

Psychological Contract, Employee Engagement, and the Mediating Role of Job-Stress: Evidence from Pakistan

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Abstract

This study has been conducted to examine the influence of the type of psychological contract on employee engagement by taking job-stress as a mediator. For this purpose, data were collected from three hundred and seventeen managers and officers working in seventeen private-sector commercial banks in Peshawar through a highly structured questionnaire. Statistical Package for Social Sciences version 16 was used for data analysis. In the first phase, descriptive statistics were used to find out the type of psychological contract of the respondents, their engagement level and the level of occupational stress. In the second phase, correlation and simple linear regression were used to study the impact of psychological contract on employee engagement. Similarly Process Macro was used for the mediation analysis. Findings indicate that the employees formed a strong psychological contract with their employer, and were actively engaged while experiencing a moderate level of job-stress. Furthermore, it was confirmed that a strong psychological contract has a significant positive influence on employee engagement. The study, however, did not find any evidence in support of the mediating role of job-stress for the given sample.

Key Words: Psychological contract, employee engagement, job-stress

1. Introduction

Workplace expectations are rapidly changing with the rise of workplace transitions in recent times such as; mergers and acquisitions, restructuring, downsizing, and privatization (Brande, Janssens, Sels & Overlaet, 2003). According to Bhatla (2011), most organizations are facing problems in attracting, retaining, and utilizing the skills of the most talented people as a result of the growing technological advancements, managing business complexities, scarcity of talented individuals, and the pressure of becoming number one. These transitions impact jobs as well as the organizations, and also the employer-employee relationship, thus resulting in a new employment contract, known as the Psychological contract. A psychological contract is an exchange relationship

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between the employer and employee, which is formed based on the perceptions of both the entities of their mutual entitlements/expectations and obligations towards each other (Guest, 2004; Guest & Conway, 2002; Rousseau, 1989).

The employers are thought to be responsible for providing an environment that facilitates employee learning and growth. The employees are expected to be focused on adding value to the organization (McCarthy, Almeida & Ahrens, 2011). Therefore, employers need to make employees understand the significance of their contribution to organizational performance, and this contribution is best described by a phenomenon known as employee engagement (Macey & Schneider, 2008). It is being increasingly realized in the changing business scenario that employee engagement can provide a competitive edge to the organizations because an engaged workforce produces high-quality results and deliver high-quality service (Bhatla, 2011). Organizations must keep their employees engaged, which requires a strong bond with them (Robinson & Morrison, 2000). As organizations continuously embark on programs of organizational change, it puts a lot of stress not only on organizations but on employees also. They experience uncertainty and fear about the potential failure of coping with the challenge of transition, which affects their psychological contract with the employer and the level of work engagement (Robbins, Ford & Tetrick, 2012).

In the wake of the changing landscape of the workplace environment, the concepts of job-stress, employee engagement, and psychological contract have gained significant recognition in developing countries like Pakistan (Rashidi & Rahman, 2013). The reason for this increased concern is mainly the fact that the complexities and challenges of the modern workplace tend to be difficult to comprehend by the organizations which are not properly acquainted with the desired knowledge and the practical implications of these concepts (Obaid, 2013).

Enormous research has been done in the field of the psychological contract, employee engagement, and job-stress in the developed world, but most of the research studies have focussed on the psychological contract breach and fulfillment, the antecedents and outcomes of employee engagement and job-stress and the impact of relational and transactional psychological contract on employee engagement. Limited research done in developing countries such as Pakistan has also focussed on the same issues.

There is a need for providing an insight into the nature of the employment relationship by identifying the type of psychological contract as limited research has been done in this regard. It has been found that relational and transactional psychological contracts (Rousseau, 1989:1998) have been most commonly used by researchers (Conway & Briner, 2002; Hui, Lee & Rousseau, 2004). However, Shore and Barksdale's (1998) conceptualization of the psychological contracts (strong, weak, investing and

instrumental) have received little attention in developed countries (Brande et al, 2003) and no attention in developing countries like Pakistan. The narrow focus of the previous research needs to be extended by hypothesizing that job-stress mediates the relation between psychological contract type and employee engagement.

Given the above gaps identified in the previous research, the present study has been designed to find out the type of psychological contract formed by the employees working in private-sector commercial banks in Peshawar (the capital city of Khyber Pukhtun Khwa province), which is one of the metropolitan cities of Pakistan. In addition, this study also aims to study the effect of psychological contract type on employee engagement and to determine the role of job-stress as a mediator between psychological contract type and employee engagement. The banking sector of Pakistan is considered to be a dynamic and fast-paced sector, which has experienced substantial growth since early 2000 after the introduction of new financial reforms. As a result of these reforms, the industry has become more agile, competitive, and profitable (Obaid, 2013). Although the significance of banks for the enhancement of economic growth was recognized by developed countries, yet developing countries, like Pakistan, did not recognize it properly until the recent economic crises in the west in 2008-09.

To compete in the marketplace, the private-sector commercial banks in Pakistan have endured substantial changes due to; restructuring and privatization, mergers and acquisitions, and the advancement of banking technology. These major organizational changes have posed considerable challenges of managing the resources, especially human resources, which is the most precious and critical resource as it leads to a competitive edge (Mello, 2014).

Employees are one of the most important assets of an organization. To retain them, it is important to evaluate and analyze their psychological contract with the employer. The competitiveness and complexity of the work environment have modified the nature of the psychological contract, which leads to issues of job-security, increased job uncertainty, decreased work engagement, and increased job-stress (Malik & Khalid, 2016). In an era of intense competition, service organizations such as banks need talent acquisition and talent retention as a competitive edge could only be achieved through human capital (Nadeem, Ghani & Shah, 2017).

