Perceptions and Impact of Psychological Contract Breach

Among Bank Employees in Bangladesh

ABSTRACT

There is a dearth of research on psychological contract breach in non-western contexts. The aim of the present study is to understand the perceptions and impact of psychological contract breach among bank employees in Bangladesh, a developing country in South Asia. Semi-structured interviews were conducted with 57 bank employees in Dhaka city, Bangladesh. Thematic analysis of the interviews revealed the types of breach, employee feelings and behavioural consequences as a result of a psychological contract breach. The present research expands the psychological contract literature by conducting the study in a non-western context and identifying employee responses after psychological contract breach occurs. The findings of this study will help HR Departments manage human resources more effectively.

Keywords: cross cultural human resource management, pay and rewards, international human resource management

INTRODUCTION

Psychological contract breach has long term effects on employees and employers. Hence, researchers are keen to understand the causes and consequences of this breach (Restubog & Bordia 2006). However, the majority of psychological contract studies are based in American, European or western contexts (Millward & Brewerton 2000; Rousseau 1998; Rousseau & Schalk 2000). Very few psychological contract studies have been conducted in collectivist or non-western contexts (Hui, Lee & Rousseau 2004; Restubog & Bordia 2006; O’Donnell & Sheilds 2002; Westwood 2001). Given the rapid growth of Asian economies, there is an increasing need for more research on psychological contract in non-western contexts. To fill this gap in the literature, we conducted the current study in Bangladesh, a developing country in South Asia. Our study aims at investigating employee perceptions of the types, content and consequences of psychological contract breach. This study is the first study of this nature in the banking sector of Bangladesh. The results of this study will enable
practitioners understand the negative impact of psychological contract breach on the employment relationship.

**LITERATURE REVIEW**

Psychological contract has been defined as “an individual’s beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party” (Rousseau 1989, p. 123). The basic nature of the contract is “reciprocal obligation” as employees expect to receive benefits in exchange for their contribution to the organization. Psychological contract is perceptual in nature as employees understand and interpret their employment relationships in their own way. The employee’s perception of the contract does not necessarily generate the same reciprocal perception from the employers (Rousseau 1989; Shore & Tetrick 1994; Rousseau 1995). “Promise” is an important part of the contract as some of the employee’s expectations are formally or informally confirmed by the organization. As such, employees may have numerous expectations from their employers but only a part of those may actually be promised by the organization.

Two types of psychological contracts have been identified by organizational researchers: transactional and relational contracts (Rousseau 1995). A transactional contract is based on the economic transactions between the employee and the employer on the basis of employee performance, while relational psychological relationship is based on the social exchange between the two parties (Robinson & Rousseau 1994; Rousseau 1989, 1990). Empirical studies have shown that relational contracts, which are long term and broad (Morrison & Robinson 1997), have positive impact on employees’ job commitment and belongingness to the organization (Rousseau 1990). In some employment relationships, the significance of transactional relations can be higher than the relational contracts and vice versa. One way to determine the strength of the transactional and relational contracts may be the employee’s involvement in the job and the required performance level (Rousseau 1995). For instance, if the duration of a contract is short and performance requirements are clearly defined and specified to the employee by the employer, it is likely to be a strong transactional contract. This type of contract is characterized as short term, inflexible, low job ambiguity and has specific economic conditions in exchange for the employee’s involvement in the organization.
An example of this type of employment contract would be that of temporary workers during Christmas time. However, if the duration of a contract is long term and the employees embed themselves within the organizations; the contract is likely to become relational. This type of contract is characterized as long term, open ended and dynamic in nature (Rousseau 1995). An employee’s psychological contract may include elements of both transactional and relational contracts (Robinson & Morrison, 1995).

Psychological contract breach has been defined as the cognitive perception that an employee has not received everything that was promised formally or informally by the organization (Morrison & Robinson 1997). Psychological contract breach is related to a range of undesirable employee attitudes and behaviours. Psychological contract breach leads to reduced trust in management (Robinson 1996); lower job satisfaction (Turnley & Feldman 1998); less organizational commitment (Guzzo, Noonan & Elron 1994); increased turnover (Turnley & Feldman 1999) and decreased in-role and extra-role work behaviours (Robinson & Morrison 1995, Turnley, Bolino, Lester & Bloodgood 2003).

