this contract is obliging to learn the organization whole motives. Default and incongruence theory have been discussed. This Research is cross sectional based on a survey Research and for data analysis data has been collected from one hundred and ten employees of different organizations with personally administered questionnaire using Likert scale. The conceptual frame work show some hypothesis. For analysis Regression analysis and correlation analysis with validity test have been used to see the relationship and effect of independent variables on reliant on variables. Results of this study show spiritual contract Fulfillment stimuli employee engagement which results in better employee performance in an organization. Consequences for theory and practice have been discussed with directions for future.

INTRODUCTION

The idea of psychological contract is drawing back to the first 1960s when it seemed for the prime time. Since the first study of research in 1960s, investigators are considering and finding and changing with more innovations in the psychological employee contract continuously. Contract breach results in the demotivation of employee which will affect the organization badly by declining the employee performance but the fulfilment of contract motivate the employee which increase their loyalty towards the organization and result in better performance. Psychological contract fulfillment refers to the nirvana of employee promises made by corporation or organizations of different level (Kickul & Lester, 2001).

In last decade Human Resource department was not working in a proper way in Lahore due to which there was no proper contracts for employee performance or employee engagement and rights, in organization Employees consider as most important asset and for their best performance it is necessary to consider psychological contracts to make better employee engagement which will result in better employee performance.
in different departments of certain organizations. Employees will offer that discretionary effort with whole heart

only when the goals of certain department of an organization or that whole corporation and those of the employee became so similar, aligned, that the employee of his or her own enterprise takes great pride and feel happy to go for the extra mile and adding extra creativity, innovation with professionalism to achieve a professional goal that behold, attain the organization’s wealth or dramatically achieve its goals, as the employee learns, grows, and prospers in an organization (Russo, 2009).

The Breach of contract result in loss of employee interest which declines their performance. The constructive and best outcomes show yield high gains, cost-effectiveness in different aspects, less turnover rate, better collaboration, improved number of training and letter of technical knowledgeable skills, greater staff rate of commitment and high employees earning rate with more Engagement and loyalty in organization or a market place (Rousseau, 1995). Different studies shown that while employers attained better artefact quality, more yield production with more profitable output, working staff get more output advantages from advanced levels of bonus and job satisfaction with better performance (Ichniowski et al., 1997; Appelbaum et al., 2000). Anderson and Schalk, (1998) has proven with the help of their studies and collaboration with the working labor that the psychological or emotional contract is descriptive idea which plays a role in employee performance by keeping in view the employee engagement.

This study will help to check the direct impact of contract on employee performance. It has shown remarkably very significant ‘face legitimacy’ and everybody as a person admit that it occurs as most of the staffs are able to describe or discuss the content and the main points of their contract. A certainty which shows that sympathy will transpire can be a forerunner for the arise of a psychological employment contract (Rousseau, 1989). It is very significant for organizations to recognize and supervise the outlook to pay attention towards their workers in order to complete the given corporation side of the contract (Festing & Schäfer, 2014. Rendering to Turnley, Bolino, Lesterand and Bloodgood (2003), Psychological contract breach is destructively related to employee working performance. CoyleShapiro (2002) specified that when the organization completes its promised different compulsions or duties, staffs may be incited and become engaged into flexible behaviors, counting better performance.

According to, Robinson and Rousseau (1994), psychological contract breakage or violations effect working employees those who have countless levels of trust or assurance to the company. modest advantage for the association and offers healthier and new occasions to employees to perform at workplace (Shuck et al., 2011). An advanced level of employee loyalty with more engagement gives a stimulus to operative effectiveness, invention and affordability at workplace (Welch, 2011). Employee with more engagement considered as a major motorist to creative work behavior at workplace (Slattenand &Mehmetoglu, 2011). For the better performance
of employees, the employee engagement is to be keep in view by fulfilling the contract.

**LITERATURE REVIEW**

**Psychological Contract Fulfillment and Breach**

Psychological contract has become increasingly important in discussing the relation between working employees and therefore the workplace also as employees job performance. Psychological contract could be a reflection of individual prospects of the duties between employees and corporation (Rousseau, 1995), containing both aspects of people working in organization and departments of organizations (Schein, 1980). While psychological contract not only has the character of expectation, but also contains commitment related to job and reciprocity towards obligations, to interrupt the expectations will generate disappointment or demotivation, while to interrupt or change the duty will induce anger, thus making people re-evaluate the link between the individuals and therefore the organizations.

