Consequences of Psychological Contract Breach on Employee Outcomes in an Emerging Economy: Evidence from Banking Sector of Pakistan

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Abstract

The management of psychological contract is not an easy task for the organisations. Many firms find it difficult to meet all of its organisational promises and obligations toward their employees. Effectively monitoring and managing the psychological contract became a challenge for the business organisations. The present study is focused on investigating the effects of psychological contract breach on employee workplace outcomes including employee engagement, organisational citizenship behaviour and organisational commitment. The primary data collection approach was applied for this study and banking sector was selected for survey purposes. The statistical software SPSS was used to analyse the data. Correlation analysis and regression analysis was applied to examine the extent of association between psychological contract breach and employee outcomes. The findings of this study conclude that psychological contract breach negatively influence employee workplace outcomes including employee engagement, organisational citizenship behaviour and organisational commitment. Therefore, it is recommended that the clear understanding of concept of psychological contract breach and its consequences on employee outcomes and organisational success within businesses would help the organisations to prepare themselves to tackle with the contract breaches and manage its aftermath in a better way.

Keywords

Psychological Contract Breach, Employee Engagement, Organisational Citizenship Behaviour, Organisational Commitment

1. Introduction

In today’s dynamic business environment, the key organisational issue faced by various businesses is the management of workforce within organisation as employees are a source of competitive advantage at marketplace. In this context, psychological contract has emerged as an important framework in order to investigate and understand the employment relationship at workplace [1, 2, 3]. Existing research on psychological contracts suggests that shocks to the psychological contract, denoted as psychological contract breaches, may have detrimental effects on employee outcomes [3].

The employment relationship is undergoing significant changes both in western and non-western countries. Employment relationship has been altered due to financial crisis in Asian countries too and results in a wide variety of contract breaches. Majority of the researches in the area of psychological contract breach relied upon western samples [4]. Furthermore, it is worth noting that most of the psychological contract research has been conducted either in the USA or the UK, using as samples MBA students or graduates, with or without working experience [5, 6]. Whereas Asia has been gained importance on world map but...
the empirical research in the area of psychological contract has been limited in this region. There are only few studies in the area of psychological contract that have been conducted in Asian countries like China [7, 8], Hong Kong [9] and Philippines [10]. Responding to call for more research in the area of psychological contract breach outside the western context [7, 11, 12], the present study focuses on Pakistan.

In addition to this, due to availability of cheap labour and vast potential markets, many multinational organisations start up their operations in Pakistan. Further the western organisational environment is quite different from eastern organisational environment. The concept of psychological contract is culturally varied i.e. employee’s reactions toward psychological contract process vary from country to country and even from organisation to organisation because of its subjective nature [13]. Hence several studies in literature have been conducted to investigate the relationship between psychological contract breach and employee outcomes but little is known in non-western context. For aforementioned reasons, this study aimed to investigate the relationship between psychological contract breach and employee outcomes including employee engagement, organisational citizenship behaviour and organisational commitment and enhances the understanding of concept in an eastern context by applying psychological contract construct as a framework to comprehend and elucidate the impact of psychological contract breach on bank employees of Pakistan, so that banks effectively manage the negative outcomes that may arise.

2. Literature Review

In any organisation, psychological contract is considered as an essential part of the employment relationship because employee attitudes and behaviours at workplace are influenced by it [6]. In the seminal work, psychological contract breach was conceptualised as event where employee perceives that there is a discrepancy between what has been promised or obligated to them by organisation and what has been delivered to them. Prior research has demonstrated that psychological contract breach is relatively common and it is associated with various negative employee outcomes at workplace [3].