Employees in the banking sector are under continuous stress as they are faced with challenges in the work environment. These include; a cultural shift due to mergers and acquisitions, regulatory compliance, changing business models, customer retention, security breaches, rising expectations, and continuous innovation. There is increased competition due to which many commercial banks have stretched out their operations into new areas like; insurance, brokerage, leasing, asset management,

and Islamic banking (Obaid, 2013). Operating within an environment that is full of challenges, the employees are overburdened as they have to live up to the expectations of the employer, which keep on changing. To reciprocate, the employer also needs to understand what employees expect from the organization and must fulfill these expectations (Malik & Khalid, 2016). If the employer does not reciprocate, it leads to a psychological contract breach, which in turn affects the work engagement of the employees (Rashidi & Rahman, 2013).

The private-sector banks in Peshawar, like other cities, are no exception to these organizational changes and the HR challenges; therefore, the study of the three constructs, that is; psychological contract, employee engagement, and work stress is quite relevant in these banks, given the importance of the significance of the human asset for a banking organization. This ultimately affects the banks' productivity and overall performance.

The core objectives of the study are to identify the type of psychological contract (PC) formed by the employees working in the private-sector commercial banks in Peshawar, determine the effect of the psychological contract type on employee engagement, and to study the role of job-stress as a mediator in the relationship between psychological contract type and employee engagement.

2. Literature Review

2.1 Psychological contract

The term psychological contract was first introduced by Argyris (1960) when he used the terminology to describe the relationship between employees and foremen. Rousseau (1989; 1998) presented a contemporary view on psychological contract and defined it as; an individual's belief regarding the terms and conditions of a reciprocal exchange between the focal person and another party.

The most common distinction used in interpreting the psychological contract has been made by Rousseau (1989; 1998) which was also defined decades later by (Hui et al., 2004). The contract is of two types, transactional and relational contracts. Relational contracts are based on relationships that go on for a long time. There is an exchange of a set of a broader range of benefits and an extensive commitment to the job and the organization, for example, rewards based on loyalty and hard work. Whereas, Transactional contracts are very specific exchange agreements that pertain to a narrow range of behaviors over a short period, for example, financial rewards based on short term role performance.

A new approach to psychological contract was adopted by Shore and Barksdale

(1998), by using the Degree of Balance and Level of Obligations typology. This approach measures the type of psychological contract of the respondents in terms of employer and employee obligations. Employer obligations include; long-term involvement, tangibility, personal treatment, carefulness, and equal treatment. Similarly, employee obligations include; loyalty, open attitude, personal investment, flexibility, and respect for higher authority.

		Employer Obligations	
		High	Moderate to Low
Employee Obligations	High	Mutual High Obligations	Employee Over-Obligations
	Moderate to Low	Employee Under-Obligations	Mutual Low Obligations

Figure 1: Exchange Relationships

The exchange relationships or psychological contracts are categorized into four types. These are;

1. Mutual high obligations exchange (a strong psychological contract): It is a balanced form of contract; the employees believe that they are highly obligated to their employer and the employer owes a great deal.
2. Mutual low obligations exchange (a weak psychological contract): In this type of relationship, which is also balanced, employees believe that they can maintain the employment relationship with limited effort and expect the same from the employer.
3. Employee over-obligations exchange (an investing psychological contract): In this unbalanced form of contract, employees feel that they are highly indebted to the employer because the employer has delivered and fulfilled the promises in the past.
4. Employee's under-obligations exchange (an instrumental psychological contract): In this unbalanced form of contract, employees feel that they have delivered their promises, but were not treated fairly; therefore, the employer is highly obligated to them.

2.2 Employee engagement

Employee engagement is defined as a state of employee involvement and com-

mitment to work (Jose & Mampilly, 2012; Macey & Schneider, 2008; Sharma, 2017), which leads to, satisfaction, motivation, commitment, and advocacy (Lockwood, 2007).

Employee engagement has three elements; cognitive, emotional, and behavioral. Cognitive engagement is related to employee beliefs about the organization, leadership, and the work environment. Emotional engagement is related to the way an employee feels about the organization, the leadership, and the work environment. Behavioral engagement is concerned with how much value do employees add to the organization by putting efforts into their work (Ho, 2005; Lockwood, 2007; Macey & Schneider, 2008; Saks, 2006).

2.3 Job-stress

Stress can be defined as a reaction of the body to a change, which requires an emotional and mental adjustment (Qureshi et al, 2013). Stress may also be defined as a state of strain or tension experienced mentally or emotionally resulting from a demanding situation (Akhtar, Naheed, Akhtar & Farooq, 2018). Clarke (1990) termed the stimulus or potential source of stress as “stressor”, which includes unclear job roles, stressed work relationships, the physical environment surrounding the individual, and conflicting roles. Furthermore, work-related aspects, namely; work overload and Role-based factors including; lack of quality of the social environment, the behavior of the leader, threat to career development, being undervalued and ambiguous promotion prospects, work, family imbalance all lead to stress (Anderson, 2003; Cooper & Cartwright, 1994; Stamper & Johlke, 2003).

Job-stress leads to anxiety, hostility, and depression, which affects job performance in terms of reduced efficiency, reduced interest in work, lack of concern for the employer and co-workers (Ahsan, Abdullah, Fie & Alam, 2009). High level of work stress leads to a low level of job satisfaction and commitment (Yahaya, Yahaya, Amat, Bon & Zakariya, 2010).

