



IMPACT OF PSYCHOLOGICAL CONTRACT ON EMPLOYEE RETENTION: A CASE OF APPAREL SECTOR IN SRI LANKA

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ABSTRACT

Employee retention is a concern for organizations in this competitive job market as there are great number of employment opportunities for talented professionals. To retain the best talents, strategies are implemented aimed at satisfying employee's needs. The primary aim of this study was to assess the impact of psychological contract on employee retention in a selected apparel company in Sri Lanka. The data were collected from 87 employees with personally administered questionnaire. The results of the study shows that stimulating job, training opportunities, salary amounts, working environments, participative decision making, availability of allowances, relationships at work place, Intra organizational mobility and work life balance, influence employee retention at the selected apparel company.

KEY WORDS: Apparel Sector, Autonomy, Intra Organizational Mobility, Psychological Contracts , Retention, Sri Lanka, Stimulating Job, Work Atmosphere, Work Life Balance.

INTRODUCTION

With the rapid competition among apparel companies, they tend to provide different kinds of benefits to employees to attract and retain them within the organizations. But, with this intensive competition, employees have the tendency to leave the organization and join to another which provides better facilities. Considering the Sri Lankan context, there is a huge competition prevailing between companies in the apparel sector. Thus, it is a huge challenge for the companies to retain the best within the companies. It was found that, career progression prospects, and training and development are critical tools for retaining valuable

employees (Chadee & Raman, 2012; Lam & White, 1998; Farndale, Scullion & Sparrow, 2010).

The employment relationship is undergoing fundamental changes that have implications for the attraction, motivation and retention of talented employees (Turnley & Feldman, 2000). Growing international competition, deregularization and globalization of markets require organizations to become more flexible in order to increase their productivity. This has reduced the job security of employees at all levels in the organization (King, 2000). Hence, the purpose of the study is to identify the relationship between psychological contract on employee retention, which is a crucial concern in the current world.

LITERATURE REVIEW

Psychological Contract

Although the development of psychological contracts has yet to be fully specified and researched (Conway & Briner, 2005) characterize the development of psychological contracts as an unfolding process in which contracts are formed, developed, changed, fulfilled or not fulfilled, and revised based on feedback the individual receives and interprets. In this way, Conway and Briner (2005) noted that psychological contracts are formed from a series of exchanges which can take place over longer periods of time. This series of exchanges, in turn, helps determine an ongoing exchange relationship between parties based on reciprocity (Conway & Briner, 2005)

As the psychological contract develops, Conway and Briner (2009) explained that it contains two different types of information. The first concerns the resources which are exchanged or the types of items each party brings to the deal. The second type of information regards the terms of the agreement or the precise linkages between items that each party inputs into the relationship and how they are to be exchanged. They go on to argue that the second type of information is of greater importance as it provides a clear basis for understanding reciprocity and prediction in the exchange relationship.

The promised exchanges that form the psychological contract are conveyed either explicitly or implicitly via messages, social cues, patterns of behavior and the like that are interpreted by the individual (Conway & Briner, 2005; Rousseau, 1995). For example, every employment relationship exchange is likely to involve initial formal and explicit contracts or agreements over such issues as job responsibilities, pay, and other benefits. Explicit ways of communicating such elements of the psychological contract include written communications,

emails, policies, and overt statements or announcements (Conway & Briner, 2005; Rousseau, 1995).

The psychological contract, then, is an exchange relationship between an employee and his or her employing organization that unfolds after repeated exchanges take place between the same two parties. It is composed of exchange agreements or promises that are conveyed both explicitly and implicitly to the employee. Those exchange agreements include what is exchanged as well as the terms of the exchange. Finally, the exchanges made take place within an ongoing relationship: one party does something for the other party, and the other party feels obligated to reciprocate to a greater or lesser extent based on either a formal agreement or an implicit understanding of obligation (Conway & Briner, 2005).

The psychological contract is an increasingly relevant aspect of workplace relationships. It constitutes a set of unwritten expectations that exist between individual employees and their employers (Armstrong, 2009). It is a system of beliefs that encompasses the actions employees believe are expected of them and what response they expect in return from their employer and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees. Guest (2007) identified that it is concerned with ‘The perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship’. Rousseau and Wade Benzoni (1994) concur and state that psychological contracts refer to beliefs that individuals hold regarding promises made, accepted and relied upon between themselves and another. (In the case of organizations, these parties include an employee, client, manager, and/or organization as a whole). Because psychological contracts represent how people interpret promises and commitments, both parties in the same employment relationship (employer and employee) can have different views regarding specific terms.