2.1. Theoretical Foundations of Psychological Contract Breach

Norm of reciprocity and exchange relationship is the two shared features of social exchange theory and psychological contract theory. In order to explain the dynamics of psychological contract, social exchange theory is considered as a central element. The relationship between psychological contract evaluations and employee attitudes and behaviours at workplace has been comprehensively explained by the rule of reciprocity [14, 15] such that when an employer honors psychological contracts, employees are likely to reciprocate with more positive attitudes and behaviours. Conversely, when employers breach psychological contracts with their workers, social exchange theory suggests that employees are likely to respond to contract breaches with negative job attitudes and behaviours as psychological contract breach decrease the degree of mutual respect and trust between employees and their employers, which in turn lead to negative reciprocation attitudes and behaviours of employees at workplace [16].

According to control theory, when employees perceives a discrepancy between what were promised to them and what have been delivered to them, unfavourable attitudes and behaviours have been initiated by them as such discrepancies are an indication of imbalances in exchange relationship between employee an organisation. Control theory suggests that employees try to eliminate such imbalances in order to maintain equitable employment relationship. When employee perceives the breach of their psychological contract, employee alters their contributions by responding with more negative attitudes and behaviours at workplace [17, 18].

2.2. Psychological Contract Breach and Employee Outcomes

Employee engagement can be defined as the involvement of employees’ self in the workplace tasks [19]. Employee engagement is an essential component for any organisation because a disengaged work force is costly for organisation [20]. According to norm of reciprocity, higher level of work engagement can be achieved through higher contract fulfilment. When employees perceive that employer fulfils the psychological contract, they will act accordingly by reciprocating this fulfilment, which will become manifest in more positive job attitudes and work behaviour [21]. Zhao et al., found significant negative relationship between psychological contract breach and employee engagement and indicated that employees are less likely to engage in work activities, when organisational obligations are not kept by the employer [3].

In addition to above, the findings of research study conducted by Bal, de Cooman & Mol also stated that higher level of work engagement can be achieved through greater psychological contract fulfilment [22]. They find that work engagement and positive employee’s job attitudes and behaviours at workplace are the outcome of psychological contract fulfilment. They also suggested that consequences of psychological contract breach on employee engagement should be examined in future studies to supplement their work on psychological contract fulfilment. Based on the
preceding discussion, it has been hypothesised that:

**H1: Psychological contract breach is negatively associated with employee engagement.**

Organ, Podsakoff & MacKenzie stated organisational citizenship behaviour as a discretionary behaviour that is not mention in the job description of employees, imposed by any contract and recognised or rewarded by formal organisational system but improves the organisational efficiency [23]. Coyle-Shapiro revealed that the extent to which employees engage in organisational citizenship behaviours depends on employee perceptions of the psychological contract [24]. Employees within organisation are not willing to engage in extra role behaviours, when they face breach of their psychological contract because organisational citizenship behaviour is a discretionary behaviour that is not reflected negatively in the performance evaluation of those employees who are less likely to engage in it.

In addition to above, the findings of research study conducted by Suazo reports negative association between psychological contract breach and organisational citizenship behaviour [25]. Restubog et al., also exhibited that employees within organisation are not willing to engage in extra role behaviours, when they face breach of their psychological contract [16]. Based on preceding discussion, it has been hypothesised that:

**H2: Psychological contract breach is negatively associated with organisational citizenship behaviour.**

Guerrero et al. stated organisational commitment as the attachment and identification of an employee with their organisation [26]. The concept of psychological contract and organisational commitment is linked with each other as its effect the perception of employees regarding the employment relationship. Existing literature on psychological contract indicates that psychological contract breach has harmful influence on organisational commitment. Past studies also reported negative association between psychological contract breach and organisational commitment [27, 3].

