

# UNDERSTANDING PSYCHOLOGICAL CONTRACT: LONG-TERM INVESTMENT FOR BUSINESS SUSTAINABILITY

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## ABSTRACT

Business sustainability is the body of knowledge which include knowledge of proven traditional practices that are widely applied, along with knowledge of innovative and advanced practices yet that has seen only Of limited use. Sustainable businesses take a long-term view of profitability. For this the one more important concept emerges in HRM is of Psychological contract. This paper describes the psychological contract at the workplace, which results from the successful execution of work by collaborative efforts. The purpose of the study is to understand the importance of psychological contract in organization for both employer as well as employee and its implication in managing sustainable business. Structured questionnaire is used to collect information regarding employee's attitude towards their work profile and their organization from the selected private sector companies of Lucknow region. Each response has been measured on 'Five-Point Likert Scale' and the interpretation has been done on the basis of ranking method. Study reveals that when employees' expectations were fulfilled it tends to create relational contract and which ultimately results in high work performance. This will became a significant factor of sustainable business. Findings of this study can be used for maintaining healthy relationship with the employees which becomes long term investment for a sustainable business. The scope of this paper can be extended to explore and analyze the workplace effectiveness empirically.

**Keywords:** *Psychological Contract, Business Sustainability, implication, effective performance*

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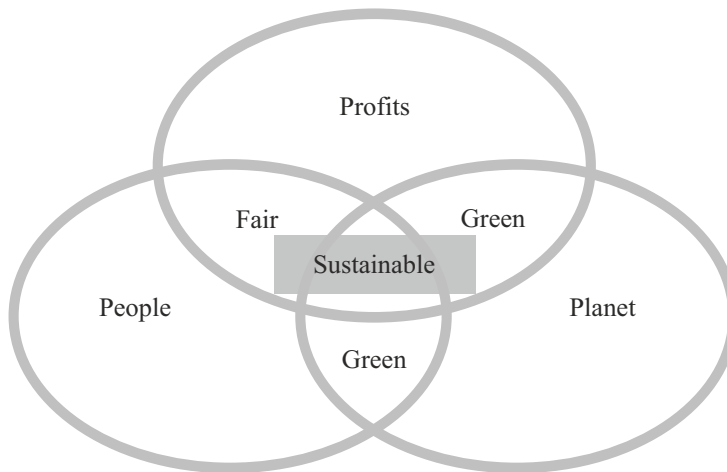
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## INTRODUCTION

Business sustainability is a approach that prefers the long term existence of a business and associated ecological, social and cultural systems. Business sustainability is a business principle that is widely recognized as a critical strategic concern for governments and organizations. Many organizations have chosen to integrate sustainability principles into their business models. Triple Bottom Line (TBL) is an accounting standard accepted by the United Nations that measures three aspects of organizational success: economic, ecological, and social. This is often rephrased "people, planet, profit".

**Figure:1** Aspects of the organizational success.



Source:<https://business.simplicable.com/business/new/what-is-triple-bottom-line>

Further proceeding with the first element of this concept i.e. people this study focus on importance of psychological contract in organization for both employer as well as employee and its implication in managing sustainable business. In this paper our main aim of study is to connect a link between psychological contract that leads to sustainable business in the organization.

Before moving on further first of all we will discuss what is Psychological contract? The psychological contract can be defined as —an individual's beliefs about the terms of the exchange agreement between employee and employer (Rousseau, 1989). It concerns the idea of an exchange between parties. Individuals enter employment with a set of beliefs, expectations and obligations, which they anticipate being met by their employer. In addition the employer holds a reciprocal set of beliefs expectations and obligations leaving a binding exchange in place. Additionally, it is important to note that the psychological contract does not involve items found in the employment contract. Instead of objective and defined promises, it concerns more implicit, subjective and malleable ones.

Thus Psychological contract adds value to different organizations. After using psychological contract as the main element for creating leadership performance in an organization and for changing organization culture in another business. On a larger perspective the understanding of this concept and its proper implementation and acceptance creates a sense of mutual understanding and creates a long term relationship between employer and employee that in turns contributes to business sustainability of the organization.

## Types of Psychological Contracts

According to Rousseau (1990) there are two distinct kinds of contract we can use to define the kind of employee-employer relationship.

**1) Relational** - long-term or open-ended employment arrangements based upon mutual trust and loyalty. Rewards are only loosely conditioned on performance, derive from membership and participation in the organization.

