

# Psychological Contract Trends- Behavioral Implications on Employees working in Financial Sector

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## ***Abstract***

*In the new people-economy, today's organizations are increasingly based on knowledge. While more of the efforts have been directed towards making the systems knowledgeable, a gap has evolved between the need to preserve and safe guard managerial knowledge. Nevertheless it is people, who convert knowledge into efficient action and this knowledge pool of individuals cannot be replicated, the organization should respect and manage their expectations. What now are scarce are the people, who can manage information and bring their practical knowledge into corporations. So at this moment corporation critically emphasize on the concept of Psychological Contract, a tool for maintaining Healthy employment relationship at work. Psychological contract forms a mutual unwritten expectation that exists between employee and employer regarding policies and practices in an organization. The study would focuses about the need and implication of psychological contract on organizational environment. It would suggest a linkage between the causes, content and consequences of the psychological contract in the financial sector. .It takes the employees' ideas about what they expect from the organization and what they feel they owe to the organization into account. The current study investigates what contributes to the healthy psychological contracts of the professionals in the financial sector. Suggesting future trend in psychological contracts and its impact on the behavior of the employees.*

**Keywords:** Psychological Contract (PC), Financial Sector, Expectations, Employment Relationship.

## **Introduction**

In the new people-economy, today's organizations are increasingly based on knowledge. While knowledge assets determine an organizational survival to existence, and its people drive organizations to success and failure. Nevertheless it is people, who convert knowledge into efficient action and this knowledge pool of individuals cannot be replicated, the organization should respect and manage their expectations. What now are scarce are the people, who can manage information and bring their practical knowledge into corporations. So at this moment corporation critically emphasize on the concept of Psychological Contract, a tool for maintaining Healthy employment relationship at work. Psychological contract forms a mutual unwritten expectation that exists between employee and employer regarding policies and practices in an organization. Psychological contract, refers to the joint prospect that people have with one another in a relationship, and how these prospects changes and impact human behavior over time. The term is currently used mainly to describe the expectations an employee has of the organization and the expectations the organization has of the employee.

'Psychological Contract' has been identified as a significant feature of workplace relationships and in wider human behavior roles. It is people who convert knowledge into efficient action. Since knowledge pool cannot be replicated, the organization should respect and manage people. This is true in Financial sector, whose business truly depends on people and customer relationship. Successful top officials understand that people are vital in every operation. Every operation daily transactions, Loan/ Credit services, or customer services are the outcome of sustained human efforts. Success and efficiency in Financial sector services is based on their knowledge. Financial sector appetite for quality in any product or service is thoroughly founded on the ability to apply human intelligence to continuously improve processes. There are few reason why financial sector is facing a problem in Dehradun region.

### **The psychological contract**

In HR terminology the word 'Psychological Contract' generally refers to the real - but tacit - expectations of a workman or human force towards the employer in an organizations. Psychological Contract highlights, on platform of micro-level, the commitment, human rights, incentives, etc., that people considers as a due by their employers', in return to employee's employment and loyalty.

Michael Armstrong( 2006) defined the definition of psychological contract as "the employment relationship that consists of a exclusive combinations of beliefs and values held by a person and his boss about what they are expecting from each other"

Principally, psychological contract dwells to the connection between an employer and an employee, and deals with the shared expectations of input and outcome variables.

It has been noted that psychological contract is considered from the point of view of feelings of employees, although it is to be understood that a full positive reception requires from mutual ways- 'Employees as well Employers'. From literature reviews , it is understood that in context to employment, psychological contract is the fairness or equilibrium ( which is in general context of the employee) between:

- How a workman is taken care by the manager, and
- What the employee as a stakeholder brings to the employment.

As seen in the traditional theories of behavioral sciences, psychological contract has been talked only from the narrow perspective and understood, and is far from realistic state of organizations. As derived from the studies 'psychological contracting' is yet to play critical role in various parts of societal development, despite its implication and potential efficacy. If explored deeply, it is one of the potential beneficial areas of study. It is to be noted, psychological contract, reinforces its basic principles to our our relationships - inside and outside of work atmosphere. Elements such as esteem, empathy, belief, compassion, justice, and specificity- defines psychological contract.

### **Psychological contract Model**

Figure1, mentioned below, represents a multifaceted views of the PS, inclusive of both external and internal influences which are usually unseen while applying psychological contract theory.



Figure 1: Psychological Contract model. Source: Businessballs.com

The above diagram interprets a simple overview of the factors influencing psychological contracts in general environment.

