

## **IMPACT OF PSYCHOLOGICAL CONTRACT ON EMPLOYEE WORK ENGAGEMENT AT SUGAR INDUSTRY, DERA ISMAIL KHAN (KPK).**

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### **ABSTRACT**

The previous studies whether empirical or theoretical in this area showed that highly all those employees who are highly engaged at work place are more productive and organizations having such employees are comparatively more successful. In this study we empirically analysed psychological contracts with employees work engagement and its three dimensions WEI, WES and WEA. This study takes primary data from the sugar industry D.I.Khan unit-1 where employees filled the questionnaire by rating themselves on different items of Psychological contract and employee work engagement. Four hypotheses were developed and tested, the correlation and regression analysis were conducted. The results showed a positive and significant relationship of the psychological contract with employee work engagement and its dimensions where P.C can predict 94% positive variation in dependent variable EWE. The study concluded that employees with higher psychological contract fulfilment are more engaged and positively increase organizational performance and results also suggest that supervisor support can play a remedial role to increase employee work engagement. The study recommends that a platform by management's end where employees

can express their concerns and discuss the issues that are there at a workplace instead of keeping all such feelings inside of them for a longer period of time.

## **INTRODUCTION**

The implications of globalisation, organizational restructuring and downsizing on employment relations have renewed interest in the concept of psychological contract. It has attracted the attention of policy makers in their efforts to change the deal in response to massive pressure to adapt to changing situations. For Academics, the psychological contract presents another new opportunity to re-examine the fundamental aspects of organizational life, the employer employee relationship. The intensified pressure faced by the organization has generated major challenges in managing the employment relationship (Noer, 1993; Herriot, Manning and Kidd 1997).

It is equally important to understand the nature of the psychological contract. There is a difference between a psychological contract and other type of contracts. Psychological contract contains plenty of elements and also for the very fact that two parties who are establishing this contract just like the employee who is that the contract taker and also the employer who is that the contract maker. They may expect differently from one another regarding the link of employment (Pathak, Agrawal, Efros, & Darrell, 2017). For human resource field, the psychological contract has particularly greater importance because well-established psychological contract can end up in employee commitment and job satisfaction. In contrast, poorly established and managed psychological contract has a significantly negative impact on the behaviour of employee like it may end up in poor engagement of employee in work and might cause the greater extent of retention. Thus, it shows that a balance psychological accept organization can enhance organizational effectiveness (Bazilevs, Calo, Zhang, & Hughes, 2006). Thus, it is inferred that employee work engagement is related to psychological contract.

## **LITERATURE**

### **Psychological Contract Theory (PCT)**

First of all the theory of psychological contract (PCT) was instigated (Levinson, Price, Munden, Mandl, & Solley, 1962). Similarly, with the passage of time it was continuously evolving and Rousseau (1989) in the first instance explained psychological contract that PC is the belief of someone in relation with the terms and conditions of an agreement which is reciprocal with someone who is a focal person or it can be another party in a contract (p. 123).

### **Psychological Contract Fulfilment (PCF)**

According to (Karagonlar et al., 2016), Psychological contract fulfillment denotes about the organization that how much it is fulfilling the promises it has made with the workers, in the result of which social exchange aspect can be observed, which ultimately yields a positive behavior from employees end. (Lub et al., 2016) stated that there are five categories through which employee fulfillment can be accessed including the growth of career, the policies of the organization, the surrounding environment of the workplace, the specification of the job, and finally the system of reward.

### **Violation of Psychological Contract/Psychological Contract Breach (PCB)**

According to ( Robinson & Rousseau, 1994) this phenomenon shows the company when it is not able to meet its obligation, it can be in both forms either written or unwritten, and hence it is the opposite of fulfillment. (Karapanos, Teixeira, & Gouveia, 2016) has mentioned that whenever a breach occurs it significantly erodes the level of trust which an employee has in his company. According to (De Clercq, Azeem, & Haq, 2020), whenever a psychological contract breach happens, it gives rise to the possibility of negative results in employee's behavior both in the short-term as well as long- term. (Morrison & Robinson, 1997) has mentioned that this output is because of the emotional response from employees when they realize that their contract has been breached and violated. Employees must respond with negative behavior, it is also possible that they can deem it as a breach of what has been promised to them by their employers (O'Donohue, Martin, & Torugsa, 2015).

### **Major function of psychological contract**

During the present period, a big demurrer for HR experts is that how they can attract and retain suitable and qualified employees in an organization by effectively maintaining a positive psychological contract (Waldroop & Butler, 1999). Hence psychological contract cannot be just considered an abstract relationship between employers and workers instead it is a tool that can measure the quality of workers or employees of any specific organization. The central role of psychological contract has been described by many authors. The majority of the authors have a consensus that it plays a very significant role in an organization, following this continuous study on a psychological contract is inevitable. Furthermore, ( Coyle-Shapiro & Kessler, 2000) predominantly agree with the perception that commitment and retention can be achieved by maintaining a positive psychological contract. ( Robinson & Rousseau, 1994) subsequently explained that the fundamental part of an organization system is a psychological contract, which has its significance in developing individuals as well as an organization in performing their behaviors.