**2) Transactional** - employment arrangements with a short-term or limited duration, primarily focused upon economic exchange; specific, narrow duties and limited worker involvement in organization.

As it is clearly stated that employees who were working for a longer duration contributes more to the organization as compared to employees who were working for a shorter duration. So, it is quite obvious that in order to maintain a sustainable, business organization wants to retain their employees as much as possible and that could be done with help of understanding of psychological contract. Psychological contract will act as tool which could be used to reduce employees' grievances and develop feeling belongingness between the employees. So, during the course of this study we are mainly going to find out that whether employees are having relational psychological contract or transactional psychological contract in their organization and how much it is affecting their work performance. After that we will analyze the relationship developed between the two variables i.e. type of contract and work performance and how it can be used to maintain sustainable business of an organization.

## REVIEW OF LITERATURE

The study of psychological contracts outlines a useful way for improving the understanding of job attitudes and work behaviors (see Zhao, Wayne, Glibkowski, and Bravo, 2007 for a meta-analysis). Earlier studies establish that favorable psychological contract assessments cause employees to become more occupied in their work and more highly motivated to contribute to organizational effectiveness (Bal, De Lange, Jansen, and Van der Velde, 2008; Zhao et al., 2007). In other words, employees who perceive that their employer fulfills its obligations are more likely to become more engaged and are less likely to leave the organization (Rousseau, 1995).

Thus the Literature review section has been organized into two sub-sections to understand the psychological contract, its effect on employee work performance and how it contributes to a business sustainability. In the first sub-head studies related to understanding psychological contract and its effect has been reviewed to understand the concept and its effects. Empirical evidences on effect of breach of psychological contract on employee's work performance have been reviewed in this sub-section. The next set of studies has been reviewed to understand the ways through which psychological contract can be used as a tool to retain employee in the organization for a longer run and create feeling of belongingness in them. So that all this contributes to the sustainable business of an organization.

### Understanding psychological contract and its effect on work performance

Till date research on psychological contracts has basically focused on two areas. First, a number of articles have discussed the nature of psychological contract and the decreasing trust between employees and their organizations (e.g., Hall and Moss, 1998; Martin, Staines and Pate, 1998; McLean Parks and Kidder, 1994). Second, other of researches has investigated the harmful effects of psychological contract breach (or violation) on employee attitudes and behaviors (e.g., Robinson, 1996; Robinson and Morrison, 1995a; Robinson and Rousseau, 1994; Turnley and Feldman, 1999a). These literatures suggests that psychological contract breach results in many negative consequences which can be reduced job satisfaction, reduced trust in the organization, increased cynicism about

organizational life in general, and increased intent to quit. This study aims to extend previous research on psychological contracts in three ways. First we will understand what psychological contract is, how its breach can be avoided to maintain long term relationship between employees and in the last section we will discuss how long term relationship which are in relational psychological contract provides sustainability to a existing business. Following are the few studies which clearly suggest the importance Psychological Contract and its effect on employer employee relationship when it is breached:

Joshy and Srilatha (2010) analyzed psychological contract violation and its impact on intention to quit. This study was done on the employees of Indian banking sector. In this study psychological contract fulfillment was measured by items adapted from Rousseau, Robinson, Kratz (1994) and its breach was measured through multiplicative scale developed by Turnley and Feldman (1998). According to the author result of the study clearly suggest that when contract was breached. by the employer it ultimately leads to employee's intentions to quit the organization. Study advocates the importance of psychological contract for maintaining long term relationship for effective working in the organization.

Morrison and Robinson (1997) reviewed the literature and developed a model for psychological contract violation. This article focuses on the concept of psychological contract that exists between employer and employee. In this study author describes the concept of violation and how it happens when contract is breached. The main body of this study consists of model describing psychological contract formation process and when it is breached that leads to violation which results in ending long term relationship that will be fruitful for sustainable business and leads employees switch over.

Nadin and William (2012) analyzed employer's perspective in case of psychological contract violation. In this article author studied psychological contract from employer's point of view. Analysis is done on primary data collected by interviewing small business owners. The study reveals that much disruption and damage was caused to employers when violation done by employees and employers make continuous attempts to resolve such situation that provokes violation from employee's side.

Matthijs Bal et al (2010) analyzed the effect of social exchanges on breach of psychological contract. The study is aimed to find out the effect of social exchanges on the psychological contract breach and employee's work performance. It suggests that they have negative relationship between psychological contract breach and work performance can be reduced through social exchanges.

