

Untangling the Strings of Psychological Contract and Employee Performance: The Situation of Public World

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ABSTRACT

Purpose: First, in this paper the purpose is to untangle the knots of psychological contract of the employee and the effects of fulfillment and violation of the psychological contract on the employee's performance. Secondly, author attempted to find out the attitudinal and behavioral outcomes of the employees once they recognize that their psychological contract is fulfilled. Third, author attempted to contribute in the existing literature of the psychological contract and employee performance via rigorous literature of the previous studies.

Design/methodology/approach: In this study data was collected from a target sample of 478 teaching employees working in the state universities of the Haryana. Data was categorized on the basis of designation of employees. 331 assistant professors, 45 associate professors and 102 professors constituted the data of this study. A questionnaire consisting of 44 items was employed in this study. Factor analysis was conducted for the development of factors. Hypothesis was tested by administering the correlation and regression procedures.

Findings: The psychological contract and employee performance is positively correlated. The factors of the psychological contract (organizational culture, work life balance, social climate, open communication and benefits) affect the performance of the employees. 40.3% of the variance in the dependent variable (employee performance) is explained by the psychological contract (independent variable). The independent factor work life balance was found to be most explanatory variable of the employee performance as 53.8% of the variance in employee performance if explained by alone this factor. The mediating effect of the demographic variables is considered to be constant in this study.

Research limitations/implications: The finding suggests that the academicians and practitioners should consider the pros and cons of the psychological contract perceptions and the effect of fulfillment of the PC on the employee's performance. Further, the public sector as well as private sector should note the psychological contract obligations as they affect the attitudinal and behavioral outcomes of the employees.

Keywords: Psychological contract (PC), employee performance (EP), works life balance, open communication, social climate, and benefits.

INTRODUCTION

All around the world organizations are indulge in changes from the technological improvement to exchange relationship. Employment relationships are equipped with the improvement rigorously since the last few decades. Organizations have changed their exchange model from scientific techniques to behavioral approach. Need of the hour is to understand the exchange relationship more deeply. Researchers are developing models to understand the attitudinal and behavioral outcomes of the employees and the relative factors affecting the performance of employees.

Over the years authors have explored a number of factors impacted the performance of employees accordingly many models and theories have come into picture to endeavor the attitude and beliefs of employees (Behery et al., 2012).

Beliefs and perceptions of the employees towards the exchange relationship with their employers are referred to as the "psychological contract" (Dries and Gieter, 2013). Although they are not legally bound but the psychological contract is an unwritten contract or oral agreement between the two or a group of individuals and the exchange of

mutual expectations / promises / beliefs between two individuals (Conway and Briner, 2009). Moreover a dozen of studies have explored the implication of psychological contract fulfillment on the performance of employees (Robinson and Rousseau, 1994) and the employee's perception and reaction regarding the perception of psychological contract breach (Atkinson, 2002). Employee's beliefs reside in the competitive wage policy, career advancement programs and performance evaluation standards. Furthermore employer's expectations lie in the employee's commitment towards the organization, job performance, organization citizenship behavior (OCB), job satisfaction and knowledge sharing. Further, it can happen in formal contracts, none of the parties (employee and employer) will uncover their perspective of their psychological contract obligations towards each other (Kickul, 2001). Traditionally, employment contracts are characterized by: 1. Relational obligations: employees are obliged to lifelong commitment to the organization, and the organization provides lifelong job security and 2. Transactional: have low emotional commitment and short term career development (Rousseau and Parks, 1993). Generally, the psychological contract is the thought, the belief or the perception that an individual develops when he/she comes into contact with another individual. In employment relationships, the psychological contract develops between the employee and the employer. Therefore, if not all, some understanding of psychological contract is required in daily operations of the organization. The author tries to endeavor the construction and consequences of psychological contract. However it is extremely difficult to find out the perception and beliefs of the employees.

A changing nature of the employment relationship raises the need to understand the employment relationship (Chaudhary et al. 2009). Employees are the most dependable asset for the organization. Therefore, necessity of the time is to understand the exchange relationship. Further, researches witnessed that the employment relationship is prominent in western countries. Moreover, quite difficult to explore a system of employment relationship in India (Krishnan, 2011). Frequent organizational development raises the need to understand the dynamic nature of the employment relationship. As a result understanding of the employment relationship for the exfoliation of employee's performance. Everything revolves around employment relationship in an organization. Previously, researchers used the concept of social exchange theory to get an understanding of the employment relationship.

