



Psychological Contract as a Measure to Employee Retention

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Abstract

The world of competitive business dynamics has made more organisations susceptible and made them vulnerable. This volatile business context has thrown more challenges to the business to withstand, survive and grow; it is the human capital that can make the difference to the organisations. Hence, it is of paramount importance to organisations to develop the culture of employee engagement at its core. To quote the term it looks simple, but in practice, nurturing and managing this Omni-potent capital in is the most complex variable in the directory of management. At this context, it is pertinent to relate an important fact that employee engagement is possible only if the employees develop an affinity towards the organisations that have taken care of them and provided a platform to perform. In order to do this the way forward is to practice and pursue a policy of developing a Psychological contract and drive its employees to develop an emotional bond with the organisations. Eventually, the organisations which are learning and making its human capital to constantly evolve and grow with the changing world may only be the successful at market place. This paper focuses on identifying the essentials of psychological contract as a measure for employee retention drawn from a detailed study.

Keywords : *Psychological contract, Employer Engagement, Employee Retention.*

Introduction

Unlike earlier, current growth of industry and services is witnessing a plethora of employment opportunities. At the same time, today's youth has many avenues to opt within. Consequently, the business environment out there has made possible to exploit the innovative ideas of today's millennial to realise into own dream openings. Coupled to this, today's millennial work force have their own set of expectations towards the organisations to perennially provide exciting work environment and new opportunities. Further, this has made the work place and work environment more challenging and the necessity of understanding the psychological contract and employee retention.

Statement of the Problem

Employee retention is the overall strategy or ability of an organisation to retain its best employees and hence maintain a lower turnover. An organisation is able to

achieve this by adopting various employee retention programs. Employee retention is and should be one of the main focus areas of the human resources department in any organization. Psychological contract has evolved as one of the major aspects in dealing with employee relationships and their commitment to the organizations. It's evident from the studies to follow the link between psychological contract and employee retention for a sustainable work culture and overall organizational effectiveness. Essentials of psychological contract as a measure to employee retention will address the need.

Objectives of the Study

- ☞ To know the significance of the psychological contract in employee retention.
- ☞ To identify the essentials of psychological contract in employee retention.

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Advent and Significance of Psychological Contract in Organizations

On review of published work of eminent HR scholars on the topic and study of related concepts has helped to construct and develop a broader framework for this paper.

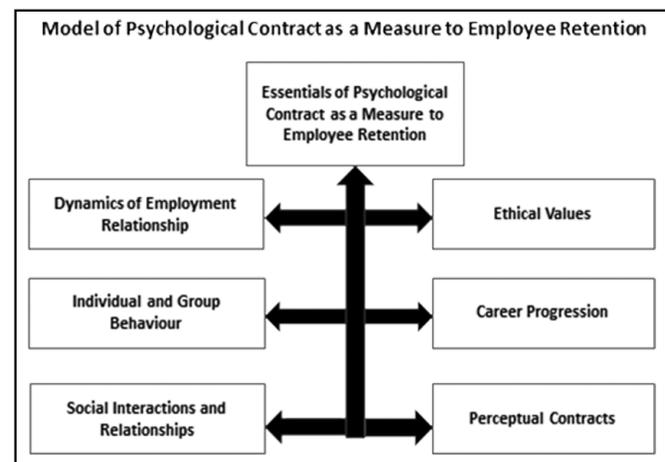
The concept of Psychological Contract is originally coined by Rousseau in the year 2011, and the concept proposed that the global competition has altered business dynamics and orchestrated the need for organizations to devise new ways to survive, grow and perform and also ensure cordial relationships between employers and their employees is of quit essence (Rousseau 2011). She further explained that with the increase in global competition, intensified economic integration, Cross country and cross-cultural mergers and acquisitions of global organisations has created an aura of uncertainty amongst employees and created a sense of insecurity at the work places. The resultant environment in the organizations makes the employer and employee relations more complex to manage; with an imminent need to redefine and rechristen the HR strategies. Even the advanced countries adopting successful HR policies too faced the challenge of higher rates of turnover and low morale.

Many developed countries adopting successful policies including US has also succumbed to this pressure and are trying to work new ways to address the piquant situation. One of the solutions for organizations is to respond with agile policies and respond to the changes in time and strive to create a positive relationship between employers and employees (Curwen,2013) and embrace new human capital management policies so as to bring them together to same platform and a bring in a synergy by bringing a paradigm shift in terms of thinking and work philosophy. At this context, it is Ms Rousseau's concept of psychological contract has thrown new light to revitalize the environment. To make the work place vibrant and face the challenges to maintain a streak of sustained corporate performance, it is vital to retain their critical employees to enhance productivity (Waiganjo and Ng'ethe, 2012).