### **Psychological Contract as tool to retain employees in the organization**

In this section we will mainly consider those studies which defines when breach of psychological contract is avoided it results in employee's satisfaction and leads to create organizational citizenship behavior in them.

Turnley et al (2003) studied The Impact of Psychological Contract Fulfillment on the Performance of In-Role and Organizational Citizenship Behaviors . This study clearly suggests that there is positive relationship between psychological contract fulfillment and employees work performance. It also suggest that when breach of psychological contract avoided it results in positive effect on employee's organization citizenship behavior.

Matthijs Bal et al (2013) studied the Dynamics of Psychological Contracts with Work Engagement and Turnover Intention. In this paper author studied effect of employee's job attitude and behavior on the type of psychological contract they had with organization. The study suggests that the employees having longer tenure with the organization had higher stability in their work engagement, turnover intention, and psychological contract.

## Research Gap

Our literature review clearly suggests that till now studies mainly focuses on the concept of psychological contract, its existence, situation of its breach and violation. None of the study focuses on understanding the psychological contract for providing sustainable business. So, present study provides a new dimension to this concept and its findings fills the gap. It ultimately provides a link between psychological contract and business sustainability process by retaining their employees in the organization for longer duration by avoiding its violation and creating relational contract between them.

## OBJECTIVES OF THE STUDY

1. To know the employees understanding about the psychological contract and its effect on their work performance.
2. To know the type of psychological contract exists between the employees.
3. To find out the relation between the types of psychological contract exist between the employees in comparison with their work tenure.
4. To know the effect of different kinds of psychological contract on employees work attitude and performance in the organization.
5. To suggests the measures that could be taken to understand the importance of psychological contract in order to achieve sustainable business.

## RESEARCH METHODOLOGY

### Collection of data

In present study all the objective are accomplished through survey method. The primary data was collected through structured questionnaire. Questionnaire was adapted from Psychological Contract Scale (Millward and Hopkins, 1998) and Psychological Contract Inventory (Rousseau, 1995).

### Area and time of Survey

Study aimed at developing a deeper understanding about psychological and its effect on their work performance of employees serving in private sector companies of Lucknow region. The time of survey execution was in November 2017.

### Size of the Sample and Sampling Procedure

The researcher had administered 150 questionnaires out of which 135 responses were received. 5 Different private sector companies has been taken as a stratification variable to form a stratum (location-wise) and by using stratified random sampling a sample was obtained from each company to acquire information for (a) measurement of psychological contract variables to know its type, (b) studying the relationships among psychological contract variables and work performance; (c) finding out the significant differences in psychological contract variables according to their work tenure.

### Data Analysis

5 private sector companies were selected for the study. The sample consisted of 150 randomly selected employees at different hierarchical levels. They are categorized as below:

**Table 1:** On the basis of joining in the organization:

YEAR OF JOINING	% OF EMPLOYEES
Joined before 2010	66
Joined in between 2010-2015	9
Joined after 2015	25

**Table 2:** On the basis of work experience:

YEAR OF EXPERIENCE	% OF EMPLOYEES
More than 5 year	55
3-5 years	10
1-3 years	55
up to 1 year	23

A four part Questionnaire as detailed below was constructed to measure the psychological contract variables, viz., (i) Existence of relational contract, (ii) Existence of transactional contract, (iii) Employee's commitment/obligation to employer in relation with relational contract. (iv) Employee's commitment/obligation to employer in relation with transactional contract. (Millward and Hopkins, 1998; Rousseau, 1995 and Harold Andrew Patrick, 2008).

Means were calculated for the psychological contract variables to determine the dominating psychological contract dimensions. Firstly, the type of contract held (relational/transactional) and secondly, employee's commitment/obligation. Means were also calculated for individual statements to determine the most prominent and least prominent contributors for employee's commitment/obligation to each other and the relationship shared between them and on the basis of their ranking further analysis was done. (Millward and Hopkins, 1998; Rousseau, 1995 and Harold Andrew Patrick, 2008)

Ranking of the variables have been done in order to determine the effect of individual variable on the overall process of contract formation. Variables have been selected in the manner so that they define the attitude of the employees towards the organization. Ranking of the variables suggest the kind of behavior exhibit towards their work performance and that leads to define the relationship between types of contract and its effect on work performance that ultimately results in maintain sustainable business.

## FINDINGS AND RESULTS

1. The mean value obtained after the analysis of psychological contract variables clearly suggests the dominancy of relational contract (mean value= 3.897) in the organization.
2. Study shows that relational variable hold the prominent position in the company when it is compared with transactional variable (mean value= 3.452).