Psychological contract defines as opinions, judgments of people and beliefs regarding to collective obligations of the employee and the administrational staff (Bal, De Lange, Jansen, & Van Der Velde, 2008). Employee Psychological contract Fulfillment implies the on the whole blend of individual commitments, aptitudes (Antonaki & Trivellas, 2014) and understood prospect that are nonverbal, unspoken to be resulting from the mutually consented obligations ongoing in the relationship between the worker of department and the management (Arslan & Ulas, 2004). Psychological contract fulfillment assure that the management provides a fair and performance based incentives and job assurance for a long run and the worker in turn promises commitment and truthful manufacture (Erdoğan, 1999). Psychological contract is lively and open to innovative regular change (Cortvriend, 2004). The term breach is defined as failure in performing or doing any promise or obligation given (Ronan, Thomas, Fergal, & Joe, 2003). The fulfilment results in performance with better employee engagement but the reach decrease performance. Investigative perceived organization support from other corporate association have main point of view because research has showed that when workers or labor observe that their association supports them in a good way, they are more likely to imagine or stay with that their extra labors achieving association goals and motives will be rewarded as a bonus (Armeli, Eisenberger, Fasolo, & Lynch, 1998). Psychological contract fulfillment and employee performance have directly positive and significant relation.

**H1.** There is a significant and positive relationship between psychological contract Fulfillment and employee performance.

**H2.** There is a significant and negative relationship between psychological contract breach and employee performance.

**Employee engagement and Employee Performance**
Employee engagement refers to the knowledgeable as the loyal or expressive commitment to an Organization of production, service or marketing by their company workers in their jobs (Amhalhal et. al, 2015). Moreover, employee engagement is a thin and concentrated conceptualization of the relationship between workers job at workplace (Yalabik et al., 2017). In addition to this, employee engagement is, about how employee work performance is associated, connected or affiliated with the outcomes of organization in a profitable way (Amhalhal et. al, 2015). Employee performance is classified into two broad sorts: in-role performance and over or extra-role employee behavior (Restubog et al., 2006). In-character performance relates to the clear overt requirements and expectations and perceptions from the organization on the employee. These requirements are typically written in employment contracts and performance appraisals or targets. Extra-role behavior belongs to unclear or implicit and unstated behavior that adds value or more strength to the employer-employee relationship in an organization.

Employee Engagement and Job Performance consists of different cognitive, expressive, and behavioral elements that are associated and are related to discrete role of performance by workers (Saks, 2006). Enhancing or polishing engagement of employee creates a convincing and a harmonic, competitive advantage for the organization and offers more better opportunities or promoting chances to employees to perform (Shuck et al., 2011). Employees who are engaged in different acts and perform well are able to make their own resources, which then adoptive engagement again over time and create a positive gain twisting (Bakker & Demerouti, 2008). Employee Job engagement is significantly certainly related to job satisfaction, organizational commitment and organizational citizenship behavior which results in high employee performance (Saks, 2006).

H3: Employees engagement has been positively related with employee performance.

H4: Employee engagement mediates the relationship between psychological Contract Fulfillment, Breach and employee performance.

Theoretical Framework

The employer fulfill the promises and obligations then the employee feel happy, satisfied or proud the organization and employee trust and loyalty towards the organization increased and satisfied the job then the organization with profit grow more (Robinson & Morrison, 1995). However when labor resource realize the bad or unstable condition and fail to done the guarantee they feel with unsatisfied anger mistrust and betrayed (Raja, Johns, & Ntalianis, 2004) these feeling and emotions decreased the production level or output of the organization and turnover or bad word of mouth increase due to the mistrust (Robinson, 1996). Low satisfaction, low agreeableness low level of management commitment and decreased work performance level of the employees (Orvis, Dudley, & Cortina, 2008). Recharger discuss two different situations of psychological contract Breach nonpayment. Defaulting is
when an agent or employer of the association knowingly or deliberately break a aptitude to an employee or worker (Morrison & Robinson, 1997).

Employees believed his promised is fulfilled will result in better performance with more engagement (Conway & Briner, 2005). It is important to understand the nature and factor that how to affect the psychological contract on the employee’s works. Psychological contract is understand and define the employee needs or dreams fulfillment and not fulfill the mutually consent promises then the effect on the organization(Gakovic & Tetrick, 2003).when the employee feel or came to know that the employer not fulfill the promise then organization face different or negative reaction on the employee side(Kickul & Lester, 2001).

Employee’s psychological contract violation is positively and directly connected to the work man goal to left the organization or association, which is a further more researched attitudinal job result(Hess & Jepsen, 2009). Worker transitionally resulted with psychological contract liked to increase turnover and left the job. Furthermore, researcher found the positively strong and significant relationship with employees when intention to left the job (Al-Mukhtar, Khattab, & Alcover, 2012).Restubog et al. (2006) shown a conclusion into the impression of psychological contract on operative performance of corporation by using social exchange theory to explain that a breach or violation of psychological contract has negative consequences.

