

The role of Psychological Contract in Employee Retention- an emerging issue

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ABSTRACT:

The purpose of the study is to analyze the role of psychological contract in retaining employees with specific reference to Information Technology sector. In today's changing workforce retaining employees is a big challenge. The employment is undergoing fundamental changes, to retain the best and a skilled employee is very important. The IT sectors are facing lot of downsizing and layoff. Attracting and encouraging the employees to stay with the organization for a longer period is crucial in the changing employment. The success or failure of the organization is driven by the employees. The expectations of the employees are above the formal written contract. A samples size of 90 respondents was drawn from the target population. The psychological contract is found to be positively correlated with employee retention.

Key words: psychological contract, employee retention, Expectations, turnover intention.

INTRODUCTION:

Psychological contract refers to the employment expectations between an employer and employee. It is mutual and unwritten contract. It is beyond the formal employment contract.

Employee retention refers to motivating and encouraging employees to stay with the organization for a longer period.

The psychological contract plays an important role in sustaining and retaining employees in the organization. The positive psychological contract influences employee to become more attached with the organization and intention to stay. At the same time violation or breach in psychological contract leads to decline in staying with the company.

The current economic challenges and global competition and fluctuations in the economy faced by the IT industry which has lead to downsizing, lay off and merge. This has created an

uncertainty and insecurity in the minds of the employees. Retaining even loyal workers in this situation becomes very difficult. In order to retain the skilled employees who are very important in increasing the organization performance and success, the organization must understand the expectations of the employee and fulfil it. The employees are not satisfied with the traditional employment contract. There are expectations which are not included in the formal contract, those are the unwritten expectations. Meaningful work, valuing contributions, appreciation and recognition, trust. Today's workforces are not satisfied financial rewards alone but also advancement in their career and full utilization of their capacity and ability. The psychological contract plays an important role in retaining the employees. Therefore employee retention is possible by understanding and fulfilling the employee's expectations.

OBJECTIVES OF THE STUDY:

- To study the role of psychological contract in employee retention
- To analyze the demographic variables with regard to factors of psychological contract and employee retention.
- To identify the relationship between psychological contract and employee retention.

Review of Literature:

Psychological Contract:

- **Armstrong, (2009):** the researcher found out that psychological contract is expectations which are unwritten between an employer and its employees. The psychological contract is important in workplace relationship.
- **Tekleab & Taylor, (2003):** the researchers in their study identified that when there is no mutual understanding between the expectations of the employer and employee it leads to breach in the psychological contract knowingly or unknowingly.
- **Griffin (2002):** the study identified that psychological contract is employment expectations relationship; it is about what are the expectations of the employees from the employer and the expectations of the employer from the employee. Fulfilment or breach of psychological contract influences the employee to stay with or leave the organization.
- **Knights and Kennedy (2005):** the psychological contract is reciprocal expectations and obligations between the employer and the employee. It is also individual belief

regarding the employment expectations. All the employment expectations are not written in the formal contract.

- **John (2013):** the researcher referred psychological contract mutual obligations between employee and the organization. These expectations may be promised to the employee during the recruitment or performance. The study concluded that these employment obligations may be promises or expectations. These promises or expectations made by the employer to the employee determine their relationship with the organization.
- **Shields (2007):** the researcher identified that psychological contract fills up the gap in the written employment contract; some expectations are hard to define in the written contract. Thus psychological contract is unwritten and mutual understanding between the employer and employee.
- **Elbert and Hartfield (2011):** the researchers concluded in their study that psychological contract manages the relationship between the employer and employee by fulfilling the expectations between them.

Employee retention:

- **Raja (2004):** the researcher in his study identified that there are many reasons for employee leaving the organization, the factors like no career development, lack of challenging opportunities, less interesting work, lack of flexibility and not valuing contribution and no recognition makes an employee to quit the job.
- **Horwitz (2003):** the researcher conducted a study to identify the factors influencing an employee to stay with the organization for longer period, it found out that career advancement, financial benefits, work life balance, content of job and social environment are the factors influencing the employee retention.
- **Casper and Buffardi (2004):** the researchers identified the factors that are essential for retaining the employees they are highly reliable employment, continuance and proper direction and simple and positive top and bottom relationship and proper social atmosphere.
- **Dixon and Sagas, (2007):** the researchers conducted a study and found out that work life balance and quality is the best indicator for employees to stay long with the organization, employment fulfilment and makes an employee responsible.