In a psychological contract breach-violation model, Morrison and Robinson (1997) empirically differentiated psychological contract breach and contract violation. They have suggested that psychological contract breach and violation are related but two different stages of psychological contract violation. Psychological contract breach results from employees’ cognitive assessment that they have not received everything which was promised to them. In other words, employees perceive that there is a mismatch between what was promised to them in exchange of their services and efforts to the organization and what was actually delivered by the organization. Psychological contract violation is an “affective and emotional experience of disappointment, frustration, anger and/or resentment” that results from employees’ perception of psychological contract breach and perceived reasons for that breach (Morrison & Robinson 1997: 238). Prior research has suggested that employees’ psychological contract violation mediates employees’ psychological contract breach and employee outcomes. Employees’ psychological contract violation fully mediated the relationship between employees’ psychological contract breach and job satisfaction, intent to leave the
organization and professional commitment and partially mediated the relationship between contract breach and affective organizational commitment (Raja et al 2004, Suazo et al 2005).

The intensity of psychological contract violation would depend on the type, size and responsibility of employees’ perceived contract breach (Shore & Tetrick 1994). For instance, employees may react less negatively after the breach of a transactional contract compared to a relational contract. Moreover, employees may experience lower trust in the organization if there is a large discrepancy between what has been promised and what was actually received by the employees. Lower trust in the organization may lead the employees to perceive inequity in the employment relationship, reduce job satisfaction and increase anger towards the organization (Rousseau 1989). As suggested by Turnley and Feldman (1999), employees’ psychological contract violation may be intense if they perceive the contract breach to be insufficiently justified. Employees may form a feeling of injustice and betrayal if they perceive the contract breach was a deliberate act by the organization or by its agents (managers, supervisors) without proper justification. Prior research has shown that justification sufficiency moderates the relationship between psychological contract breach and employees’ turnover intentions (Turnley & Feldman 1999). In other words, employees who perceive that the contract breach is insufficiently justified, tend to leave the organization after a psychological contract breach. Whether a perceived breach leads to contract violation depends on employee’s interpretation of the situation within which the breach has occurred. The idiosyncratic nature of a psychological contract has always made it difficult for organizational researchers to identify the actual causes of the psychological contract breach. Reneging and incongruence are considered the main reasons of psychological contract breach (Morrison & Robinson, 1997). Reneging is an organizational situation where the employer knowingly fails to deliver the promised benefits to its employees. Incongruence is the confusion between the employees and the employer about the existence of an obliged relationship.

A number of studies have examined the consequences of psychological contract breach. In the last two decades, organizational researchers have revealed that perception of psychological contract breach is directly related to the employee’s performance, behaviours and attitudes towards the
organization. Psychological contract breach is negatively related to employee’s trust in management, job satisfaction and intention to remain with the organization (Robinson 1996, Robinson & Rousseau 1994); employee performance (Robinson 1996) and citizenship behaviours (Robinson & Morrison 1995, Robinson 1996). Kickul and her colleagues (Kickul & Zaper, 2000, Kickul 2001a, 2001b, Kickul & Lester 2001, Kickul et. al. 2001) also revealed that psychological contract breach leads to decreasing employee commitment, increasing workplace deviant behaviours, reduced citizenship behaviours and increased intentions to leave the organization. In another study, Lester et al. (2002) found that psychological contract breach is negatively related to employee job commitment and supervisor rated employee performance. Turnley and Feldman (1998, 1999, 2000) suggested that psychological contract breach is negatively related to loyalty and positively related to exit, voice and neglect of the job. Deery, Iverson and Walsh (2006) found that perception of psychological contract breach can lead to higher employee absenteeism. The above literature review indicates that psychological contract breach is negatively related with three forms of employee contributions to the organization: day-to-day performance, citizenship behaviours and intentions to remain with the organization (Robinson 1996).

In this study we seek to examine the characteristics of psychological contract breach among banking employees in Bangladesh and the consequences of this breach. While cultural dimensions may affect the intensity of psychological violation, assessment of the impact of culture is beyond the scope of this study.