2.4 Underpinning theory

According to social exchange theory (Blau, 1964), the human relations are formed based on negotiated exchange, each party in the exchange relationship has a set of obligations which they try to fulfill to balance out the agreement (Kickul & Lester, 2001). The interaction between employees and their organization creates mutual expectations for both the entities, leading to the formation of the psychological contract.

The Psychological contract is based on the belief that a promise has been made and consideration offered in exchange for it, leading both parties to some set of reciprocal obligations. Employees expect rewards and satisfying job conditions and

anticipate the norm of reciprocity from an employer by meeting these expectations. Organizations expect that employees will reciprocate with positive attitudes and behaviors towards their job and organization, and this phenomenon is called employee engagement (Macey & Schneider, 2008). Engagement is an independent, persistent, and pervasive motivational psychological state that is a response or reaction to one's work (Dabos & Rousseau, 2004).

The reciprocity of an exchange relationship seems to have varying effects on workplace outcomes. For example, when the contract is breached or violated, it has negative effects such as job-stress, loss of trust, lower satisfaction, and high turnover rate, whereas fulfillment of the contract leads to an increased sense of loyalty and trust (Ho & Levesque, 2005; Kickul, Lester & Belgio, 2004; Robbins et al., 2012; Turnley, Bolino, Lester & Bloodgood, 2003).

2. 5 Hypotheses development

2.5.1 *Psychological contract type and employee engagement*

The employment relationship/psychological contract is an important source affecting the engagement level of employees. Different types of psychological contracts tend to yield different results as far as employee engagement is concerned. A strong psychological contract increases the employee attachment because employees feel obliged to give something in return for what they receive. Therefore, these contracts tend to result in high levels of employee engagement (Brandt et al, 2003; Kraft, 2008). A weak psychological contract reduces employee attachment because these contracts lack mutual trust, long-term involvement, and loyalty. Therefore, these contracts lead to a lower level of employee engagement (Brandt et al, 2003; Kraft, 2008). An investing psychological contract has a significant effect on employee engagement because the employees feel that the employer has fulfilled the obligations and they are obliged to give something in return (Brandt et al, 2003; Kraft, 2008). An instrumental psychological contract leads to a lower level of employee engagement because the employees feel that the contract has been violated and the employer has failed to deliver on the promises made (Brandt et al, 2003; Haq, Jam, Azeem, Ali & Fatima, 2011; Kraft, 2008; Lodha & Pathak, 2017).

H1: The type of psychological contract has a significant impact on employee's engagement

2.5.2 *Mediating role of job-stress*

Social exchange theory proposes that human relationships are based on a certain amount of give and take (reciprocal exchange) but this does not mean that they are

always balanced. Reciprocity and expectations play a crucial role in the social exchange process (Blau, 1964). According to the degree and level of obligations typology, the social exchange process could be balanced (a strong and weak) or unbalanced (an investing and instrumental) (Shore & Barksdale, 1998).

If the employer does not reciprocate fairly, it leads to adverse employee outcomes such as job-stress and emotional exhaustion, which hurt the level of employee engagement (Amin, Khattak & Khan, 2018). The employees experience strong feelings of unfairness and inequity. Gakovic and Tetrick, (2003) noted that the employment exchange relationship (psychological contract) plays a crucial role in the stress experienced by the employees and the breach of PC is positively associated with job-stress. Therefore, it is argued that the type of PC can be a workplace or job stressor causing stress which ultimately leads to employee disengagement.

H2. Job Stress mediates the relation between psychological contract type and employee engagement

3. Methodology

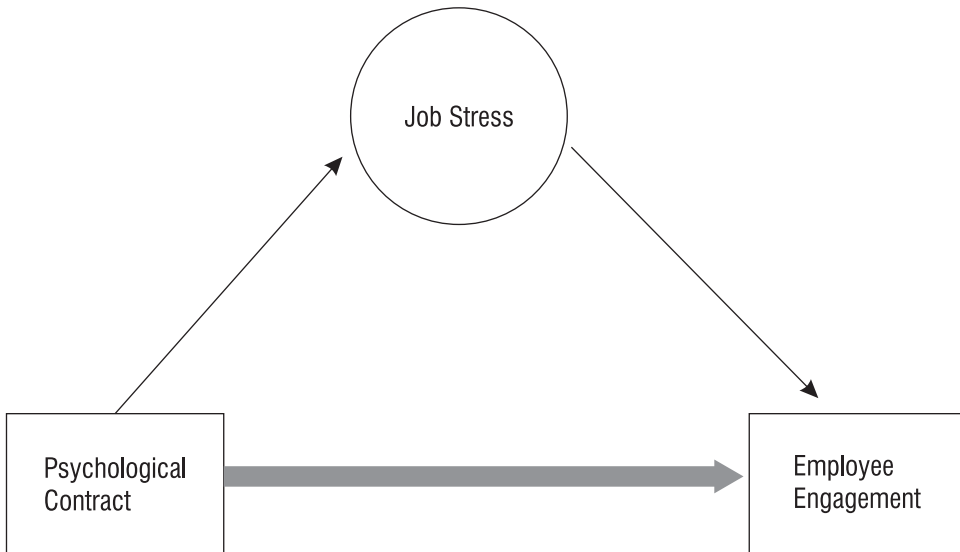


Figure 2: Conceptual Framework

3.1 Sample and data

The present study has used probability sampling technique since it is more commonly associated with survey-based research strategies (Saunders, Lewis & Thornhill, 2009). Moreover, within the probability sampling, multi-layered staged sampling was

used as the sampling frame was divided into two strata, that is, local commercial banks and foreign commercial banks. Within each stratum, banks were selected randomly and then within each bank the employees were selected randomly. Therefore, the study has used multi-layered staged sampling (Saunders et al., 2009). A highly structured questionnaire was used to collect data from three hundred and seventeen managers and officers working in these banks.