- **Branham (2005):** the researcher identified the factors responsible for an employee to leave the organization they are work environment, conflict between the work and workers, less instruction, less development opportunities and new openings, degrade emotions and no recognition, no work life balance, no trust on the superiors and financial rewards.
- **CIPD (2006):** the research found out disappointment with working conditions and better pay and interesting work in another organization makes an employee to leave the organization. These are called push and pull factors.
- **Griffeth & Hom, (2001):** the researchers in their study suggested that when an organization gives more importance in recruitment process to choose best and skilled personnel at the same time more attention should be given to retention of employees. There are many possibilities for any employee to get attracted towards better advancement in career and pay scale in other organizations. Even loyal employee who is not satisfied with the current work will look out for better job with good pay scale.

The Role of Psychological Contract in Employee Retention:

Over the past years the IT sectors are facing challenges and shift in employee's expectations. Downsizing and layoff has created lot job security in the minds of the employees. Competitive among the IT sectors made employee retention a challenging factor. In order to retain the employees the role of psychological contract is very important. It is understanding the expectations of the employee and fulfilling it which in turn leads to decrease in turnover intention.

- **Armstrong (2009):** the researcher identified that psychological contract helps in retaining the employees by fulfilling the expectations of the employees like job security, consistency, value and recognition, opportunities to show their ability and capacity, trust which makes an employee to stay faithful with the organization, from the employer perspective they expect the employees to be capable, work with integrity, responsible and consistency.
- **Gail (2013):** the researcher found out in his study that if the organization is not fulfilling the promises and expectations of employees which leads to disappointment, de-motivation, lose interest in working, dissatisfied and makes them to quit the job.
- **Mueller (2009):** when employees feel that the employer has violated the psychological contract they become less committed towards the work and

organization, negative influences on the job performance, reduces productivity and results in negative impact on the employee retention.

- **Guest and Conway (2002):** the researchers in their study identified when the psychological contract is positive it leads to increase in commitment, job satisfaction and willingness to stay with the organization for longer period.
- **Nelesh and Sanjana,(2014):** the researchers found out when employees expectations are not fulfilled it results in negative impact on the employer and also decreases the willingness to stay with the organization and performance. It also reduces intention to stay and leads to absenteeism and employee turnover.
- **Waiganjo and Ng'ethe, (2012):** the researchers conducted a study and identified to increase the performance of employees, productivity and to retain skilled and abled employees an organization has to develop a positive psychological contract. The negative psychological contract leads to employee turnover.

RESEARCH METHODOLOGY:

It refers organizing and analyzing the procedure for collecting valid and reliable data. It shows the detailed research procedure that is to be followed during the investigation. It includes research design, target population, sample size and sampling techniques. The data was collected through primary and secondary sources for the study.

Population and sample size:

The purpose of the study is to know the role of psychological contract on employee retention. The data was collected randomly from the 90 employees working in information technology sector through questionnaire.

HYPOTHESIS:

- **H₁:** there is no relationship between psychological contract and employee retention
- **H₂:** there is no relationship between factors of psychological contract and employee retention
- **H₃:** There is no significant difference between gender and psychological contract and employee retention.

Statistical Tool & Techniques Used:

- Percentage Analysis
- Reliability Test

- t- test
- Correlation

Limitations of the Study:

- The sample size for the study was limited to 90 respondents only.
- Time constraint.
- Validity and reliability of the data collected depends on the responses collected from the respondents.
- The study focused on only few employees working in the IT sector, therefore the results cannot be generalized to all the IT sectors.

DATA ANALYSIS AND INTERPRETATION:

Table Showing Frequency Distribution of Gender of Employee

Gender	Frequency	Percent
Male	54	60.0
Female	36	40.0
Total	90	100.0

From the above table, 60.0% of respondents are male, 40.0% of respondents are female. It shows a competitive no of females are also working in Information Technology sectors. Retaining both the gender is very important because both contribute for the success of the organization.

RELIABILITY TEST:

To test the internal consistency and reliability of the instrument developed for measuring psychological contract and employee engagement, Cronbach's Alpha was calculated by using SPSS 20. The value of Cronbach's Alpha is summarized below in table:

Cronbach'sAlpha	N of Items
.980	37

Interpretation:

It is observed that the instrument for psychological contract and employee engagement has attained Cronbach's Alpha value of 0.980. For the purpose of basic research, the Cronbach's Alpha values should be higher than 0.7. The Cronbach's Alpha value is 0.980 hence it can be proved that there is consistency in responses. Therefore 98% data are reliable in the study.