RESEARCH METHODS

The Sample

Data for this study were collected through interviews with 57 employees of two leading commercial private sector banks in Dhaka city, Bangladesh. Bank one has 26 branches in Bangladesh, of which 8 are in Dhaka city. Bank two has 41 branches in Bangladesh, of which 15 are in Dhaka city. The Human Resources Departments of the banks introduced the research project to their employees, through banks’ internal mailing system. Employees who were interested to participate in the research project contacted the researcher directly. 45 participants were male and 12 were female. The average
age of the interview participants was 31.2 years and their average employment tenure with the banks was 3.6 years. All the research participants are full time employees of the banks. Of the 57 participants, 31 are temporary and 26 are permanent employees. It is a common practice in Bangladesh to employ temporary and permanent employees in the banking sector. Both temporary and permanent employees have similar tasks, identical working hours, days and workplaces. Employment status is the main differentiator between these two types of employees.

**Interview Protocol**

A semi structured interview protocol was used in this study. There were two parts of the interview protocol. In part 1, demographic information of the participants was collected. In Part 2, questions were asked to determine how the employees perceive, feel and react after a psychological contract breach. Firstly, questions were included to explore the perception, types and forms of psychological contract breach (e.g. “has your employer ever failed to keep promises which were made to you?” “What were those promises?”). Secondly, questions were included to assess employee’s feelings in the event of a psychological contract breach (e.g. “how did you feel when the organization broke its promises or obligations?”). Then, questions were asked to collect data on how the employees behavioural and job performance changed after the psychological contract breach (e.g. “what were your reactions to the broken promises of the organization?”). Finally, an open ended question was asked to the participants to know their views about the organization’s obligations and promises (e.g. “is there anything else you would like to add in general regarding obligations and promises of the organization?”).

**Data Analysis Procedure**

In order to examine the qualitative data, a thematic analysis was conducted following the procedure outlined by Braun and Clarke (2006). Thematic analysis is defined as “a method for identifying, analysing and reporting patterns (themes) within data” (Braun & Clarke 2006, p. 79). Thematic analysis is a subjective and interpretive process that generates categories from the data (Boyatzis 1998). The aim of thematic analysis is to find themes, patterns and regularities from data (Barn, 2008; Braun & Clarke, 2006). The process of thematic analysis involves the identification of themes through ‘careful reading and rereading of data’ (Fereday & Muir-Cochrane, 2006; Rice & Ezzy, 1999). In the
present study, thematic analysis was used to organize and describe the data in full detail (Braun & Clarke, 2006). First, we conducted a comprehensive review of all interview transcripts. Interviewees’ answers to the questions were listed as separate items. Secondly, items were categorized into meaningful groups (Tuckett 2005). Finally, to reveal themes, categories with similar ideas were combined. Through this process, we were able to get a more in-depth understanding of employee perceptions of contract breach, employee feelings and behavioural outcomes of participants after a psychological contract breach. To improve the validity of the data analysis in the current study, an independent reviewer who was familiar with qualitative research in the social science discipline, reviewed individual transcripts, themes identified and textual descriptions of the interviewees. The independent reviewer checked the identified themes to ensure that they were balanced, non-repeatable and unambiguous. Initial inter-rater agreement, defined as the proportion of agreements on codes and themes, was 80%. The researcher and independent judge reviewed, discussed and refined the themes until they reached an agreement on the themes and categories identified through thematic analysis.

RESULTS

We present the findings of our study by following Morrison and Robinson (1997)’s model of psychological contract breach. The findings are presented in terms of perception of psychological contract breach, employee feelings and behavioural outcomes as a result of the breach.

Perception of Psychological Contract Breach

When asked about broken promises by the organization, the majority of participants (n = 49) perceived that the organization did not fulfil its promises to them. Participant responses revealed five themes related to psychological contract breach: job status (n = 15), remuneration (n = 8), promotion and advancement in the bank (n = 10), supportive leadership and guidance (n = 6) and training related to banking career (n = 10). For example, an employee experiencing a psychological contract breach related to job status stated that “during my job interview I was told that I will become permanent with the bank after two years of service. However, even after three years I am still a temporary employee. I did not receive what I was promised by the bank”. An employee who experienced a psychological contract breach related to remuneration stated, “I am supposed to have a higher salary now, which my manager promised me last year. They are not keeping their promises now and I am not getting the
Another employee who was denied promotion stated, “I was supposed to get a promotion after two years which was told during my job interview... but I did not get the promotion even when I performed really well”. An employee who experienced a psychological contract breach related to supportive leadership and professional guidance stated, “During my orientation session, I was told that the bank provides very good supervisors for the new employees. I expected to have supportive supervisors. My supervisors have always been non-cooperative to me and never been supportive to take care of my problems”. Finally, an employee who perceived a psychological contract breach as a result of lack of training stated, “When I joined the bank, I expected and I thought that the bank is obligated to provide the necessary training to make us more productive and provide more customer services. I was not sent for any training in my first year of employment which makes me think the bank was not fulfilling its promises”.