Author attempted to explore the changes in the attitude and behavior of the employees as the perception of psychological contract changes. Employee exchanges facilitate the outcomes: commitment and satisfaction resultant of how the employees get supported and nurtured (Behery et al., 2012). Furthermore it is comprehensive to study employee and employer perspective in India that too in the public sector as little research has been done in public sector.

Psychological contract strategic development

Evolution of the social exchange theory explored the implication of psychological contract in organizations. After the Rousseau's (1989) research on psychological contract the social exchange relationship has been forwarded as an explanation of the employment relationship among the organizations (Biswas, 2016).

Despite the emergence of the psychological contract concept in the late 50s, development in the area of psychological contract perforated in the 90s. However, uprooting of the research in the field of psychological contract has proliferated in the last two or three decades (DelCampo, 2007). The roots of the psychological contract concept lie in the research of Argyris (1960). He was the first who coined the term "Psychological work contract". Later in 1962 Levinson et al. and in 1965, Schein described the exchange relationship similar to the concept of Psychological contract. Furthermore in depth proliferation of psychological contract emerged from the Rousseau's work. However, most of the researchers focused on the specific phase of psychological contract, but the literature argued that psychological contracts are changing in nature over a period of time (Lester et al. 2007). It is observed that newcomers have certain beliefs and opinions about the organization either on prior experience or certain prior information, and these beliefs and perceptions either revised or changed during their employment period. Moreover research has been done on the gender perception towards the psychological contract and no difference was found among males and females (Kataria & Baroda, 2017).

In the present study, the researcher explores the psychological contract understanding. This study explores the employee perspective as well as new areas of the psychological contract. Further, this study evaluates the relationship between psychological contract & employee performance. The literature suggests sufficient evidence to establish the relationship between psychological contract and employee performance.

Psychological contract of employees

In the past years, eminent authors have attempted to interpret the nature of psychological contract and consequences of psychological contract breach to emerge to a better interpretation of the differences of the exchange relationship. Since the mid-70s the psychological contract of the employees are changing driven by the increased globalization, improved communication network and new enhanced managerial strategies (Blickle & Witzki, 2008; Kataria, 2015). Literature explored the social exchange beliefs and perception's association with enhanced employee intention to stay, improved contribution within the organization, enhanced organizational citizenship behavior, greater

employee satisfaction and raised organizational commitment (Buch et al, 2014). In the present study researcher explained the effect of fulfilled psychological contract obligations on the employee’s performance as shown in the fig (a).

In the present study researcher integrates the well-recognized theories on perceived psychological contract (Rousseau 1989, Kickul, 2001), employee’s attitudinal and behavioral contribution (Asleage & Eisenberger, 2006) within the organization. Prior research exemplified the attenuated effects of fulfilled psychological contract on the employee performance. The psychological contract (PC) revolves around inducement from the employer side and contribution from the employee side.

The employer’s inducements are (Wang et al. 2003):

- a) long-term career commitment
- b) Building career development and enhancement programs
- c) Long term job retention

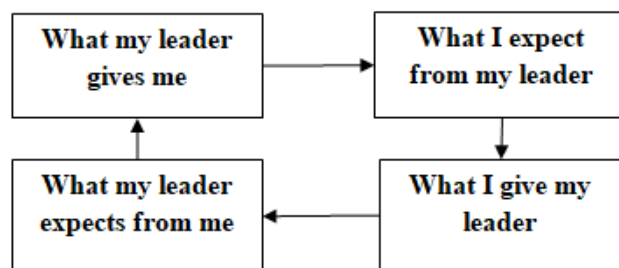
Moreover, employee’s involvement and perceptions are dynamic in nature (Conway and Coyle-Shapiro, 2012) and are beyond the job towards the organization. Previous literature findings build the dynamic perceptions of employees towards the fulfilled psychological contract following the improved effectiveness with the organization, commitment towards the job and intention to stay with the present employer. Furthermore formation of psychological contract depends upon two factors (Hui et al. 2004):

- A) Pre-hire expectations of an individual (e.g. Experience, organization’s image and knowledge and social culture)
- B) Post-hire perceptions of an individual(e.g. Organizational socialization, HRM practices, Recruitment, Training and development program, Reward and Performance appraisal)

Theoretical model

The last two or three decades witnessed the continuous changes in the exchange relationship (Wang et al. 2003). Rousseau in 1995 uncovered the concept of psychological contract to understand the employee and employer relationship. Moreover the exchange relationships are prominent in western countries. In India, however, it is still difficult to present a system of employment relationship (Krishnan, 2011). Earlier the psychological contract was viewed as a perception of the two interacting parties about themselves. However as the researcher delve and explores the psychological contract concept found the existence in each social segment: between teachers and students, doctors and patients, husbands and wives, lawyers and clients (Dadi, 2012) & faculty and doctoral students (Wade-Benzoni et al. 2006). Furthermore Zhang and Huang (2009) examined the impact of the psychological contract breach on the recessive drain of teachers in a college of China.