3.2 Mono-method approach

This study followed a mono-method approach as the data has been collected quantitatively by using a highly structured/standardized questionnaire which has been analyzed quantitatively (Saunders et al., 2009).

3.3 Measures

3.3.1 Psychological contract

Psychological contract was measured by the scale of the employer-employee obligations developed by Brande et al., (2003) based on the degree of balance and the level of obligations typology introduced by Shore and Barksdale (1998). This scale measures the type of psychological contract of the respondents in terms of employer and employee obligations, by using 49 items. Employer obligations are measured along five dimensions which include; long-term involvement, tangibility, personal treatment, carefulness, and equal treatment. Similarly, employee obligations are measured along five dimensions, including loyalty, open attitude, personal investment, flexibility, and respect for higher authority. The type of PC formed by the employees is based on the average scores for all the ten dimensions/constructed scales (Brande et al, 2003).

3.3.2 Employee engagement

Employee engagement scale was used to measure the level of employee engagement. This scale measures the level of employee engagement by using 14 items, these items have been adapted from the scales developed by Harter, Schmidt, Killham & Asplund (2006) and Marciano, (2012).

There are five categories or levels of employee engagement (Harter et al., 2006; Marciano, 2012). These are described below:

3.3.3 Job- stress

Job-stress scale was used to measure the level of stress in the respondents by using 13 items. These items have been adapted from the scale developed by Parker and DeCotiis (1983), which is the most widely used scale all around the world.

Table 1: Employee Engagement Assessment Scale

Level/category of employee engagement	Scale range for each level/category
Actively disengaged	0-10
Disengaged	11-20
Opportunistic	21-30
Engaged	31-40
Actively engaged	41-50

Note: The table outlines employee engagement levels/categories that were actively disengaged has been assigned the range of 0-10 and actively engaged has been assigned a range of 41-50, @2012 by Whiteboard LLC.

3.4 Data analysis

After the data was collected it was organized and analyzed. In the first phase, the descriptive statistics were applied to find out the type of psychological contract, the engagement level, and the stress level of respondents by using a computer program called Statistical Package for Social Sciences (SPSS). The mean values for all three variables were computed. In the second phase, simple linear regression was used to determine the effect of the type of psychological contract which has been identified in the first phase, on employee engagement. To do so, the average or mean value for both the variables have been taken. In the third phase, the SOBEL test was run for the mediation analysis to find out whether stress mediates the relationship between psychological contract and employee engagement (EE), and for this purpose, the mean value of the variables was used.

3.5 Respondents' demographics

Table 2 provides an overview of the demographic characteristics of respondents.

Table 2: Demographics Overview

Characteristics	Count	Percentage
Age		
21-30	130	41
31-40	113	35.6
41-50	48	15.14
51-60	22	6.94
61 and above	4	1.26
Gender		

Male	248	78.23
Female	69	21.67
Marital Status		
Single	130	41
Married	184	58
Others	3	0.96
Education		
Bachelors	70	22.08
Masters	210	66.24
Ms/MPhil	37	11.67
Work Experience (Years)		
1-5	140	44.16
6-10	90	28.39
11-15	64	20.18
More than 15	23	7.25
Work Experience With The Organization(Years)		
1-5	189	59.6
6-10	74	23.34
11-15	39	12.3
More than 15	15	4.73
Salary(Rs)		
20,000-30,000	190	59.93
31,000-40,000	74	23.34
41,000-50,000	39	12.3
More than 50,000	14	4.41
Organizational Grade		
OG3	96	30.28
OG2	70	22.08
OG1	86	27.12
AVP	33	10.41
VP	8	2.52
SVP	4	1.26
SEVP	2	0.63
Any other	18	5.67

Nature Of Job		
Contract	72	22.71
Permanent	245	77.28
Department		
Cash	57	17.98
Remittances	24	7.57
Accounts	63	19.87
Advances	36	11.35
Operations	118	37.22
Others	19	5.99

Note: Respondents demographics include; age, gender, marital status, education, work experience, work experience with the present organization, salary, organizational grade, nature of the job, and department.

3.6 Reliability

Table 3 shows the values of Cronbach's alpha for all the latent variables, which are above the recommended standard of 0.70 (Bernard & Whitley, 2002; Robinson, 2010).

Table 3: Reliability of the Measuring Scales

Construct	Cronbach's Alpha
Psychological Contract	0.966
1. Long-term Involvement	0.888
2. Tangibility	0.887
3. Personal Treatment	0.647
4. Carefulness	0.844
5. Equal Treatment	0.849
6. Loyalty	0.732
7. Open Attitude	0.816
8. Personal Investment	0.802
9. Flexibility	0.836
10. Respect for Authority	0.816
Employee Engagement	0.869
Stress	0.92

Note: The values of Cronbach's alpha for all the latent variables are above the recommended standard of 0.70.

3.7 Validity

Convergent (construct) validity has been checked by using the confirmatory factor analysis (CFA), which is employed to understand the shared variance of measured variables believed to be attributed to a factor or a latent variable. The LISERAL software has been used to conduct the confirmatory factor analysis. The path model given below showed that multiple items were predicting some variables, which in turn helped in measuring the latent variable. The results show statistical significance from three constructs to the twelve corresponding measures. The loadings for each item for the respective construct are shown in figures 3 and 4 below. The Root Mean Square Error of Approximation or RMSEA for the first model is 0.058 which is a good fit as the cut-off value close to 0.06 is considered to be a fair fit, and the model is significant as its p-value is 0.000 which is less than 0.05 (Hu & Bentler, 1999) RMSEA for the second model is 0.102 which is not a good fit as its value is slightly above 0.10 but it is significant at p-value 0.000 (MacCallum, Browne & Sugawara, 1996).

