

# Positive and Relational Psychological Contract: An Employee Retention Tool

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**Abstract:** With globalization, digitalization, and resultant integration of world economies; employee expectations have shown to change drastically. At present, mental and emotional satisfaction at the workplace is being equally stressed upon as the financial gains. Numerous researches point towards mental discontent being one of the reasons of employee attrition. This paper explores the informal and emotional side of employee expectations via the concept of Psychological Contracts. It attempts to identify a Positive Relational Psychological Contract as a technique of employee retention. The paper additionally lists several methods of building and preserving such a contract.

**Keywords:** Employee retention, Psychological contract, Psychological contract breach, Relational psychological contract.

## 1. Introduction

In an organization, Employees are distinctly categorized as 'Human Resources' from other organizational resources and the reason is that Humans are largely impacted by their psyche and consequently are most dynamic among a firm's assets. Due to this fact, apart from the formal and written employment contract that they share with the organization; they also create an informal and unwritten contract in their minds; largely based upon individual beliefs and expectations. This is basically identified as the Psychological Contract.

As per Denise Rousseau (1989), a Psychological Contract represents the mutual beliefs, perceptions and informal obligations between an employer and an employee. According to George Christeen (2010), this kind of contracts are formed well before the start of the actual employment and are modified several times over the total period of service. The basis and modifications of a Psychological Contract can be the perceived image of an organization in the market, its employee reviews, norms, culture, observed mannerisms of colleagues as well as higher management and subsequent interpersonal relationships. From Edgar Schein's work of 1965, it can be quoted that there is always an unwritten set of expectations operating between every member of an organization and the various managers and others in that organization.

Many studies have shown a positive exponential relationship between psychological contract fulfilment and employee motivation. A breach in the so-called contract leads to lower levels of trust, performance, and satisfaction; thereby making it a potential cause of employee attrition.

Experts of the field claim that a Psychological Contract is either re-written, edited or updated with different stages of the employee life cycle. Some instances could be seniority, experience, work promotion, performance appraisal, rewards, and mutual discussions. According to Shao Jing; Cao Yake (2009), in order to prevent the breach of a psychological contract which would bring a loss to the company, the effective communication with employees and dynamic management at different stages are much needed.

## 2. Forms of Psychological Contracts

Dependent upon the type of relationship, Rousseau (1990, 1995) classifies the Psychological Contracts into two kinds: *Transactional* and *Relational*.

A *Transactional Psychological Contract* is the one that is formed in the early stages of the employment. It is short term, straightforward and explicit in nature. It generally has employee expectations to be of monetary nature and employer expectations to be aligned with job descriptions.

A more advanced form is the *Relational Psychological Contract* which is formed due to a longer term of employment and considers mutual employee and supervisor relationships. Efforts are made by both the parties; employee and employer; to align goals and strive towards better performance. This sort of contract is implied and implicit in nature.

As per Rousseau, the latter form of psychological contracts includes a focus on employee training and development, career advancement and the employee experiencing a feeling of belongingness in the organization. It further consists of a higher degree of trust among both the parties.

## 3. Breach of Psychological Contract and its Impact

A breach occurs when either an employee or an employer experiences a distinct feeling of non-fulfilment of perceived expectations. In the case of Relational Psychological Contract violation, the results can be described as decreased sense of loyalty, lower trust, and performance deterioration.

According to Linda Ejimonyeabala, the breach can occur in events of major organizational changes in terms of structure, leadership, strategy, and business decisions.

As per Sandra Robinson (1996); a breach of psychological contract is not necessarily always an actual breach. It could be

an employee's perception of breach.

As per Hao Yongjing; Yu Huixin; Xia Zheng; ZhaoBaoshan (2010), breach in Psychological Contracts have effects on Job Attitude, Organizational Commitment, Job Satisfaction and Loyalty of the employees. Several researchers have depicted an interdependence of psychological contracts and employee engagement.

#### A. Impact on employee retention

As per Atkinson (2007), a psychological contract breach leads to an employee experiencing anger, resentment, sense of injustice, dissatisfaction, and the possibility of a dissolving relationship. Rozario (2012) claims that psychological contract violations lead to a personal withdrawal from the organization.

Robinson (1996) states that a feeling of psychological contract breach negatively impacts on the employee's desire to stay with the organization. Nelesh and Sanjana (2014) reaffirm this statement via concluding a decline in the willingness to contribute and in the desire to stay; as aftereffects of violation of an employee psychological contract.

Thus, negative relational psychological contracts may lead to an employee loss.

#### 4. Significance of Transition from Transactional to Relational Psychological Contract

Maya in 2008 concluded that employees sharing a Transactional Psychological Contract with the organization possess a lower degree of commitment and consequently are more prone to leave than those sharing a Relational kind of contract.

Employees with Relational Psychological Contracts tend to be innovative and creative at the workplace. They are inspired and can recognize the vitality of their job in organizational vision realization. Employees here have higher amounts of trust and positive interpersonal relationships which form an integral part of employee engagement.

Considering the merits, it becomes vital for an organization to make efforts that lead to a successful transition from Transactional to a Relational Psychological Contract.

#### 5. Methods to Transit to and Preserve a Positive Relational Psychological Contract

After a diligent study of the work of some of the expert researchers, varied methods of transitioning to a Relative Psychological Contract and maintaining it to be positive can be suggested as the following:

- A clear communication of the set of employee and employer expectations. This can be achieved by setting up regular meetings and one on one discussions between the manager and the subordinate. A deliberate effort should be made to keep the discussions informal in nature.
- An increase in and encouragement of employee

engagement activities in the organization. This may include weekly lunch, celebration of festivals, talent and sports leagues to name a few.

- Facilitating the employees in their career development. Training and counselling sessions could be conducted.
- During the events of major organizational change; including strategy or business decisions; the reasons behind the same should be explained by the top management. A consecutive action plan or change in expectations from the employees should also be talked about, if felt necessary.
- Formation and implementation of organizational policies that offer a sense of security and faith within the organization.
- Not to overpromise to the employees. Efforts should be made to keep the expectations as realistic as possible. When the organization is unable to meet employee expectations, provide a justification.
- Involvement of employees in decision making process.
- Providing the employees, a room to voice their concerns.

#### 6. Conclusion

Based on the literature review of multiple authors, a definite relationship of a positive relational psychological contract and employee retention can be established. Thus, by effectively channeling the employees towards building a Relational Psychological Contract and by preserving the positivity of the same; via continuous and consistent efforts; employee turnover can be prevented.

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