Employee Feelings

All the participants (n = 49) who perceived a contract breach reported feelings of sadness, betrayal and developed mistrust towards their organization after a psychological contract breach. As one employee stated, “I was very sad and frustrated after I realized that the bank (intentionally) was not going to promote me. I felt (that) my performance has no value to my bank, so why would I remain a good performer?”. Another participant who experienced psychological contract breach related to promotion reported being sad and felt betrayed by bank management. This participant stated, “I performed really well (three times more than others) to get the promotion, but the organization did not fulfil their promises, I have even seen my colleagues getting promotion and become permanent with lower performance than me.” A participant who was not rewarded as promised stated, “I was very sad, confused and felt betrayed (after the contract breach), I thought it was my manager who was against my extra payment, then I talked to him and found that the higher management has changed the policy. They have taken advantage of our situation that we cannot go to other banks with only a year’s experience. This is not fair as we worked hard and they (the bank) is taking advantage of us.” In the current study, several participants (n=22) perceived their organizations to be not trustworthy (e.g. I do not believe that our bank will keep their promises in future, they did not promote me when it was due, I don’t believe them).
Behavioural Outcomes

The experience of psychological contract breach impacted on employees’ behaviours and performance. Specifically, the participants wanted to leave the organization (n = 41), reduced performance (n = 22) and neglected job duties (n = 22). One employee who wanted to leave the bank stated, “I am thinking about switching banks as my bank is not keeping all its promises”. Some participants (n=5) even thought of changing careers because of the breach. As one employee stated, “If I am not made permanent with the organization, I may think about quitting my banking career and may switch careers”. The current findings are consistent with previous research of psychological contract breach and employee’s intention to leave the organization (Turnley & Feldman 1998, 1999, 2000). A participant whose performance declined after psychological contract breach stated, “As I was not made permanent, I was upset and I could not perform as I used to”. Some of the participants were reported to be deliberately avoiding office work and not putting enough effort in their jobs. One of these employees stated, “I intentionally came late to the office several times thinking that nothing will happen even if I perform really well”. Another participant stated, “It is not worth working hard for the bank, they (the bank) will always give more work and at the end; there is no benefit (for us). Why should I work hard?” The findings of the current research are consistent with the previous studies on psychological contract breach and employees’ job neglect. Organizational researchers have suggested that employees tend to reduce their in-role job efforts after a psychological contract breach occurs (Lester et al. 2002).

An interesting finding was that despite negative behavioural outcomes, approximately forty two percent the respondents (n=24) considered their job experience and age to be deterrents when seeking jobs in banking or in other careers. In the words of one participant, “I wanted to leave the bank but as it is my first job I was unable to change to another bank with only a year’s experience in the current bank”. In Bangladesh, commercial banks prefer to recruit fresh university graduates as management trainees. For more senior positions, only experienced bankers are recruited. Hence, it is extremely difficult for management trainees approaching the age of thirty to leave a banking job. Among the participants, thirteen (n = 13) employees perceived that their age was a deterrent factor in obtaining
future banking jobs. As one participant stated, “I am a management trainee and I am nearly thirty two years old. At my age, I will not be able to get another banking job if I am not made permanent with my bank”.

DISCUSSION

The overall goal of this research was to develop a deeper understanding of the nature of psychological contract breach in Bangladesh. The analysis of the interview study indicates that the respondents perceived five categories of psychological contract breach. These five categories can be further classified into two dimensions: relational (supportive leadership and guidance, training and job status) and transactional psychological contract breach (remuneration and promotion). This two-dimensional classification is congruent with previous conceptualizations of psychological contract breach (Robinson & Rousseau 1994). We also believe that both relational and transactional contracts are important ingredients of the employment relationship in Bangladesh. The results also show that the employees distinguished the monetary (transactional) and non-monetary (relational) aspects of their relationship with the banks. The categories that emerged from this study are consistent with previous research that examined the content of psychological contract breach in western contexts (Kickul 2001a, Lester & Kickul 2001). The present study also suggests that bank employees in Bangladesh value and prefer to have relational psychological contracts (n = 31) rather than transactional psychological contracts (n = 18). The results suggest that the employees would prefer to have a long term relationship with their banks instead of a short term relationship. This results from the extreme shortage of good permanent jobs in a developing economy like Bangladesh, which has high levels of unemployment.