Figures 3 and 4 demonstrate the t-statistics for paths and specify an adequate convergent validity for all twelve dimensions.

In confirmatory factor analysis, several statistical tests are used to determine how well the data fits into the model. The LISREL software provides six additional indices to measure the goodness of fit for the measurement model. These indices are summarised in table 4 and their values range from acceptable to outstanding.

The normed fit index (NFI) analysis is the discrepancy between the chi-squared value of the hypothesized model and the chi-squared value of the null model. However, NFI tends to be negatively biased. The non-normed fit index (NNFI) resolves some of the issues of negative bias, though NNFI values may sometimes fall beyond the 0 to 1 range. Values for both the NFI and NNFI should range between 0 and 1. The comparative fit index (CFI) analyses the model fit by examining the discrepancy between the data and the hypothesized model. CFI values range from 0 to 1, with larger values indicating better fit, a CFI value of .90 or larger is generally considered to indicate acceptable model fit. The root mean square error or residual (RMSR) is used to measure the differences between values (sample and population values) predicted by a model and the values observed. A RMSR value equal to or less than 0.08 indicates an acceptable model. The goodness of fit index (GFI) is a measure of fit between the hypothesized model and the observed covariance matrix. The adjusted goodness of fit index (AGFI) corrects the GFI, which is affected by the number of indicators of each latent variable. The GFI and AGFI range between 0 and 1.