The Role of Psychological Contracts in Employment Relationships

Rousseau (2001) argued that psychological contracts take the form of mental models or schema, which over time, become relatively stable and durable. Schemas or in this case, psychological contracts tend to reach a level of completeness when the employee’s experiences are consistent with the beliefs the psychological contract holds. A defining feature of psychological contracts is the belief that the agreement is mutual or that a common understanding exists that binds the parties involved in the employment relationship to a particular course of action.

When two parties are working interdependently, a mutual understanding of the terms of the working agreement leads to satisfactory performance from both parties' perspectives (Rousseau, 1995). In this sense, the individual employee's schema is accurate when the employee and the employer are aware of, respect, and fulfill the promises that make up the psychological contract. This mutual understanding leads to a relationship that facilitates planning, coordination, and effective performance (Rousseau, 1995; Rousseau, 2001).

On the other hand, when the employee and the employer do not have the same understanding of the terms of the contract, there is a lack of mutuality or agreement in the employment relationship. This is represented in an employee's incorrect or inconsistent schema, which can lead to inefficiencies and false judgments (Crocker, Fiske, & Taylor, 1984). This lack of mutual understanding also makes it more likely that either party intentionally or unintentionally breaches the terms of the agreement (Tekleab & Taylor, 2003).

Employee Retention

Employee Retention involves taking measures to encourage employees to remain in the organization for the maximum period of time (Griffeth & Hom, 2001). Hiring knowledgeable people for the job is essential for an employer to attain competitive advantages, but retention is even more important and challenging than hiring. There is ample of opportunities for a talented person to join in an organization, as there are many organizations, which are looking for such employees. If a person is not satisfied by current job, he may switch over to some other more suitable job.

Employees are difficult to retain because they give more importance for their career development rather achievement of organizational goals and being loyal to the organization which results in increased rates of voluntary turnover (Cappelli & Neumark, 2001). Not surprisingly, then, retention management has become a popular concept within the HRM literature. It refers to the portfolio of HR practices that organizations develop to reduce voluntary turnover rates (Mitchell & Lee, 2001; Steel, 2002).

Researchers in this field argue that for retention management to be effective, it is not only important to create an optimal portfolio of HR practices, but also to manage employees' perceptions regarding what their organization has promised them in return for their loyalty and commitment. Thus, while retention management addresses the type of organizational inducements and HR strategies that are effective in reducing voluntary employee turnover, the psychological contract focuses on employees' subjective interpretations of those promised

inducements and the relationship with employee outcomes including intentions to stay. This implies that retention practices might only be successful if they are consistent with what employees' value. Since the effectiveness of retention practices is likely to be affected by employees' subjective interpretations, bringing both themes together could advance our understanding of the factors affecting employee retention. It is therefore the central objective of this study to examine the extent to which the initiatives taken by employers for enhancing employee retention are in line with what employees' value in their employment deal and to explore their importance as drivers of employee loyalty.

In view of the large costs associated with employee turnover employers need to work out HR policies that enable them to retain their talented employees (Steel, 2002). Retention management is defined as "the ability to hold onto those employees you want to keep, for longer than your competitors" (Johnson, 2000 cited in Suhasini & Babu, 2013). Over the past decades numerous publications have addressed the issue of employee retention. Academic research has proposed turnover models in which the key mechanisms of the turnover process are defined, including affective factors, behavioral intentions and job search mechanisms (Bluedorn, 1982; Steel, 2002). Other studies have addressed the relationship between specific types of HR practices such as career development or work family initiatives and employee retention (Hsu, Jiang, Klein & Tang, 2003). In addition to this academic work, many practitioner oriented books outline strategies for effective employee retention.