The results also reveal that employees perceiving contract breach also perceived psychological contract violation. As such, participants felt sadness, betrayal and did not trust the organization after the psychological contract breach. The perception of psychological contract breach has also resulted in a number of negative affective, attitudinal and behavioural consequences for employees. As discussed earlier, employees intended to leave the organization, performed poorly and increased job neglect as a result of psychological contract breach. This is consistent with the breach-violation model.
of Morrison and Robinson (1997). The model suggests that employee’s perception of psychological contract breach triggers a cognitive ‘sense-making’ process that leads the employee to experience feelings of violation. The results of our study indicate that insufficient banking experience and age are major barriers which prevent disgruntled employees from leaving their employer. Since these employees continue to work in the bank, employee discontent is likely to be quite high. In other words, if banks in Bangladesh do not address the issue of psychological contract breach, the adverse impact on the operations of the bank and its level of customer service could be significant.

The findings of this study make a significant contribution to existing literature. This is the first study which sought to understand psychological contract breach among the bank employees in Bangladesh. The results of our study have practical implications for Human Resource Managers. The findings of our study indicate the need for effective human resource management policies to help banks remain competitive in Bangladesh. As part of an effective human resource management strategy, it is critical to manage employees’ psychological contract breach perceptions, as this has been shown to influence employees’ performance, job neglect, intention to leave the organization and trust in management. Given the negative consequences of psychological contract breach, bank management in Bangladesh should realize the significance of breaking promises to their employees. As the study suggests, employees intended to leave the organization, decreased job performance and increased job neglect as a consequence of psychological contract breach. The immediate impact of these negative consequences could be higher employee turnover and lower employee productivity. This will have a negative impact on the bank’s overall performance.

There are some limitations to this study. Firstly, data for the current study were collected from bank employees in Bangladesh. The results of the study may not be generalizable to other sectors of the economy, as types of employee relationships may be different in different sectors. Secondly, data for the study were collected only from the commercial banks in Bangladesh. The operations of the banking sector in Bangladesh are usually systematic and centralized. There is a possibility that employees in informal and decentralized organizations (i.e. family owned businesses) may experience
contract breach differently. Thirdly, random sampling could not be use as the bank would not provide the names and addresses of employees.

This study has several implications for future research. The current study was based on the banking sector. Future research should adopt random sampling and can be conducted in other sectors of the economy to generalize the results and to identify any new findings. This will assist in understanding the employees’ psychological contract in other industries in Bangladesh. Future studies could include employees from the nationalized commercial banks. Nationalized commercial banks are public sector banks and the largest employer in the banking sector of Bangladesh with approximately 60,000 employees (Jahangir, 2003). The overall performance of the nationalized commercial banks is affected by poor quality of customer service, financial insolvency, mismanagement and poor supervision of the banks’ employees (Jahangir, 2003). Hence, it would be important to assess and compare how employees of nationalized commercial banks perceive and react to psychological contract breach. Future research should also investigate the factors that may influence the relationship between perceived psychological contract breach and their resultant behavioural and attitudinal outcomes. It is important to investigate whether individual factors such as employees’ internal and external locus of control and personality traits influence employees’ behavioural and attitudinal reactions to a psychological contract breach. Future research can also explore the relationship between transactional and relational contract breaches and employee outcomes. It would be interesting to know whether employee outcomes are different for transactional and relational contract breach. This line of research may also explain why employees decide to reciprocate in a certain ways for different types of contract breach. Thus, future research can also focus on how employees decide which type of action to take in response to a psychological contract breach.

In summary, this study found that banks cannot afford to ignore temporary employees. Both permanent and temporary employees prefer long term relationships with the banks. Effective management of these relationships will help to reduce breach and violation of psychological contracts. This will enable the banks to reduce employee turnover and increase productivity.
REFERENCES