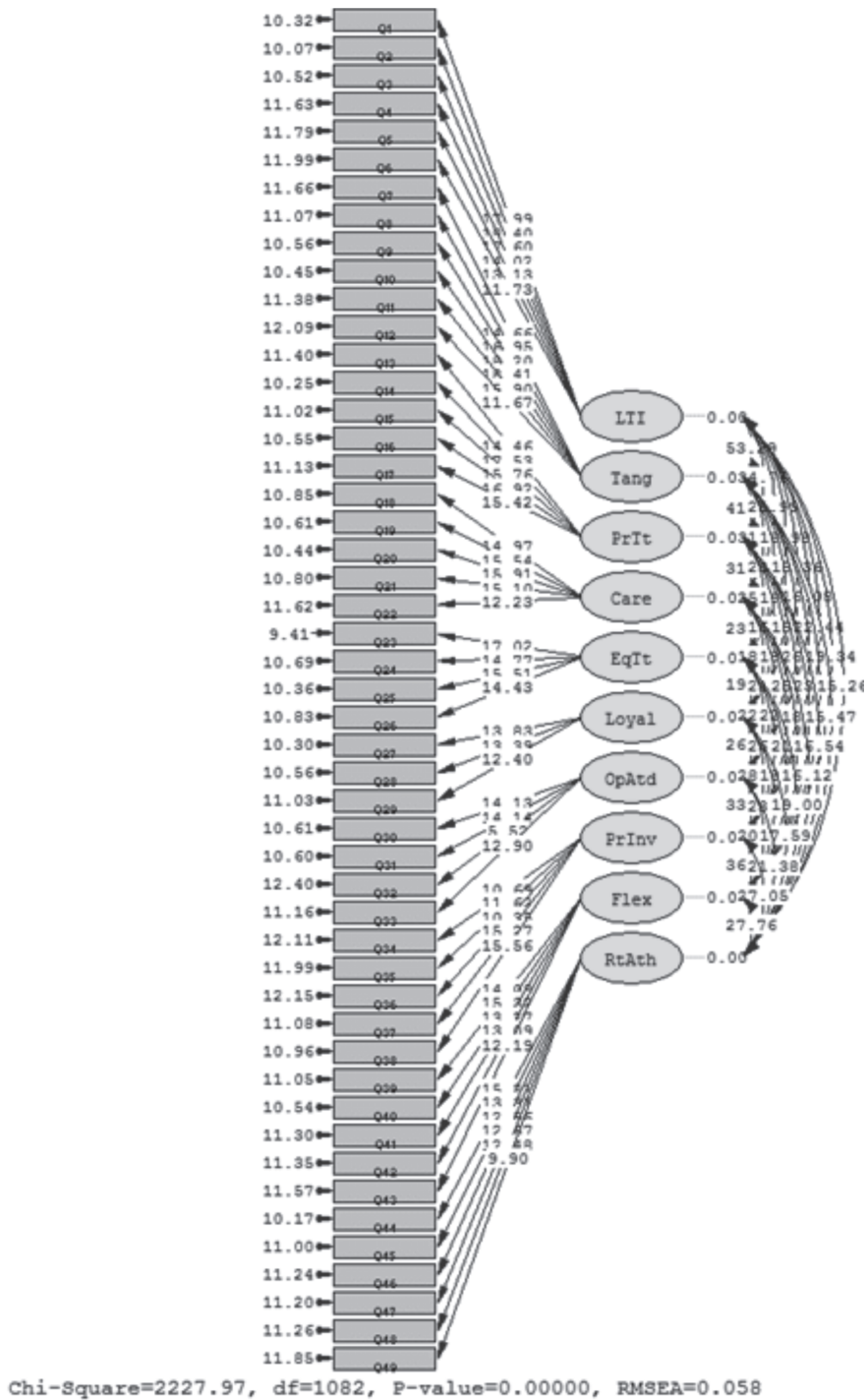


Figure 3: Path Model for Psychological Contract

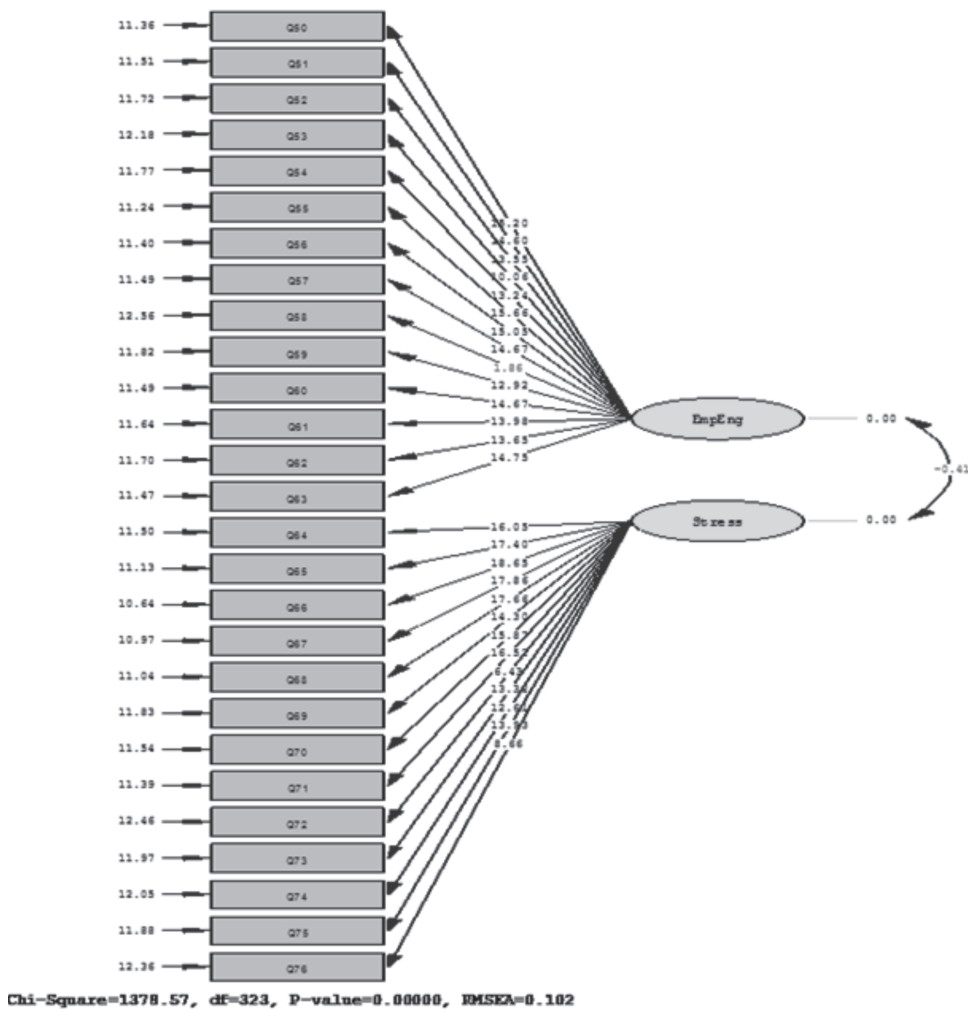


Figure 4: Path Model for Employee Engagement and Job-Stress

Table 4: Goodness of Fit Test

Normed fit index (NFI)	0.97
Non-normed fit index (NNFI)	0.98
Comparative fit index (CFI)	0.98
Root mean square residual (RMSR)	0.052
Goodness-of-fit index (GFI)	0.78
Adjusted goodness-of-fit index (AGFI)	0.75

Note: The indices are summarized and their values range from acceptable to outstanding (Hu & Bentler, 1999; MacCallum, Browne & Sugawara, 1996).

4. Analysis and Results

Table 5: Type of Psychological Contract of Respondents

Descriptive	Mean	Median	Standard Deviation	Min.	Max.	Sum	Count
Long-Term Involvement	3.74	4	0.89	1	5	1186.78	317
Tangibility	3.78	4	0.81	1.17	5	1198.65	317
Personal Treatment	3.86	4	0.89	1	5	1224.8	317
Carefulness	3.69	3.8	0.81	1	5	1168.4	317
Equal Treatment	3.63	4	0.92	1	5	1151.75	317
Loyalty	3.58	3.67	0.87	1	5	1133.99	317
Open Attitude	3.7	3.75	0.82	1	5	1173.25	317
Personal Investment	3.74	3.8	0.78	1	5	1187	317
Flexibility	3.76	4	0.73	1	5	1190.4	317
Respect for Authority	3.73	3.83	0.72	1	5	1182.98	317
Psychological Contract	3.72	3.87	0.68	1.06	5	1179.94	317

Note: The average score or the mean value is high for all the ten constructed scales indicating a strong PC. (Brande et al., 2003).

The first objective of the study was to find out the type of PC of employees in private-sector commercial banks in Peshawar. This objective has been achieved by using descriptive statistics. The findings reveal that the employees formed a strong psychological contract as the mean scores for all the ten constructed scales are high (Brande et al, 2003). The employees perceive that they are highly obligated to the organization and the organization is also highly obligated to them (Shore & Barksdale, 1998).