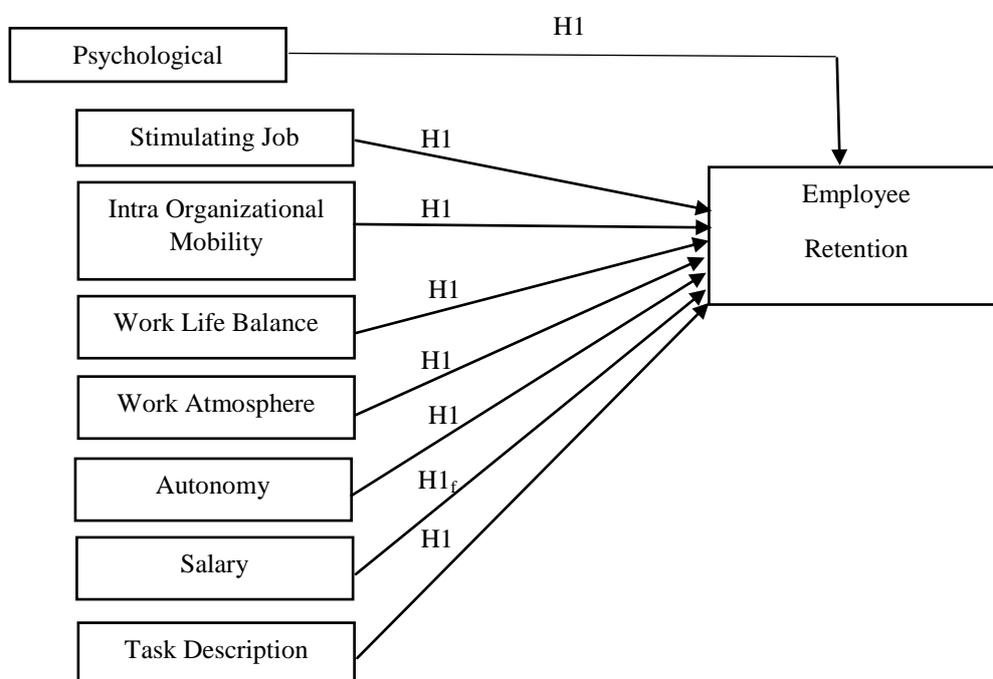
CONCEPTUAL FRAMEWORK

The conceptual framework of the study is the conceptual model how the theories make logical sense of the relationship among that had been identified in the study. According to the model the independent variable is psychological contract and the dependent variable is employee retention. Social exchange theory explain that social exchange occurs between two parties has been characterized by two distinct forms. Referred to by many names over the years, current labels for the forms in social exchange theory are negotiated and reciprocal exchange (Cropanzano & Mitchell, 2005). Negotiated exchange involves explicit, quid pro quo exchanges of resources between parties within a specified and often limited time span.

Reciprocal exchange, on the other hand, is typically implicit and vague (Lau & Cobb, 2010; Molm, Schaefer, & Collet, 2009). Issues such as the resources to be exchanged are usually left to the parties of the exchange to be decided in terms of what they think are appropriate as is the time frame for when reciprocity should occur (Sparrow & Cooper, 2003). In addition, the range of resources exchanged tends to be broader than those found in

negotiated exchange. While they can include more tangible resources like money or overt recognition, they include as well more particularistic and symbolic resources like affiliation and emotional support (Foa & Foa, 1980). Because there are no formal agreements to enforce the exchange, the exchange relationship is based more on personal relationships, trust, and the reciprocity norm (Gouldner, 1960).

With the support of the social exchange theory, it can be identified that when there is psychological contract is present between the employee and the employer, the intention to leave of the employee reduces. Psychological contract includes Stimulating job (personal development, training opportunities and challenging Work), Intra-organizational mobility, Work-life balance, Work atmosphere (both referring to team relationship and relationship with the organization), Autonomy, Salary and Task description (Lub, Nije Bijvank, Matthijs Bal, Blomme & Schalk, 2012), where each hypothesized as follows.



H1 – There is a relationship between psychological contract and employee retention.

H1_a – There is relationship between stimulating job and employee retention.

H1_a - There is relationship between intra organizational mobility and employee retention.

H1_a - There is relationship between work-life balance and employee retention.

H1_a - There is relationship between work atmosphere and employee retention.

H1_a - There is relationship between autonomy and employee retention.

H1_a - There is relationship between salary and employee retention.

H1_a - There is relationship between task description and employee retention.

METHODOLOGY

The purpose of this study is to investigate the relationship between psychological contract and employee retention of a selected apparel sector organization in Sri Lanka. The data were collected from 87 employees of the company using a personally administered questionnaire using standard measures. The items in a five-point Likert point scale, ranging from strongly disagree (1) to strongly agree (5). The Questionnaire used in this study consisted of three (03) sections, first section included questions regarding personal characteristics, second section consisted of thirty two (32) items (Brink, 2004) dimensions include stimulating job, work atmosphere, Autonomy, salary, task description, intra organizational mobility, and work life balance and third section consisted of fourteen (14) items (Shao, 2013) dimensions are Job security, Salary and benefits, working environment and career development opportunities. Time horizon of the study is cross sectional and the unit of analysis is individual. The hypotheses were tested using simple linear regression by the SPSS 20.0 software.

DATA ANALYSIS

Reliability was tested to ensure through internal consistency and it was measured using Cronbach's alpha. As the closer Cronbach's alpha is to 1, the higher the internal consistency reliability. Following table ensures that alpha value of each variable is greater than 0.5 which depicts that each variable ensures the internal consistency of the data.

Table 01: Cronbach's alpha reliability for psychological contract and employee retention

Variable/ Dimension	Alpha reliabilities	No of items
stimulating job	0.631	9
work atmosphere	0.642	7
Autonomy	0.687	4
Salary	0.520	2
Task description	0.578	4
Intra organizational mobility	0.683	2
Work life balance	0.855	3
Psychological contract	0.825	31
Employee Retention	0.756	14

Source: (Survey data, 2015)

Relationship between Psychological Contract and Employee Retention

Table 02: Relationship between psychological contract and employee retention.