Wellin (2007) used the personal deal to understand the nature of PC construct. He developed a model given below:



This study contributes to the literature in two ways. Firstly, effect of psychological contract on employee performance is investigated. The other one and most importantly behavioral and attitudinal outcomes of the employee as a result of psychological contract fulfillment.

METHOD

Data and sample

Researcher explores the perception towards the psychological contract of employees from the eight state performance oriented organization. Stratified and convenient sampling procedure was adopted to collect the data of 478 teaching employees. 331 assistant professors, 45 associate professors and 102 professors constituted the data of this study.

Hypothesis

Present study explores the impact of psychological contract factors on the performance of employees. Hence, the present study analyzed the following hypothesis:

Ha: Psychological contract fulfillment affect the performance of employees positively and vice-versa.

Variables of the study

Psychological contract is the independent variable whereas employee performance is the dependent variable in this study. Furthermore researcher amplified the perceived psychological contract factors and employee's performance factors as shown in table 1 & 2 respectively.

STATISTICAL ANALYSIS AND INTERPRETATION

This study based on the primary data. The Likert scale on five point has been used for the development of structured questionnaire by the researcher to analyze the psychological contract of the organization and employee's performance. Pilot study was conducted to find out the reliability of the instrument. The reliability of the instrument was identified using the Cronbach's or coefficient alpha as shown in the table 3.

Table 4 analyzed the frequency distribution of the demographic variables. 478 teaching faculty of the state universities of Haryana constituted the present study out of which 296 males and 182 females participated. Moreover Table 1 represents the designation of employees extracting from the each organization and their proportionate number in comparison to total participants. The table 1 inferred the similarities in terms of:

- The nature of organization in terms of performance.
- The percentage of employees differed as per the designation.
- The degree of formation of programs and their applicability.

The employer agrees to provide incentives to the employee in exchange for certain contributions made by the employee. If the employer fails to provide, what was promised or completed what was required, then the employee feels that the psychological contract is not fulfilled, and in turn affects the performance of the employee.

Given that obligations are changeable in nature as changes in the nature of the terms and conditions of employment affect the obligations. As a result, this becomes an important task for the employer to know what an employee expects from an employer.

Method1: Correlation analysis

Researcher assessed the following hypothesis to find out the relationship between psychological contract and the performance of employees:

H1: There is a relationship between psychological contract and employee performance.

Correlation table 5 explained the existence of positive relationship between Psychological contract and employee performance and also statistically significant ($p < .001$). Therefore as the PC fulfillment rises the employee performance in turn get enhanced. In 1994 an empirical study was conducted by Robinson & Rousseau to explore the impact of the psychological contract violation on employee's trust, job satisfaction, organizational satisfaction, intention to quit & turnover. PC affects the employee's attitudes and behavior on a daily basis. Permanent and non-permanent employees have different perception towards the psychological contract of organization. As non-permanent employees have higher job insecurity than permanent (Smithson & Lewis, 2000). Moreover designation of the employees also affect the perception towards the psychological contract (Kataria & Baroda, 2017). However Conway & Briner in 2002 hypothesized that broken promises negatively, and exceeded promises positively react towards the emotional promises. The individual reasons behind the psychological contract breach from the perspective of supervisors as well as subordinate was investigated by Lester et al (2002). Psychological contract violation affects the employees in a number of ways. For example absenteeism of employees rises as a result of non-fulfillment of expectations (Turnley et al, 2003 & Pate et al, 2003).

Also researcher explored the independent relationship of psychological contract factors with the performance of employees to assess the following hypotheses:

H2: Skill development will be positively correlated with the performance of employees.

H3: Work life balance will be positively correlated with the employee performance.

H4: Benefits will be positively associated with the employee performance.

H5: Social climate will be positively associated with the performance of employees.

H6: open communication affect positively the performance of employees.