**Summary of literature review**

Shuck et al. (2011) conducted a study among workers in the service, manufacturing, professional and non-profit industries like Ngo’s. They conclude and suggested that engaged employees perform better than their less engaged at their workplace, counterparts because they are more involved in their work and they cerebrate more about their work, which helps them to produce innovative and better solutions. Employee engagement is a major driver and an initiative to innovative work behavior with more performance as an output (Slattenand & Mehmetoglu, 2011). Research shows after studies that high levels of loyal employee engagement are negatively related to breakdown or turnover and positively associated with well-being and betterment of workers (Bakker et al 2008; Schaufeli & Bakker 2004). Ahmad et al. (2014) suggested a strong associated relation between high involvement management and organizational employees’ performance. Thus it is expected that employee engagement has a optimistic impact on employee performance level of the organizational employee which is positively related to contract fulfillment and negatively related to breach.

**METHODOLOGY**

The research design which is used for this research is quantitative in nature and descriptive in design. Questionnaire was distributed to employees once at different
time periods and have been collected after a short period of time. A nonprobability convenient sampling technique is used for data collection. Non probable sampling technique is used when you are not so sure about the exact number of targeted population you can get the sample from anywhere and anytime. Individual is unit of analysis for this study. The employee was not only selected from selected organizations the employee were from random organization and of any post. The target population for study was employee those who are working in banking sector, educational or public or private medical sector. After data collection total sample size was 105.

Data Collection instrument

The data collection for this study is primary data collection and for this a survey questionnaire is developed. All the measures and instruments for analysis in this study were adopted and chosen from previous and reliable scales. The 5-point Likert scale is going to be used to measure the items of questionnaire. In 5-point Likert scale 5 representative Strongly agree, 4 representing agree, 3 representing neutral, 2 representing disagree and 1 representing Strongly disagree state of mind. The scale of psychological contract is developed from previous studies which show effect of contract (Cassar, V. & Buttigieg, S.C., 2015). Previous study shows a scale which is used here to check employee performance by relative questions (Stanley, & Topolnytsky, 2005).

Data analysis Technique

SPSS have been used for certain tests to analyze the data. Demographic examination was conducted which shows about the age, education or height of our population, descriptive statistics and correlation analysis. Linear Regression analysis tells about the relationship of different variables in a study and show about direct or indirect impact. So to check hypothesis Regression analysis has been used and mediation test is also used to check the mediation between variables as mediator shows the relationship of variables.

RESEARCH FINDINGS

Background Characteristics of Respondents

This Study has gathered data from different public and private organizational sector. Our target population encompasses the employee of different organizations of Lahore working there as permanent employee or based on a contract. The survey has been conducted in banks, hospitals, universities and private production organizations. This study conducted analysis based on age, gender, educational level, job type and job duration. Of the total respondents, 48 were males (45.7%), while remaining 52 respondents were females (54.3%). Regarding the age group 56.2% of the participants were in the age group of below 25 years. This is followed by those in the age group of 25 to 45 with 43 respondents which accounted for 41.0% of sample. In the age group of 46–55 years, there were 2 respondents, representing 1.9% of the sample. The smallest age group 56+ years, which accounted for 1.0% of the sample size. A high proportion of the respondents were bachelor’s degree holders, which accounted for 47.6%, while 33.3%
were Master’s degree holder 19% representing PhD degree holders. Regarding job nature 28.6% were contractual, 45.7% respondents were permanent and 25.7% were of other job nature. The high rate of respondent’s nature job was permanent.

Descriptive Analysis

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>SD</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCF</td>
<td>2.5714</td>
<td>.7275</td>
<td>.552</td>
</tr>
<tr>
<td>PCB</td>
<td>2.6714</td>
<td>.5625</td>
<td>.259</td>
</tr>
<tr>
<td>EP</td>
<td>2.5575</td>
<td>.4570</td>
<td>.708</td>
</tr>
<tr>
<td>EE</td>
<td>2.0542</td>
<td>.6187</td>
<td>.883</td>
</tr>
</tbody>
</table>

Table 1 shows descriptive analysis. The mean values are indicating the trend of responses that most of variables are lied towards agreeableness as the mean value is positive and is ranging towards the agreeableness of respondents.

Table 2: Correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>PCF</th>
<th>PCB</th>
<th>EP</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCB</td>
<td>.465*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EP</td>
<td>0.143</td>
<td>.237*</td>
<td></td>
</tr>
<tr>
<td>EE</td>
<td>0.127</td>
<td>0.129</td>
<td>.616**</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The above-mentioned table 2 is representing the correlation among all under study variables. The highest correlation existed between which is valued at 0.129. It is reflecting that PCF and EP are positively related with each other with a moderate standard deviation and have a positive relation. EP is also correlated with the second independent variable PCB.