H₀: There is no significance difference between male and female with regard to Psychological contract and employee retention

Table showing t test for significant difference between male and female with respect to psychological contract and employee retention

Factors of employer expectations, employee expectations and employee retention	Gender	Mean	Std. Deviation	t Value	P Value
Extra Role Behaviour	Male	51.52	6.087	0.248	0.163
	Female	51.22	4.617		
Flexibility	Male	7.93	1.358	0.587	0.333
	Female	8.08	1.052		
Ethical Behaviour	Male	15.28	2.838	0.383	0.021*
	Female	15.47	1.978		
Career Development	Male	26.59	4.615	0.551	0.211
	Female	27.06	3.346		
Job Content	Male	21.20	3.086	0.435	0.509
	Female	21.47	2.501		
Social Atmosphere	Male	16.72	3.012	1.182	0.116
	Female	17.42	2.234		
Financial Rewards	Male	16.65	3.562	0.559	0.094
	Female	17.03	2.420		
Employee Retention	Male	25.69	4.260	1.116	0.041*
	Female	26.56	2.360		
Over All Total	Male	181.57	21.771	0.707	0.172
	Female	184.31	14.901		

* Significant at 5% level

Interpretation:

Since p value is less than 0.05 the null hypothesis is rejected at 5% level with regard to ethical behaviour and employee retention. Hence there is significant difference between male and female with respect to ethical behaviour and employee retention. Based on the mean

score female employees have better opinion on ethical behaviour and employee retention than the male employees.

There is no significant difference between male and female employees with respect to Extra Role Behaviour, Flexibility, Career Development, Job Content, Social Atmosphere and Financial Rewards, since p value is greater than 0.05. Hence the null hypothesis is accepted at 5% level of significant.

H₀: there is no relationship between psychological contract and employee retention.

Table showing correlation co-efficient between psychological contract and employee retention

		Psychological Contract	Employee Retention
Psychological Contract	Pearson correlation	1	0.758**
	Sig .(2 tailed)		0.000
	N	90	90
Employee Retention	Pearson correlation	0.758**	1
	Sig .(2 tailed)	0.000	
	N	90	90

** Significant at 1% level

Interpretation:

From the above table psychological contract is found to be positively correlated with employee retention (75.8%) at 1% level of significance. Hence the fulfilment of psychological contract fulfilment helps the organization to retain its employees

H₀: there is no relationship between factors of psychological contract and employee retention.

Table showing correlation co-efficient between factors of psychological contract and employee retention

	Factors of Psychological Contract							
	Employee Retention	Extra Role Behaviour	Flexibility	Ethical Behaviour	Career Development	Job Content	Social Atmosphere	Financial Rewards
Employee Retention	1	0.295**	0.227*	0.673**	0.749**	0.741**	0.722**	0.515**
Sig (.2tailed)		0.005	0.031	<0.001	<0.001	<0.001	<0.001	<0.001

Interpretation:

From the above table the Correlation co-efficient between employee retention and ethical behaviour is 67.3 percentage (0.673) indicating positive relationship at 1% level, career development (74.9), job content (74.1), social atmosphere (72.2) and financial rewards (51.5) shows positive relationship with employee retention is significant at 1% level. Since the p value is less than 0.01 the null hypothesis is rejected at 1 %

The correlation between employee retention and extra role behaviour (29.5) and flexibility (22.7) is less positive. Since the p value is less than 0.05 the null hypothesis is rejected at 5 % level with regard to flexibility. The highest correlation is with career development and less with flexibility. All other factors of psychological contract are positively correlated with employee retention.

FINDINGS & CONCLUSION:

The study was conducted to know the role psychological contract in employee retention which is an emerging issue in the changing workforce. The research identified the following findings:

- 60.0% of respondents are male, 40.0% of respondents are female.
- It is found that there is significant difference between male and female with respect to ethical behaviour and employee retention. Based on the mean score female employees

have better opinion on ethical behaviour and employee retention than the male employees.

- It is also found out there is no significant difference between male and female employees with respect to Extra Role Behaviour, Flexibility, Career Development, Job Content, Social Atmosphere and Financial Rewards.
- The psychological contract is found to be positively correlated with employee retention.
- There is a positive relationship between employee retention and ethical behaviour, career development, job content, social atmosphere and financial rewards shows.
- The study also highlighted that there is highest correlation is with career development and less with flexibility. All other factors of psychological contract are positively correlated with employee retention.

The study can be concluded that there is relationship between psychological contract and employee retention. When an organization is fulfilling its employee's expectation beyond the formal contract it makes an employee emotional attached with the organization. In time of crisis these employees tend stay with the organization. Therefore the employer must identify those expectations and fulfil those which in turn leads to job satisfaction, intention to stay, increased commitment, engagement and reduces employee turnover and absenteeism. If there is breach in the psychological contract it increases employee turnover and reduces the productivity and profit of the organization. The psychological contract is not only about employer but also the employee. Both the employer and employee must fulfil each other expectations. From the study the key factor for employee retention is career development, job content and social atmosphere. Therefore psychological contract plays an role in employee retention.

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