Independent positive relationship of skill development, work life balance, benefits, social climate and open communication with the performance of employees was found at a significant level of $p < .001$ (table 6). Employee's productivity improved with the enhancement of these psychological factors (skill development, work life balance, benefits, social climate and open communication).

Method 2: Analysis

Moving on to the next step of analysis, researcher analyzed the impact of psychological contract on the performance of employees following the regression model. The table 8 presents the correlation coefficient (R) and coefficient of determination (R Square) for the present regression model. The value of R Square is .403. It indicates that independent variable psychological contract explains 40.3% of the variance in the dependent variable employee performance. Table 9 shows the regression coefficient of the independent variable (PC). The beta coefficient was found to be positive (.847) and statistically significant (p value $<.001$) at $t = 17.93$. This shows that the higher the psychological contract higher will be the performance of the employees.

Moreover researcher in this study also studied the independent impact of factors of psychological contract on employee performance. Therefore, the following hypothesis arise:

H7: There is an impact of factors of psychological contract on employee performance.

The table 10 presents the correlation coefficient (R) and coefficient of determination (R Square) for the stepwise multiple regression procedure followed by the researcher for independent impact of the factors of psychological contract.

In the first step, according to the contribution work life balance was entered in the model. The value of R Square is .538. It indicates that independent variable working environment explains 53.8% of the variance in the dependent variable employee performance. In the second step, independent factor benefits was get entered along with the work life balance and R Square value is found to be .605. It shows that both these independent factors explain 60.5% of the variance in the dependent variable EP. In the third step, open communication was entered along with the first two factors. The value of R Square is .629. This shows that 62.9% of the variance in the dependent variable (EP) is explained by the three independent factors of the psychological contract. This shows that all the three factors of psychological contract affect the employee performance to a major extent. However Clutterbuck in 2005 did a study to establish a link between communication and the psychological contract. This study shows that the psychological contract establishes a link between motivation, productivity and communication. Furthermore a study was conducted by Winter & Jackson in 2006 to investigate the working conditions that give rise to a different psychological contract from the perspective of managers & employees. Moreover Lemire & Rouillard (2005) investigated the impact of psychological contract on individual behavior. Individual behavior was measured in terms of organizational commitment, turnover ratio, voice & neglect as dependent variable considering the age & other situational factors controlled.

Furthermore to test whether the predictor factors are correlated among themselves or not multicollinearity was checked by the researcher. Therefore following hypothesis arise:

H8: There is no multicollinearity present between the predictor factors.

From the table 11, it is clear that multicollinearity is not a problem. As the value of condition index is below 15. Further the tolerance value is greater than .10 and VIF value is less than 10, which shows that multicollinearity is not a problem for these regression models.

SUGGESTION

As this study was carried out in the State universities of Haryana. The results will be useful to universities to understand the perception of employees. The results of this study will provide suggestions to the organization as well as to employees.

For organization

This study is based solely on the employees' perspective on the University's psychological contract. The university must understand the needs and expectations of its employees so that the organization can satisfy them. Fulfilling employee expectations produces attitudinal and behavioral outcomes in terms of high performance, extra role behavior, knowledge sharing among colleagues and commitment to their organization.

For employees

An employee who is satisfied from his/her job, works for the growth and development of his or her organization. This study assesses the impact of employee performance on the performance of the organization. Therefore, employees must understand the requirements and expectations of their employer.

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Table 1: Perceived psychological contract obligations by employees

Psychological contract of organization	Employees perception
<i>Skill development</i>	Employees want to achieve development in their career so that they can progressively achieve their career development goals. Organization should provide training and development programs for the advancement of employees and organization as well.
<i>Work life balance</i>	Need to understand this balance for an organization arises. Paid and unpaid leave, flexible time, part-time duty, childcare facility, financial support and personal off are some of the work life quality offers by the organization (e.g. Smith and Gardner, 2007).
<i>Social climate</i>	Organizational social climate include employee & employer relationship. Collaborative behavior among the staff members also works towards the satisfaction of employees. What an employer commits to an employee, how colleagues behave among themselves.
<i>Open communication</i>	Transparency and open communication along with the hierarchy of organization develops healthy atmosphere among the employees and employer.
<i>Benefits</i>	Indirect and non-cash payments paid to an employee constitute benefits. For example, social security, freedom to work, health insurance and life insurance