Essentials of Psychological Contract as a Measure to Employee Retention

Rousseau (2004) postulates that modern organizations cannot succeed in this knowledge based production era unless the people under their employment agree to contribute to achieving organization's mission and survival. Thus, it is argued by scholars that workers'

qualities, attitudes and behaviour in the workplace, together with other factors such as psychological contract, play a significant role in determining an organization's overall performance and employee retention (Stoner, Freeman and Gilbert, 2002). However, it has been observed that a switch in employees 'behaviour in workplace is attributed to a breach of psychological contract, and this has, in most cases snowballed into detrimental consequences resulting to decrease in performance, exit of resourceful employees and the retardation of productivity in organizations. Typically, in today's business environment that is characterized by uncertainty, it is pertinent for management to develop stable and effective relationship with their employees considering the adverse implication of a strained working relationship in organizations. It is against this backdrop, that this paper examines the linkage between psychological contract and employee retention, performance and productivity in organizations. It explores this linkage with a view to verifying the dynamics of psychological contract in regulating workplace interactions with the below model developed on the basis of theoretical framework from the literature review and supporting studies.



Though many behavioural researchers have studied, but the real shape was given by Rousseau (1995) who stressed that psychological contract consists of individual beliefs regarding terms of an exchange agreement between individuals and their organization.

Another researcher Guest (2007) asserts that psychological contract is concerned with the perception of both parties to the employment relationship: organization and individual, of the reciprocal promises and obligations implied in that relationship. Armstrong (2012) explained that psychological contract is a system



of beliefs that encompasses the actions employees believe are expected in return from the employer, and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees.

Armstrong (2012:408) pointed out the employment relationship aspects that are covered by psychological contract. From the perspective of the employee these are; how they are treated in terms of fairness, equity and consistency, security of employment, scope to demonstrate competence, career expectations and the opportunity to develop skills, involvement and influence and trust in the management of the organization to keep their promises. From the employers' point of view, the psychological contract covers such aspects of employment relationship as competence, effort, compliance, commitment and loyalty. However, psychological contract is a central determinant of work behaviour which specifies the dynamics of employment relationship (Dipankar, 2013); and psychological contract may also be categorized based upon context of individual and group (Dipankar, 2013).

Each organization spends a lot on attracting the best talent. These employees contribute a lot towards the success of the company. All these contributions directly impact the bottom line of the company. The employees who stay with the company for longer time contribute efficiently and become integral part of the company and the position. Now if these employees leave the company and join the competitor, this would mean double loss for the first company. They will be directly impacted by the employee not being available and secondly the employee is now contributing to the competition. Also, the person who may replace may not be able to come at par that early.

In another research paper of CerenErdem, investigating the Dynamic Nature of Psychological Contracts: A Study of the Co-evolution of Newcomers' Psychological Contracts and Social Networks to provide insights about employee retention especially for the new recruits being millennial and the other is focused on the social relations developed over a period of time by conducting two Concept based studies and one empirical study. These research papers are worked to capture the antecedents of psychological contracts through pre-entry expectations and the influence of social relationships interface especially for the newcomers.

One of the conceptual studies dwells on how conceptually the Psychological contract evolved from time to time,

taking into consideration the ethical considerations. While the second conceptual article dealt with the developments in changing the dimensions of psychological contract in making this concept more relevant to the current days Human Resource Context and the implications of the social networks on the newcomers and its bearing on the employee performance gradually alleviating the barriers and to ensure good corporate citizenship profile. This study tried to establish a relation between Psychological contracts and social network ties are co-dependent. The third paper inductively investigates graduating millennial pre-entry expectations about outcomes in their employment relationships.

Inducing millennial with career progression opportunities with corroborative organizational support has changed the dimensions of work environment and work place expectations; as it requires creating new opportunities is a challenge to the Human Resource Professionals. The other variables of autonomy, intangible recognition, and fairness will prove catastrophic to organisations in managing the existing workforce. Since these dimensions cannot be taken in isolation, they will have far reaching consequences in managing the psychological contracts of the existing workforce. Therefore, this study has added new dimension with regard to what the new generation currently on the job market expects and how these expectations influence the formation of their anticipatory psychological contracts prior to entering their first jobs.

Many scholars corroborated their views to the outcomes that psychological contracts are likely to unfold over a period of time (Conway & Briner, 2005; Tomprou & Nikolaou, 2011). This acknowledgement has remained broadly conceptual rather than empirical. However, few studies empirically tested the impact of social interactions on organizational socialization effectiveness (Morrison, 2002), and perceptions of psychological contract breach (Ho et al., 2006). Many of the studies are vociferous about the influence of social interactions attributing to have a higher level of impact on the work culture which is the result of onslaught of the social media and the influence of millennial. In the process, these studies have consciously and explicitly made a reference to the interplay between teams' network ties and their perceptions of psychological safety. At this stage, it is pertinent to a develop a broader understanding of Social Exchange models developed by various psychological researchers and their significance to the Psychological



contract and develop bond from long term employee engagement perspective.

Conclusion

It can create huge problems if we use untested psychological contracts as our career map. Beyond awareness, organizational leadership must respect and reciprocate at a level that supports positive employee perceptions. If the employee senses there is a break in the psychological contract with his company, the company's goals are no longer the employee's goals. The relationship between the employee and their manager/organization will be diminished, resulting in reduced productivity and reduced retention. In this era of globalization, the organizations are becoming more dynamic and facing immense competitions from MNCs, in order to sustain they are under taking path of acquisition and mergers resulting in change in employer obligations. Therefore, understanding psychological contract and its implications for employee retention is utmost important for organization growth and productivity,

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