		Psychological contract	Employee retention
Psychological contract	Pearson Correlation	1	.531**
	Sig. (2-tailed)		.000
	N	87	87
Employee retention	Pearson Correlation	.531**	1
	Sig. (2-tailed)	.000	
	N	87	87

** . Correlation is significant at the 0.01 level (2-tailed).

Source: (Survey data, 2015)

As the table 02 shows, psychological contract is found to be positively correlated with employee retention (53.1%). Hence, the Psychological contract helps in fulfilling the organization's promises toward the employees show that, psychological contract positively associated with employee retention. This means that having a psychological contract is associated with higher levels of employee retention within the organization.

Relationship between Dimensions of Psychological Contract and Employee Retention

Table 03: Relationship between Dimensions of Psychological Contract and Employee Retention

		Employee retention	Work atmosphere	Stimulating job	Autonomy	Salary	Task Description	Intra organizational mobility	Work Life Balance
Employee retention	Pearson Correlation	1	.578**	.496**	.579**	.272*	.334**	.139**	.374**
	Sig. (2-tailed)		.000	.000	.000	.011	.002	.000	.000

** . Correlation is significant at the 0.01 level (2 tailed).

Source: (Survey data, 2015)

According to the table 03, work atmosphere (57.8), Stimulating job (49.6%) and Autonomy (57.9%) shows positive relationships with employee retention. In addition, salary (27.2%), task description (33.4%) intra organizational mobility (13.9%) and work-life balance (37.4%) shows weak positive relationships employee retention. According to the dimensions analysis, highest correlation shows by autonomy and least by salary with employee retention. Nevertheless, all the dimensions shows positive relationships with employee retention.

DISCUSSION

Retention is an important concept that has been receiving considerable attention from academicians, researchers and practicing HR managers. In its essence, retention comprises important elements such as the need for constant search and choice of strategies, goal directed behaviors, rewards and recognition, performance satisfaction and others. The increasing attention paid towards retention is justified because of several reasons. Motivated employees come out with new ways of doing things that improve the competitiveness of organizations. Thus, the study was conducted to find out the relationship between psychological contract on employee retention.

The study found out that psychological contract is found to be positively correlated with employee retention (53.1%). In addition, work atmosphere (57.8), Stimulating job (49.6%) and Autonomy (57.9%) salary (27.2%), task description (33.4%) intra organizational mobility (13.9%) and work-life balance (37.4%) also show positive relationships employee retention. Previous researches suggested several factors which play pivotal role in employee retention. The factors which are considered and have direct affect are; career opportunities, work environment, work life balance, organizational justice, and existing leave policy and organization image (Cappelli, 2000). Employees stay loyal with organizations where employee have value, sense of pride and work to their full potential (Cole, 2000).

A majority of previous researches on psychological contracts have shown how sets of mutual obligations and responsibilities provide incentives for employees to remain within the organization Work involvement, cooperative coworkers and good relationships with supervisors can help tone down the negative effects of violation of the psychological contract (Turnley & Feldman, 1999; Suazo & Stone-Romero, 2011).

LIMITATIONS OF THE STUDY

Though the research added contribution, there are limitations. The study is collected at selected apparel sector organization. There are more organizations in the apparel sector in Sri Lanka, who are facing the huge competition, towards achieving the competitive advantage. As the data were collected from a single company, generalization of findings are questionable. The study has used primary data and data collected using standard questionnaires is another limitation of the current study. In addition, this is a cross sectional study where the data collected at a given point at once. Employee retention would be better understand with psychological contract, if relationships tested in a time duration. Nevertheless, the sample size is small and less representing the apparel industry.

SUGGESTIONS FOR FURTHER STUDIES

There is need to replicate this study in other industries. A larger sample size is also recommended for the purpose of generalization of findings. In order to validate the findings from the survey, future research should investigate HR managers' views and actions relating to retention management incorporating qualitative aspect. With regard to the employee sample, the fact that both independent and dependent variables have been assessed using one single source implies that conclusions about causal relationships should be drawn cautiously and that common method variance might have inflated some of the relationships found.

CONCLUSION

The study concluded that majority of employees at the selected apparel company were satisfied with the current state of their current psychological contract. Majority felt the factory had successes to honor its side of the benefits leading to employees keeping their trust with the company management. Most employees felt satisfied with working at the Factory with some saying they would want to retain for longer period. The study showed that most employees at the company display the intention of retaining in the factory.

Furthermore, this study adds value for the knowledge to the scope of organizational behavior and to the practical scenario as well. The study provides insight for the managers of the company to, how psychological contract between employees and employers to be developed can and how it leads retention of employees.

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