### **Reasons and repercussion of PC**

There are multiple factors from the employee as well as the organization that can significantly affect the psychological contract. The psychological contract itself influences an individual's attitudes and behaviors. There is a model by (D. Guest et al., 2000) which depicts the cause and results of the psychological contract, where it can be witnessed in that model that multiple individuals, enterprise and policy are the causes and on the other hand attitude and behavior change are the results and outputs of those causes.

### **Components of Psychological contract**

As indicated previously, noted by (De Vos, Buyens, & Schalk, 2001) there is a combination of some pledges, some responsibilities, and presumptions between both parties e.g.; employees and employers. From the present standard and different work on psychological contract, this phenomenon has been explained by multiple dimensions using 5 avenues that will differentiate between both parties involved in contract obligations e.g. employer or organization as well as employees.

### **Employee Engagement**

(Cullinane & Dundon, 2006) has noted that, there is much criticism on employee engagement that it is merely a topic for consultants to talk about and it has been poorly understood and elaborated. Nevertheless (Saks & Gruman, 2014) has claimed that employee engagement has multiple dimensions to consider in defining it which are connected with individual work performance and as an output a greater commitment, these are composed of psychological

such as cogitative, to a greater extend emotional as well as behavior side of it. To speak as a whole, employee engagement is composed of the behavior and action that an employee demonstrates in his/her pursue to meet organizational objectives (Shuck & Wollard, 2010) . Even though the term is very familiar yet there are no consensuses on the exact meaning of EE. To look at definition by (Giancola, 2011) willingness of an employee to undertake a work extends to well-being regarding the job or work. Furthermore, (Baig, Mehta, Waqas, Waqas, & Syed, 2019) used the terms like vigor and cynicism are mentioned to explain the concept.

### **Reasons of Employee Engagement making difference**

Previous inquiries into this matter show that if the employee is engaged then it is directly connected with better job satisfaction, increased commitment in the organization, less turnover intention as well as greater enterprises citizenship attitude (Saks, 2006). Similarly, (Moore, 2014) examined and put forward employee engagement into two parts: Turnover by intention & discretionary struggle. To put it more simply Turnover by one own intention refers to the desire of leaving the enterprise one is working in. whereas, discretionary struggle/ effort denotes completion of the task but not up to the least requirement by the organization (V. M. Robinson, Lloyd, & Rowe, 2008). Empirical inquiry by (Coffman & Gonzalez-Molina, 2002) traced that loss on world level due to employee engagement accounts for more than \$253 billion and therefore linking it with the financial statements of the organization.

## **RESEARCH METHODOLOGY**

### **Research Philosophy**

It is extremely significant to select an appropriate research philosophy for conducting research. Since, the methodology is based on the philosophy selected to arrive at the answers to research questions. However, there are three fundamental research philosophies, the first one is interpretive, and the second one is positivist & finally the realist philosophy. To consider the nature, aims & objectives of the present study, the positivist research philosophy is used. The reason for the selection of this philosophy is evident that the nature of research is quantitative and data is collected through questionnaires. Thus, Positivist philosophy is the most appropriate in the present study.

### **Research Design**

In the present course of this study, a quantitative method of research is used. In addition, the survey method of gathering information or data is implied from a population of 900 from Al-Moaiz Sugar Industry (Unit-1) Dera Ismail Khan. Similarly, Instrument comprises of the psychological contract, Employee work engagement, and supervisor support. In current study, five-point Likert scale ranging from 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. In the basic objective to meet in research, design is answering the question raised as well as proving of hypotheses of the study.

### **Data Normality**

**Table 1 Descriptive Statistics**

	N	Minimu m	Maximu m	Mean	SD	Skewness	Kurtosis

	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
PC	380	1.00	3.00	1.6383	.41903	.598	.125	-.183	.250
WE	380	1.70	3.80	2.4055	.47607	.695	.125	.041	.250
Valid N	380								

Table 1 given above illustrates descriptive statistics explaining total number of respondents by a symbol of N, maximum and minimum values of our data, mean, featuring standard deviation, and kurtosis. Skewness provides information about how much the distribution of a variable is symmetrical, while kurtosis measures whether the distribution is peaked as the general rule of thumb for Skewness is that if the number is more than +1 or less than -1, this is a signal of highly skewed distribution. Similarly, a kurtosis of less than -1 show a very flat distribution while greater than +1 indicates too peaked distribution (Hair et al., 2011: p.61). The data of the present study is normally distributed considering the values of Skewness and kurtosis.