In addition to above, the findings of research study conducted by Schalk & Roe stated that when the perception of employees regarding their employment relationship is positive, they will become more committed and showed positive behaviours toward their job activities and avoids negative behaviours [28]. Guerrero et al., also reported negative relationship between them and indicated that when employee perceive that the psychological contract between the employee and employer has been breached, it influenced trust relationship between the employee and their organisation and ultimately leads towards lowered commitment [26]. Based on preceding discussion, it has been hypothesised that:

**H3: Psychological contract breach is negatively associated with organisational commitment.**

The proposed model for this study is below:

![Proposed Model](image-url)

**3. Research Methodology**

The ‘descriptive’ research design was chosen as the study was based on survey instrument to investigate the association between psychological contract breach and three employee outcomes including employee engagement, organisational citizenship behaviour and organisational commitment. This study also includes ‘review’ research design to examine the existing literature on psychological contract breach and its relationship with employee outcomes at workplace. Hence the descriptive research design is more relevant to this study as hypotheses need to be addressed by the researcher that was mainly established for the purpose of supporting this study aims and objectives.

The researcher selected quantitative research approach to
address the hypotheses of this study. The quantitative approach in this study comprised of statistically analysing of survey responses of employees of banking sector in Pakistan. The quantitative approach helped the researcher to attain the aims and objectives of this study successfully.

3.1. Population

The population of the study was the employees working in banking sector of Pakistan. The sample for conducting survey involved both public and private sector banks. These banks include National Bank of Pakistan (NBP), Muslim Commercial Bank (MCB), Habib Bank Limited (HBL), United Bank Limited (UBL) and Allied Bank Limited (ABL). Both public and private sector banks were selected to minimize biasness. Moreover, survey involved both males and females of different age groups to eliminate the prejudices of gender and age in this study.

3.2. Data Collection

The researcher has chosen primary data collection technique for two reasons: (1) to explore association between psychological contract breach and employee outcomes (2) to access the degree to which psychological contract breach influence employee outcomes. The primary data was collected by employing descriptive survey method that was based on close-ended questionnaire. The descriptive survey is preferred as it facilitates the researcher to assess the current situation effectively. The close-ended questionnaire is chosen as it facilitates the researcher in efficient recording of specific data for purpose of analysis by utilising significant statistical methods [29].

The questionnaire was adapted from prior studies on psychological contract breach and employee outcomes. The researcher utilised MS Word to design the questionnaire and survey participants were provided with clear guidance regarding how to fill the questionnaire. Moreover, the purpose of this study was also told to employees of Pakistan banking sector [30]. The questionnaire was comprised of three main sections including personal information, psychological contract breach section and employee outcomes section. The responses to scale were collected on a five-point likert scale ranging from “Strongly Agree” (1) to “Strongly Disagree” (5). A total of 400 questionnaires were administered personally by the researcher and as a result received 319.

The statistical software SPSS was used to analyse the data. Correlation analysis and regression was applied to examine the extent of association between psychological contract breach and employee outcomes including employee engagement, organisational citizenship behaviour and organisational commitment.

4. Data Analysis

4.1. Demographics

Demographic analysis was conducted to explain the characteristics of the sample of the present study. In sample of present study, 55.2% employees were males and 44.8% employees were females. In terms of age, 48.0% of employees were from age group of 21-30 years, 41.7% of employees were from age group of 31-40 years and 10.3% of employees were above 40 years. Moreover, it was discovered that majority of employees participated in this study belongs to private sector banks. There were 66.8% employees who belong to private sector banks and 33.2% of employees were from public sector banks.

4.2. Construct Analysis

It was found that the mean value for psychological contract breach is 3.55 with a standard deviation of 0.98 respectively. The mean value for employee engagement, organisational citizenship behaviour and organisational commitment is 3.12, 3.33 and 3.42 respectively with a standard deviation of 0.92, 1.07 and 0.94. The mean and standard deviation values indicated that employees agree that psychological contract breach is a negative workplace event which leads employees towards negative reciprocation attitudes and behaviours at workplace. The standard deviation value for all variables is small indicating that observations in data are closer to mean values.

4.3. Data Reliability

In addition to above, Cronbach’s Alpha values for all variables were also calculated to access reliability of data. Table 4 exhibits reliability estimates for all variables. The reliability value of all variables under study fall within recommended range i.e. 0.7 [31] indicating good consistency and reliability of scale.