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The results reveal that the majority of the employees were actively engaged in

Table 6: The Engagement Level of Respondents

Employee Engagement	Count	%
Actively Disengaged	1	0.32
Disengaged	13	4.10
Opportunistic	33	10.41
Engaged	85	26.81
Actively Engaged	185	58.36
	317	100

Note: Out of 317 respondents, 185 were found to be actively engaged whereas 1 respondent was found to be actively disengaged

their work.

4.1 The stress level of respondents

The stress level of respondents has been determined by computing the average score, or the mean value, which is 3.23 as shown in table 7. This value indicates that the overall job-stress of respondents of the present study has been reported at a moderate level.

Table 7: Stress Level of Respondents

	N	Min.	Max.	Sum	Mean	Std. Deviation
Stress	317	1	5.46	1023.55	3.23	0.91
Valid N (listwise)	317					

Note: The mean value indicates a moderate level of stress experienced by the respondents.

4.2 Regression

Table 8: Regression Analysis of Strong PC and EE

Model	R	R Square	Adjusted R Square	Std.error of Estimate	Durbin-Watson
1	.702a	.493	.491	.50546	1.686

Note: a. Predictors: (Constant), Psychological Contract

b. Dependent Variable: Employee Engagement

The second objective of the study was to determine the impact of PC type on EE, and this objective has been achieved by using simple linear regression analysis. The R^2 value is .493, which shows the variance between a strong PC and EE. The

value indicates that 49.3% variance in employee engagement can be predicted from the independent variable, a strong PC. The value of R is .702 which shows a strong positive correlation between the two variables.

Table 9: Significance of the Regression Model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	78.201	1	78.201	306.089	.000b
Residual	80.478	315	.255		
Total	158.680	316			

Note: a. Dependent Variable: Employee Engagement

b. Predictors: (Constant), Psychological Contract

Table 10: Relation between Strong Psychological Contract and Employee Engagement

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.889	.158		5.641	.000
Psychological Contract	.729	.042	.702	17.495	.000

Note a. Dependent Variable: Employee Engagement

The Beta value is .702, which shows that the rate of change in the independent variable will cause a change in the dependent variable. The Beta coefficient contributes significantly to the model as it is evident by looking at the P-value, which is less than 0.05.

Based on the above results, it is concluded that a strong psychological contract has a positive impact on employee engagement; therefore, the first hypothesis of the present study is accepted. This provides empirical support to (Kraft, 2008; Shore & Barksdale, 1998).

4.3 Mediation results by using process macro

The third and last objective of the study was to determine the mediating role of job-stress in the relation between a strong psychological contract and employee engagement and to achieve this objective, the mediating effect of job-stress has been determined by using Process Macro (Hayes, 2015). The results are shown in the table below

Mediation analysis has been done by using Process Macro for the three variables give above, with Y being the dependent variable (employee engagement), X being the

Table 11: Regression Analysis of Strong Psychological Contract and Job-Stress

R	R-square	MSE	F	df1	df2	P
0.05	0.00	0.83	0.94	1	315	0.33
	Coefficient	Se	T	P	LLCI	ULCI
Constant	2.96	0.28	10.44	0.00	2.4	3.52
Psycho- logical Contract	0.07	0.07	0.97	0.33	-0.07	0.22

Note: The value of R is 0.05 indicating a very low degree of correlation between a strong PC and job-stress.

independent variable (strong psychological contract) and M is taken as the mediating variable (job-stress). This analysis has been done for a sample size of 317.

The results show that R-value is .05 which indicates a very low degree of correlation between a strong PC and job-stress. The R^2 is 0 indicating that a strong psychological contract does not explain any variation in the level of job-stress. The Beta coefficient is 0.07 which is insignificant as the p-value is greater than 0.05, indicating that there is an insignificant relation between a strong PC and job-stress. The results for the relationship between psychological contract and employee engagement in presence of job-stress are given in table 12.

Table 12: Relationship between Psychological Contract and Employee Egagement in pres-
ence of Job-Stress

R	R-square	MSE	F	df1	df2	P
0.70	0.49	0.26	153.85	2	314	0.00
	Coefficient	Se	T	p	LLCI	ULCI
Constant	1.0	0.18	5.45	0.00	0.64	1.35
STRESS	0.0	0.03	-1.15	0.25	-0.1	0.03
Psycho- logical Contract	0.7	0.04	17.54	0.00	0.65	0.81

Job-stress has been taken as a mediator between the type of psychological contract (strong) and employee engagement and the results show that the beta coefficient for stress is 0 with a p-Value of 0.25, which is insignificant as it's greater than .05. Additionally, the value of R^2 did not change after introducing stress as a mediator, indicating that the mediation effect was not found.

5. Discussion

This paper tests the impact of the type of Psychological Contract on the engagement of employees within the banking sector. It also tests the mediating role of Job Stress in the said relationship. Additionally, the identification of the contract type and its impact on engagement were also researched. For this purpose, a sample of three hundred and seventeen managers and officers working in seventeen private banks in Peshawar was selected. The research had three objectives, which were set in light of the gaps identified in the existing body of literature. These objectives were achieved by using descriptive and inferential statistics. The first objective of the study was to find out the type of PC formed by the employees working in the private-sector commercial banks in Peshawar. This objective was set in the light of the first gap identified in the existing literature, as no prior research has been conducted on identifying the types of PC in the banking sector, using the degree of balance and the level of obligations typology (Shore & Barksdale, 1998). This objective was achieved by using the ten constructed scales for employer-employee obligations (Branden *et al.*, 2003). The form/type of PC was identified by computing the average score, or the mean value for each scale, and it was found that the respondents formed a strong psychological contract with their employer (Branden *et al.*, 2003) as the scores were high on all scales, including both employer and employee obligations. Moreover, the engagement and the stress level of the respondents were computed by using the descriptive statistics. In this regard, it was found that the majority of the respondents (58.36%) were actively engaged while experiencing a moderate level of job-stress.