**Table 2 Reliability Analysis**

Variables	Cronbach's Alpha	N of Items
Psychological contract	.848	9
Employee work engagement	.751	10

Table shows the reliability statistics. The rule for an acceptable range of reliability is that  $\alpha$  of 0.6-0.7. Reliability greater than 0.8 is considered a very good level. On the contrary, a value greater than 0.95 is not a good indication because it might be a representation of redundancy (Hulin, Netemeyer, & Cudeck, 2001). This scale contains 9,10,4 items of which having alpha values of 0.848, 0.751, and 0.808 respectively. From the present results in the above table, it is evident that scales used for measuring variables are highly reliable.

## Hypothesis Testing

**H<sub>1</sub>:** There is significant relationship between psychological contract & work engagement intellectual.

**Table 3 Correlations of Psychological Contract, work engagement Intellectual (WEI)**

		PC	EWI
PC	Pearson Correlation	1	.234**
	Sig. (2-tailed)		.000
	N	380	380
EWI	Pearson Correlation	.234**	1
	Sig. (2-tailed)	.000	
	N	380	380
**. Correlation is significant at the 0.01 level (2-tailed).			

Table showing the Pearson correlation between Independent Variable PC and one of the facets of EWE namely Work Engagement Intellectual (WEI). Results indicate that EWI is

positively & significantly related with PC with a strong Pearson correlation value of .234 & a significant value of 0.000 which is less than 0.01.

**H<sub>2</sub>:** There is a significant relationship between psychological contract and Work Engagement Social.

**Table 4 Correlations of Psychological Contract, work engagement social (WES)**

		PC	WES
PC	Pearson Correlation	1	.307**
	Sig. (2-tailed)		.000
	N	380	380
WES	Pearson Correlation	.307**	1
	Sig. (2-tailed)	.000	
	N	380	380

  

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	SEE	Change Statistics				
					R <sup>2</sup> Change	F Change	df1	df2	Sig. F Change
1	.307 <sup>a</sup>	.094	.092	.45363	.094	39.432	1	378	.000

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

Table showing the Pearson correlation between Independent Variable PC and one of the facets of EWE namely Work Engagement Social (WES). Results indicate that EWS is positively & significantly related with PC with a strong Pearson correlation value of .307 & a significant value of 0.000 which is less than 0.01.

**H<sub>3</sub>:** There is significant relationship between psychological contract and Work Engagement Affective.

**Table 5 Correlations of Psychological Contract, work engagement Affective (WEA)**

		PC	WEA
PC	Pearson Correlation	1	.197**
	Sig. (2-tailed)		.000
	N	380	380
WEA	Pearson Correlation	.197**	1
	Sig. (2-tailed)	.000	
	N	380	380

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

Table 1 showing the Pearson correlation between Independent Variable PC and one of the facets of EWE namely Work Engagement Affective (WEA). Results indicate that EWA is positively & significantly related with PC with a strong Pearson correlation value  $r = .197$  & a significant value of 0.000 which is less than 0.01.

## Regression Analysis

**H<sub>4</sub>:** There is a significant impact of psychological contracts on employees' work engagement.

### Table 6 Summary Statistics

Above table showing the result of linear regression for predictor variable PC and dependent variable EWE. The result of the regression are significant,  $F(39.432) p < .001$ ,  $R^2 = 0.094$  which means that predictor variable e.g. PC will cause 9.4% positive variation in DV e.g. EWE. Similarly, Adjusted  $r^2 = .092$  which shows PC explains 9.2% variation in EWE. Thus, Independent Variable (PC) predicts Dependent Variable (EWE). The significance of regression indicates that hypothesis 4 was supported.

**Table 7 ANOVA Analysis of the Predictor variable (PC) & dependent variable (WE)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.114	1	8.114	39.432	.000 <sup>b</sup>
	Residual	77.784	378	.206		
	Total	85.898	379			
a. Dependent Variable: WE						
b. Predictors: (Constant), PC						

Above table ANOVA statistics of IV e.g., PC & DV e.g., EWE. In this table, the most important values are F and p values. F values explain the model fitness which is 39.432 significance value  $P = .000$  showing the fitness of the model.

**Table 8 Regression Coefficient of study variable Psychological Contract & Employee Work Engagement**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.833	.094		19.499	.000
	PC	.349	.056	.307	6.280	.000
a. Dependent Variable: WE						

Above table shows the regression coefficient of IV e.g. PC and DV e.g. EWE. As can be seen in the table the unstandardized beta value is 0.349. This shows that one unit variation in IV e.g. PC may cause .34 Unit variation in DV e.g. EWE. Further, the Values of T is 6.280 while  $P < .001$ . Which means PC is positively and significantly related to EWE.