**Table 3:** Psychological Contract Variables –Means and Standard Deviations

S. No.	Variable	Mean
1	Existence of Relational Contract	3.897
2	Existence of Transactional Contract	3.452
3	Employee's commitment/obligation to employer in relation with relational contract	3.154
4	Employee's commitment/obligation to employer in relation with transactional contract	2.121

- Another finding suggests that person having relational contract performs more effectively and efficiently as compared to the person having transactional contract because they exhibit higher organizational citizenship behavior as compared with the employees who has transactional contract which has been clearly shown in table 4 and table 5 based on the ranking given by them.
- While study of transactional contract variables suggests that the employees were mainly self centered and uncertain in their work (Table 5).

**Table 4:** Items Measuring Employee's Commitment/Obligation to Employer in relation with relational contract –Mean and Rank

S. No.	Statement	Mean	Rank
1	Proud to be a part of the organization	3.91	1
2	How loyal are you to your present organization	3.88	2
3	Doesn't do what only paid for but also perform other important duties assigned by the employer	3.65	3
4	To seek job assignments that would enhance your career	3.48	4
5	Increase your participation in the decision making	3.25	5

**Table5:** Items Measuring Employee's Commitment/Obligation to Employer in relation with transactional contract –Mean and Rank

S. No.	Statement	Mean	Rank
1	I do not trust this employer	3.91	1
2	Difficult to ascertain my future with this employer	3.65	2
3	My commitment towards the employer is uncertain	3.53	3
4	Plan your work	3.36	4
5	Lot of difference in what the employer says and practices	3.27	5



5. Study also reveals that the employee having longer tenure in organization have relational psychological contract while employees having shorter tenure in the organization have transactional psychological contract. As shown in table 1 66% employees were working for more than 5 years in the organization i.e. major portion of employees were experienced one and table 3 clearly shows the relational contract is dominant in the organization because major employees were working for a longer tenure.
6. Thus it clearly shows the employees having relational psychological contract performs well for long run, creates better environment for others also and provides sustainable business to their company (As per the ranking provided in table 4).

## CONCLUSION

### Implications of the study

The study shows that if proper understanding for psychological contract is maintained between both the employer and employee than relational psychological contract is developed which results in long term investment for a sustainable business from the HR point of view. Thus it is suggested that proper thought process is required from both the sides of the employment for profitable business and successful organization.

### Limitation and scope for future research

The data were collected in a cross-sectional, and thus causal inferences have to be made with caution. Moreover, the data were collected from a single source and there was a time constrain. So there is a large scope for future studies. There are several areas that need to be addressed in future research on psychological contracts. First, more research needs to examine how the psychological contract is formed. For example, employees may perceive the promises made by supervisors as more binding than those made by recruiters (Turnley and Feldman, 1999b). Second, future investigations need to focus on how individual dispositional characteristics influence employees' perceptions of and responses to psychological contract breach. Thirdly how their work performance variable can not only be used in HR perspective but can also lead to sustainable business process.

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## ANNEXURE

### List of items used in questionnaire

1. Provide you job security
2. Opportunity to learn and develop your professional capabilities by on the job training
3. Provide you with opportunities to prove your worth
4. Provide with job assignments that would help in enhancing your career
5. Receive a formal performance appraisal during the past year
6. Provide you with opportunities for promotion
7. Provide you fair pay for the work
8. Is concerned about your personal welfare
9. Provide you to develop marketable skills
10. Provide you with an opportunity to vary your work schedule
11. Offer flexi-time options
12. Overall, do you feel you are rewarded fairly compared with other people performing similar jobs/roles
13. Provide you with assistance in relocation
14. Provide you with the choice of your location once training is over
15. I do this job just for the money
16. I prefer to work a strictly defined set of working hours
17. I expect to gain promotion in this company with length of service and effort to achieve goals.
18. It is important not to get too involved in your job
19. I expect to grow in this organisation
20. I expect to be paid for any overtime I do
21. I come to work purely to get the job done
22. I feel part of a team in this organisation
23. My loyalty to the organization is defined by the terms of my contract
24. I feel this company reciprocates the effort put in by its employees
25. I only do what is necessary to get the job done
26. I am motivated to contribute 100% to this company in return for future employment benefits
27. I have a reasonable chance of promotion if I work hard
28. My career path in the organisation is clearly mapped out
29. I work to achieve the purely short term goals of my job
30. I will work for this company indefinitely
31. I am heavily involved in my place of work