The second objective of the study was to find out the impact of the type of psychological contract on employee engagement in private-sector commercial banks of Peshawar and it was achieved by using the simple linear regression analysis. This objective was set in the light of the second gap identified in the existing body of literature, as no prior study has been conducted on examining the impact of a strong, weak, investing, or an instrumental PC on employee engagement. The results of regression analysis were significant, therefore, providing ground for supporting or accepting the first hypothesis, which stated that the type of PC has a significant impact on employee engagement (EE).

The third and final objective of the study was to find out the mediating role of job-stress between the type of PC and EE and it was achieved by using Process Macro. This objective was set in the light of the third and the final gap identified in the existing body of literature, as no prior research study has been conducted to study this particular relationship between the three variables. However, the study did not find any support for accepting the second hypothesis which stated that stress mediates the relation between the type of PC and employee engagement as the results for

the mediation analysis was insignificant. One of the possible reasons could be the form of the psychological contract of the respondents of the present study. Based on the analysis, it is revealed that a strong, balanced form of exchange relationship or psychological contract has been formed with the employer, thus yielding positive results for the organization in terms of employees being actively engaged in and experiencing a moderate level of stress (Blau, 1964). As suggested by the literature, an unbalanced form of exchange relationship (an instrumental PC) has more negative consequences for the organization, because the employees feel that the organization did not reciprocate in the desired manner and their PC has been breached or violated which ultimately contributes to a high level of strain (Asad, 2017; Gakovic & Tetrick, 2003; Hakanen, Bakker & Shaufeli, 2006).

5.1. Contribution and significance

The findings of the study laid down the foundation for major stakeholders by providing an insight into the specific nature of the employment relationship in one of the crucial and most significant sectors of the economy, that is, the banking sector, exclusively focussing on the private commercial banks in Peshawar. The results supported the significance of the nature and content of the psychological contract in keeping employees engaged, which is another contribution of the study as this relationship has been studied in the context of Peshawar, the provincial capital of Khyber Pakhtunkhwa for the first time.

Lastly, the study contributed to the existing literature on psychological contracts by looking at it from a new dimension, that is, the degree of balance and the level of obligations approach (Shore & Barksdale, 1998). Previous studies on psychological contracts have focused on the relational and transactional contract (Rousseau, 1989), contract breach, and fulfillment and explored its relationship with job satisfaction and organizational commitment. This research study provided empirical evidence about the impact of the type of contract on the engagement level of employees in one of the most turbulent and unpredictable work environment.

No significant academic research has been conducted, particularly in private-sector commercial banks of Peshawar to identify the type of psychological contract of employees, its relationship with engagement, and how this relationship gets affected by stress. However, the findings/results of the study facilitate the stakeholders in the banking industry, particularly in the Peshawar region, including employees, employers, and other practitioners who formulate strategies to cope with the challenges of workplace transitions. These challenges include; disengaged or not engaged employees and the changing expectations of employees from their employment in the context of the hyper turbulent, unpredictable, sensitive, challenging, and demanding en-

vironment that they are working in (Malik & Khalid, 2016; Rashidi & Rahman, 2013). One of the major challenges the private-sector commercial banks are facing currently is the breach/violation of the psychological contract of an employee resulting in high employee turnover intentions, lack of sense of ownership, and lack of an overall positive attitude towards the organization, which ultimately affects the banks' productivity and performance (Malik & Khalid, 2016; Obaid, 2013). The findings of this research provided an opportunity for policy-makers/employers to retain their employees, especially talented individuals.

This would have a great impact in terms of improving the overall performance of these banks because the extent to which a contract is breached or fulfilled depends on the type of contract, for example, individuals with a strong and an investment contract perceive a less breach or violation of their psychological contract while individuals with a weak and instrumental contract perceive more violation and breach of their contract (Shore & Barksdale, 1998). This would enable the practitioners to realize the practical implications of evaluating and analyzing the exchange relationship, which would help in retaining the engaged employees (Malik & Khalid, 2016).

5.2. Limitations and future directions

Despite the contribution and significance, there are several limitations and shortcomings of the present research. These limitations are listed below

The study focused on a small and selective sample of employees as it was based on seventeen private-sector commercial banks in Peshawar. The results of the study could not be generalized to the overall banking-sector of Pakistan as it focused on the banks operating in Peshawar only.

Another shortcoming referred to the exclusion of the employer's perspective in measuring the psychological contract dimensions.

Data were collected through self-administered questionnaires distributed by paid data collectors without the researcher being personally involved in the process. Therefore, chances of error and common method biases might have occurred.

Since the research focussed on the banking sector, therefore, only one type of PC was identified which affected the level of engagement, but the mediation effect of job-stress was not found. Therefore, the research finding could not be generalized, as there is a possibility that a mediating effect exists in the relation of employee engagement with other types of PC. As a result of these limitations, further research is required to include the employer's perceptions in measuring the psychological contract dimensions to provide a more appropriate understanding of the exchange

relationship. To improve the generalizability of the results, more cross-cultural studies are needed to be conducted across a large, representative sample, covering different sectors of the economy with equal representation from each sector. This would help in yielding different and improved results, as the type of PC, the engagement level, and the stress level of employees vary across different professional fields.

Furthermore, a mixed-methods approach (questionnaire and in-depth interviews) could be used to investigate the type of psychological contract. Although it is difficult to subjectively analyze the psychological contract, however, it cannot be negated.

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