Regression Analysis

<table>
<thead>
<tr>
<th></th>
<th>Standardized Coefficients (β)</th>
<th>t</th>
<th>p</th>
<th>F</th>
<th>R</th>
<th>R2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCF</td>
<td>0.041</td>
<td>0.381</td>
<td>0.704</td>
<td>3.107</td>
<td>0.24</td>
<td>0.057</td>
</tr>
<tr>
<td>PCB</td>
<td>0.217</td>
<td>2.004</td>
<td>0.048</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: EP
b. Predictors: (Constant), PCB, PCF
Table 3 signifies the regression analysis of PCF&PCB. Results divulge the beta coefficient, standard error, t-value and significance value. Results showed that leaders pcf significantly and positively influence employee performance (β=.041; p<0.05). So hypothesis 1 has supported by results which described that there is a positive relationship between pcf and ep. Moreover, this table also indicated that PCB negatively affect the EP (β=.218; p<0.05) and H2 is supported.

Mediation Analysis

Table 4: Mediation Analysis through Process

<table>
<thead>
<tr>
<th>EFFECT</th>
<th>BOOT</th>
<th>SE</th>
<th>LLCI</th>
<th>ULCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE</td>
<td>0.0625</td>
<td>0.0533</td>
<td>-0.0381</td>
<td>0.1715</td>
</tr>
</tbody>
</table>

Results of Table 4.11 shown that employee engagement significantly and mediate the relationship between employee performance and PCF & PCB. The result of this mediation test supported hypothesis H4.

DISCUSSION AND CONCLUSION

Discussion
This study discusses the theoretical findings around psychological contract Breach, psychological contract fulfillment, employee performance and its dependency between these concepts with the analysis of data collected. The research objectives contained four hypotheses based on the data collected from different organizations for the analysis of data. This study empirically proves the direct and indirect relationship of employee performance. This study tells the role of psychological contract fulfillment and psychological contract breach on employee performance. Psychological contract is employee perception with expectation there is employee and organization obligation with more responsibilities. When these expectations are not fulfilled the many studies fine the job outcomes or the output. Furthermore, when the employee’s expectation or needs did not meet or fulfill from the workplace side then the employee willingness or agreeableness is going to low and performance, outcome of the work is affected badly with harsh impact because psychological contract can affect employees work. Researchers like Purcell et al (2003), Boselie and Paauwe (2004) has shown a positive and direct relationship between performance of the employees. The relationship between these variables and job performance has not been examined previously. Organizations which have an objective to upgrade the performance of their employees are suggested to also keep an eye on these variables.

Conclusions
This study provided significant theoretical and practical contributions. Psychological contract is that workforces commonly feel appreciative to add much more to them.
Psychological contract may also involve extra managerial duties such as defensive jobs by avoiding pointless life-threatening of jobs, and contribution in career growth with different opportunities for person operative personal growth (Festing & Schäfer, 2014). Psychological contract fulfillment and breach have direct and indirect effect on employee performance and employee engagement. Fulfillment of contract give rise to employee loyalty and satisfaction but its breach results in dissatisfaction. Neutral psychological contract has risen in recent times and are available together with open ended time border and joint relational harmony with the presentation require and renegotiation of transactional pacts (Rousseau, 2010; Waiganjo, 2012). In the past the researchers less focused on Psychological Contract Fulfillment and its breach. The results have proved that it supports H1 and H2 and show that the pcf and pcb effect directly employee engagement and employee performance. It also shows that employee engagement mediates the relation between psychological contract fulfillment and its breach. H3 is rejected as the variables not only have direct effect on the dependent variable it also shows an indirect relation. H4 shows the mediations effect between variables and it is supported by data analysis. Psychological breach is very important factor for the employees and employer. It was very important to explore the role of Psychological contract on employee performance. The current study's findings would assist to shape betterment of organizations. It would also present a learning model to different organizations in order to enhance their employee performance. Furthermore, it would also suggest future research on the subject.

Recommendations

The current study has some limitations. First, this study was cross sectional research which was conducted in few organizations and it collected the data only single time due to time barriers and social norms. Second limitation was interconnected to research respondents. The data was collected only from Lahore due to the shortage of time; limitation of resources and it is expensive to conduct a survey in different cities. Accordingly, the results may or may not be comprehensive to employee of different cities with different cultures. It is suggested to conduct longitudinal study in the future studies with respondents from other different cities with different norm and cultures. In future studies the Researchers can also study role of some other variables with role of a new moderator or a mediator. The Researchers can also study the effect of psychological contract on employee absenteeism as employee contract breach results in dissatisfaction and results in employee absenteeism and results in high turnover rate. Increase in absenteeism will result in disloyalty and turnover of employee so the researchers can study on these variables in future.

REFERENCES