Table 2: Factors of employee performance

Employee performance	Employee’s perception
<i>Job satisfaction</i>	Job satisfaction is the mental state of an individual that he/she develops about his/her job. In the present study, researcher identifies the job satisfaction to explore the performance of the employee. As satisfying employee has positive feelings towards their job and produces more.
<i>Extra role behavior</i>	A number of names are used for these kind of behaviors such as extra role behavior, organizational citizenship behavior and counterproductive behavior (Alparslan&Can, 2015). Researchers considered extra role behavior is the outcome of organizational citizenship behavior. But Alparslan& Can, 2015)

Knowledge sharing

considered that the extra role behavior existed within the scope of organizational citizenship behavior. Knowledge sharing affected by organizational culture and staff relations. Paulin and Suneson (2012) explained knowledge sharing as the exchange of knowledge between individuals, teams, units and institutes.

Table 3: Reliability statistics

Cronbach's alpha	Cronbach's alpha based on standardized items	N of items
.763	.777	44

Table4: Frequency statistics of variables

Demographic variables	Name	Frequency	Percent	Valid %	Cumulative %
Designation	Assistant Professor	331	69.2	69.2	69.2
	Associate Professor	45	9.4	9.4	78.7
	Professor	102	21.3	21.3	100
Experience	0 to 5 years	208	43.5	43.5	43.5
	6 to 10 years	91	19.0	19.0	62.6
	11 to 15 years	79	16.5	16.5	79.1
	16 and above	100	20.9	20.9	100
Gender	Male	296	61.9	61.9	61.9
	Female	182	38.1	38.1	100

Table 5: Correlation between PC and EP

Psychological contract	Pearson correlation	Employee performance
		.635
	Sig. (2-tailed)	.000*
	N	478

*= p value<.001

Table 6: Correlation between factors of PC and EP

		Job satisfaction	Job commitment	Task performance	Extra role behavior
Skill development	Pearson correlation	.508	.479	.284	.315
	Sig.(2-tailed)	.000*	.000*	.000*	.000*
Work life balance	Pearson correlation	.545	.504	.365	.351
	Sig.(2-tailed)	.000*	.000*	.000*	.000*
Benefits	Pearson correlation	.563	.560	.270	.312
	Sig.(2-tailed)	.000*	.000*	.000*	.000*
Social climate	Pearson correlation	.553	.391	.236	.271

Open communication	Sig.(2-tailed)	.000*	.000*	.000*	.000*
	Pearson correlation	.607	.518	.254	.364
	Sig.(2-tailed)	.000*	.000*	.000*	.000*
	N	512	512	512	512

*= p value<.001

Impact of psychological contract on employee performance

Table 7: Summary table (Analysis of variance)

	Sum squares	of Df	Mean square	F	Sig.
Regression	58.27	1	58.27	413.615	.000*
Residual	71.85	510	.141		
Total	130.12	511			

*p value<.001 (Dependent variable: employee performance)

Table 8: Model summary

R	R square	Adjusted R square	Std. Error of the Estimate
.635 ^a	.403	.402	.36846

Predictors: (Constant), Psychological contract

Table 9: Coefficients – Impact of PC on EP

	Unstandardized coefficients		Standardized Coefficients	T	Sig.	95% Confidence level of B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
Constant	.847	.070		12.07	.000*	.709	.985
PC	.499	.028	.635	17.93	.000*	.445	.554

*p value < .001 (Dependent Variable: Employee performance)

Table 10: Impact of factors of PC on EP (Model summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F Change	df1	df2	
1	.538 ^a	.289	.288	.40209	.289	193.734	1	476	.000
2	.605 ^b	.366	.364	.38010	.077	57.665	1	475	.000
3	.629 ^c	.395	.391	.37171	.029	22.689	1	474	.000

*= p value < .001, **= p value > .001

a. Predictors: (Constant), Work life balance

b. Predictors: (Constant), Work life balance, Benefits

c. Predictors: (Constant), Work life balance, Benefits, Open Communication

Table 11: Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	Working Environment	Open Communication



1	1	1.954	1.000	.02	.02		
	2	.046	6.514	.98	.98		
2	1	2.900	1.000	.01	.01	.01	
	2	.056	7.180	.59	.01	.80	
	3	.044	8.110	.41	.98	.20	
3	1	3.850	1.000	.00	.00	.00	.00
	2	.056	8.260	.64	.01	.57	.03
	3	.051	8.717	.17	.01	.39	.75
	4	.043	9.515	.18	.97	.03	.22

a. Dependent Variable: Employee Performance