4.4. Correlation Analysis

The SPSS statistical tool was utilised to calculate the correlation between psychological contract breach and each employee outcome. The correlation matrix for psychological contract breach and employee outcomes is shown in Table 2 which indicated statistically significant results of correlation with p-values less than 0.05.
Table 2. Correlation between Psychological Contract Breach and Employee Outcomes.

<table>
<thead>
<tr>
<th></th>
<th>PCB</th>
<th>EENG</th>
<th>OCB</th>
<th>OC</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCB</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EENG</td>
<td>-0.304**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OCB</td>
<td>-0.402**</td>
<td>0.303**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>OC</td>
<td>-0.245**</td>
<td>0.537**</td>
<td>0.486**</td>
<td>1</td>
</tr>
</tbody>
</table>

*PCB = Psychological Contract Breach, EENG = Employee Engagement, OCB = Organisational Citizenship Behaviour, OC = Organisational Commitment

4.5. Confirmatory Factor Analysis

An overall model fit was investigated by considering a number of fit indices including the Comparative Fit Index (CFI), Incremental Fit Index (IFI), Tucker-Lewis Index (TLI), Goodness of Fit Index (GFI) and the Root Mean Square Error of Approximation (RMSEA). Table 3 represents model fit indices. The model statistics indicates the model examined for the fitness values was found best fit and survive against assessment criteria i.e. GFI, AGFI, CFI, NFI, TLI, IFI are 0.90, P = 0.000 and that of RMSEA is 0.08 [32].

Table 3. Model Fit Statistics.

<table>
<thead>
<tr>
<th>χ²</th>
<th>P</th>
<th>Df</th>
<th>χ²/df</th>
<th>GFI</th>
<th>AGFI</th>
<th>CFI</th>
<th>NFI</th>
<th>TLI</th>
<th>IFI</th>
<th>RMSEA</th>
<th>P. Close</th>
</tr>
</thead>
<tbody>
<tr>
<td>729.9</td>
<td>0.000</td>
<td>517</td>
<td>1.412</td>
<td>0.984</td>
<td>0.966</td>
<td>0.957</td>
<td>0.938</td>
<td>0.995</td>
<td>0.949</td>
<td>0.036</td>
<td>1.000</td>
</tr>
</tbody>
</table>

4.6. Regression Analysis

The relationship between psychological contract breach and employee outcomes was found using regression analysis. The regression analysis for psychological contract breach and employee outcomes including employee engagement, organisational citizenship behaviour and organisational commitment is shown in Table 4. The first path in Table 4 accessed the relationship between psychological contract breach and employee engagement. The path (H1) between psychological contract breach and employee engagement was found to be significant (β = -0.67, p = 0.040). The table shows psychological contract breach negatively influences employee engagement. Hence the results support and accepted Hypothesis 1 of study.

The second path in Table 4 accessed the relationship between psychological contract breach and organisational citizenship behaviour. The path (H2) between psychological contract breach and organisational citizenship behaviour was found to be significant (β = -0.47, p = 0.010). The table shows psychological contract breach negatively influences organisational citizenship behaviour. Hence the results support and accepted Hypothesis 2 of study.

The third path in Table 4 accessed the relationship between psychological contract breach and organisational commitment. The path (H3) between psychological contract breach and organisational commitment was found to be significant (β = -0.72, p = 0.038). The table shows psychological contract breach negatively influences organisational commitment. The results support and accepted Hypothesis 3 of study.

Table 4. Regression Analysis Outcomes for Psychological Contract Breach and Employee Outcomes.