## DISCUSSION

This study was conducted for the purpose of finding out the relationship between psychological contracts (IV) and Employee work engagement (DV). Whereas, there were three facets of EWE namely, Work Engagement intellectual (WEI), Work engagement social (EWS), and work engagement affective (EWA). This model of EWE is also called ISA

Engagement Scale. Data for this present study was collected from the sugar industry Al-Moiz sugar mill's employees of the District D.I.Khan. For the purpose of data collection, this study used non-probability convenient sampling for primary data, this method has been used based on convenience, proximity, and availability of the respondents for Employees at sugar mill were mostly from the administration section. The questionnaire used was adapted, which was previously used by the researchers for the same variables and items. In total, a researcher floated 400 questionnaires in which only 380 were considered valid for analysis while the other 20 were incorrectly filled thus they were rejected. For the purposes of analysing the data tests such as validity and reliability and moderation analysis were conducted. The results of which showed in the previous chapter that was found positively significant.

To understand the relationship of PC and EWE, the facet of EWE called Work engagement intellectual was investigated. PC and WEI were found to be  $r = .234$ ,  $P < 0.05$ . Correlation results indicated that the Psychological Contract shows a significant positive relationship with EWI. Our first Hypothesis has proved positively correlated. Which states that  $H_1$ : There is a significant relationship between psychological contract and intellectual engagement. Now the second facet of EWE called Work engagement Social has to be examined. PC and WES found to be  $r = .307$ ,  $P < 0.05$ . Correlation results indicated that Psychological Contract (PC) shows a significant positive relationship with EWS. Our 2nd Hypothesis is proved positively correlated. Which states that  $H_2$ : There is a significant relationship between psychological contract and social engagement. Similarly, 3<sup>rd</sup> facet of EWE is work engagement social. PC and WES found to be  $r = .197$ ,  $P < 0.05$ . Correlation results indicated that the Psychological Contract shows a significant positive relationship with EWA. Consequently, proving our 3rd Hypothesis positively correlated. Which states that  $H_3$ : There is a significant relationship between psychological contract and affective engagement.

For the examination of the impact of psychological contract on employee work engagement regression analysis has been conducted. The result of linear regression for predictor variable PC and dependent variable EWE. The result of the regression are significant,  $F (39.432)$   $p < .001$ ,  $R^2 = 0.094$  which means that predictor variable e.g. PC will cause 94% positive variation in DV e.g. EWE. Similarly, Adjusted  $r$  square = .092 which shows PC explains 9.2% variation in EWE. Thus, Independent Variable (PC) predicts Dependent Variable (EWE). The significance of regression indicates that hypothesis 4 was supported, which states as follows **H<sub>4</sub>**: There is a significant impact of psychological contract on employees' work engagement. The results of the present study explain that three dimensions of EWE namely WEI, WES, and WEA have a positive and significant association with PC. This shows that employees with higher psychological contract fulfilment showed higher work engagement. The findings are in line with the previous study Bonilla, J. C. (2018) where the results of the regression were significant,  $F (1, 242) = 16.74$ ,  $p < .001$ ,  $R^2 = .07$ , indicating that psychological contract was significantly related to engagement. Psychological contract was a significant positive predictor ( $B = 0.09$ ,  $p < .001$ ), indicating that participants with high psychological contract tended to have high engagement.

## CONCLUSION

The basic goal of this present study was to figure out the association of psychological contract with employee work engagement in the sugar industry of Dera Ismail Khan. Additionally, the nature of this study has been descriptive & correlational. The study has found that PC is significantly related to three dimensions of employee work engagement namely- WEI, WES, and WEA. Likewise, PC has a significantly positive impact on EWE. Consequently, this study after scrupulous analysis and results suggest that organization ought



to use different possible means to achieve the fulfilment of a psychological contract of employees which can ultimately shoot up the level of work engagement of the employee. Likewise, highly engage employees positively affect the performance of the organization. Additionally, at the workplace colleagues can be supportive of each other through listening to their work-related problems, finding out solutions to problems, and bringing with them innovation and creativity through collective efforts without any consideration of positions they possess. Hence, these steps with a proactive approach are pre-requisite for the excellent performance of both individuals as well as organizations.

### **Future direction for Researchers**

In the first place, we suggest that future researchers can therefore, target different industry or sector and different geographical location where different type of psychological contract is likely to be found. It is important to consider during the selection of context to match the need of variables that can expound the psychological contract further. This can be organizational size, age of respondents and the strategy implied. Secondly, our variable of this study is limited to work engagement and its three facets e.g. WEI, WES, and WEA. Thus, future researchers can consider evaluating the outcomes of productivity of employees, perception of the boss, attendance, performance of employees.

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