<table>
<thead>
<tr>
<th>Hypothesized Path</th>
<th>t-Statistics</th>
<th>Significance Levels</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCB-EENG</td>
<td>14.291</td>
<td>.040</td>
<td>Supported</td>
</tr>
<tr>
<td>PCB-OCB</td>
<td>14.569</td>
<td>.010</td>
<td>Supported</td>
</tr>
<tr>
<td>PCB-OC</td>
<td>10.208</td>
<td>.038</td>
<td>Supported</td>
</tr>
</tbody>
</table>

PCB = Psychological Contract Breach, EENG = Employee Engagement, OCB = Organisational Citizenship Behaviour, OC = Organisational Commitment

5. Findings and Implications

In organisations, psychological contract breach is perceived as a negative workplace event by employee’s that affects the state of mind of employees negatively, employee perceives the employment relationship between them and their employer as imbalance, ultimately employees respond negatively, altered their attitudes and behaviours towards their work activities and hence employees are less motivated to put efforts into their job tasks. In short, the perceived discrepancy as experienced due to psychological contract breach leads to employee’s dissatisfaction with the current situation and reduction in their contributions to the organisation in order to restore the perceived imbalance in the exchange relationship with the organisation. Therefore, this study aims to empirically examine the impact of psychological contract breach on employee outcomes including employee engagement, organisational citizenship behaviour and organisational commitment in context of Pakistan. By applying social exchange and control theory, the findings of the present study indicate a significant and negative relationship between psychological contract breach and employee workplace outcomes including employee engagement, organisational citizenship behaviour and organisational commitment and thus the results of study have accepted all hypotheses in context of Pakistan. The results...
are consistent with the studies [3, 14, 33] that also reported significant and negative relationship between psychological contract breach and employee workplace outcomes.

In addition to this, the results of this study have significant implications for academics, practitioners and policy makers who can increase the knowledge and understanding of the concept of psychological contract breach and its consequences on employee’s workplace outcomes for achieving organisational success at marketplace. The banking sector is always deemed to be one of the most vital sectors for the economy to be able to function. In an era of financial crisis, mergers and acquisitions prevail in the banking sector. Therefore, organisations are obliged to rethink, re-evaluate and revise their view regarding their exchange relationship with their employee’s as reflected on their psychological contract. Moreover, it has been accessed that management of psychological contract breach is not an easy task for the organisations. In today’s global business environment, many firms find it difficult to meet all of its organisational promises and obligations toward their employees. Effectively monitoring and managing the psychological contract became a challenge for business organisations. The business organisations need to treat employees as the assets of their organisation because their success and failure depends upon their workforce. When their employees believe, they are cared by their organisation such as organisation values their contributions, take initiatives for their well-being and recognises their efforts and achievements at workplace, employees became satisfied and ultimately motivated to achieve higher performance levels. Moreover, employers and managers should make genuine promises to their employees at the time of recruitment and take every possible step to avoid the breach of their psychological contract to achieve overall organisational well-being. Finally, with the help of clear understanding of the concept and outcomes of psychological contract breach, organisation will be in a better position to avoid the breach of employee’s psychological contract and manage the aftermath of contract breach in a better way to achieve an overall organisational success.

6. Conclusion

The basic purpose of this research is to develop an understanding of the concept of psychological contract breach and its consequences on important employee workplace outcomes in banking sector of an emerging economy i.e. Pakistan. For this purpose, primary data has been collected by mean of self-administered adapted questionnaire from employees of banking sector. There were three hypotheses and all hypotheses are accepted. Overall, the results of this study concluded that psychological contract breach is a significant workplace event. In organisations, psychological contract breach is considered as a negative workplace event that affects the state of mind of employees negatively and employees are less motivated to put efforts into their job tasks. The consequences of psychological contract breach can harm the organisation dramatically such as employees are less likely to engage in work activities, less committed toward their employing organisation and reduce their organisation citizenship behaviours directed towards co-workers and organisation. These reactions influence the success of organisation drastically.

The results of this study are limited on generalisability as the chosen sample size was small and causality cannot be inferred because of its cross-sectional nature. In future studies, the present study can be used as a base for related research in field. The future studies can expand the findings of present study to other corporate, industrial and national contexts in order to increase the scope and generalisability of present findings.

References