VC (visible contract) - is the natural explicit employment contractual obligations between the employee and employer signifying to exert carefully and aptly in return for a pay or salary and other incentives

PC (psychological contract) - which is tacit/hidden, describes the relationship (r) between employee and marketplace (including external factors), as well as the manager's relationship with market place (r), and visible contract (VC).

### Psychological contract- 'Iceberg' Model'

Psychological contract- 'iceberg' model, below helps to illustrate the vital aspects and its impact within PC theory. This is very pertinent tool for team-builders, trainers, and leaders for elucidation of the concept and its relevance to people.

As said, iceberg is 90% hidden underneath the water level, in the similar manner psychological contract is also perceived.

The below diagram, Figure 2, is an illustration of relationship between employees/employers. As understood, only job and rewards are formally accepted & contracted. But in truth, psychological contract for contemporary job relationships incorporate mutual obligations than only work and rewards higher than water-line', i.e., officially contracted and decided.



Figure 2: Psychological contract - 'Iceberg' Model, Source:Businessballs.com2010

## Literature Review

Psychological Contract (PC) has increasingly becoming a relevant characteristic of workplace relationships and wider in human behavioral roles.

Roots of psychological contract first originated in and around 1960s, in the research work of organizational and behavioral theorists (Chris Argyris and Edgar Schein). Other experts in OB/HR fields have contributed to ideas of PC, subsequently and continuing to add new work. Psychological contract has been recognized more deeper and diversified concept and is freely accessible to theoretical studies. Armstrong, a management practitioner, referred to Edgar Schein (1965) meaning of psychological contract, to be "an unwritten set of expectations, in use between every person of an organization, managers and others in an organization. As per DM Rousseau and KA Wade-Benzoni (1994) recalled, PC as a vibrant and a reciprocal contract with innovative opportunity that are being added over a period of time. PR Sparrow, (1999) related more with the human, social, and emotional magnitude of exchanges.

## Research Model adopted for the study

The study would suggest a linkage between the causes, content and consequences of the psychological contract in the financial sector. It takes the employees' ideas about what they expect from the organization and what they feel they owe to the organization into account.

## Design of the Study

The current study investigates, what contributes to the healthy psychological contracts of the professionals in the financial sector in Dehradun. Further suggesting future trends in psychological contracts and its impact on the behavior of the employees as well as in general management of the organizations.

## Focus of the study

Specifically the study is focused on financial sector's employees' perception of the psychological contract dimensions and its behavioral implications.

## Objectives of the study

- To explore the concept of psychological contract dimensions amongst the employees in financial sector in Dehradun.
- To find out the influence of psychological contract on behavior of financial sector employees' in Dehradun.

## Sample size

A sample of 50 financial sector employees' of private well as PSUs were taken for the study and are segregated into four levels. Entry level employees are placed in Band "A", junior managerial level under Band "B", Middle level under Band "C" and top level under Band "D".

Table 1: Depicting Sample size

Band	Sample
D	8
C	12
B	12
A	18

The distribution of the respondents along demographics variables was as follows:

Table 2: Depicting Demographics of sample size

Males	Females
60%	40%

### Hypothesis

There is no significance relationship between psychological contract and financial sector employees' behavior.

### Instrument for collecting data

Detailed questionnaire was built to measure the psychological contract dimensions and the implications on employees' behaviors.

### Data analysis and Findings

Table 1. Descriptive statistics of psychological contract variables

Dimensions	Mean	S.D.
TRUST (BOSS)	3.08	.83
TRUST (SENIOR MGT)	2.7	.74
TRUST (MIDDLE)	3.14	.67
JOB SECURITY	3.16	.5
EXIT TENDENCY	2.78	.89
MOTIVATION	2.83	.83
LOYALTY	3.05	.74
FAIR PAY	2.24	.89
SATISFACTION OF WORK	6.35	1.89

From the above table some key finding was made that financial sector employees have a high trust towards the organization, followed by supervisors and least toward senior and middle level. They perceive that organizations do not provide them job security. Exit tendency was moderate and they did not want to leave the banks for coming two to three years. This indicated that the psychological contract on the dimensions selected were pretty strong. However most of the employees were not motivated on the present job and did not perceive their role as challenging as significant. The employee's commitment and loyalty was very high but perception of pay and their benefits was low. They felt that they were not paid fairly for the work or in comparison to others doing similar job. Respondents satisfaction level was just above average.

Table 3: Independence Table

	SATISFIED	NOT SATISFIED	TOTAL
Senior level & middle level Financial sector employees'	10	20	30
Lower level & entry level Financial sector employees	10	10	20
<b>Total</b>	<b>20</b>	<b>30</b>	<b>50</b>

OBSERVED VALUE (O)	ESTIMATED VALUE (E)	(E-O)	(E-O) <sup>2</sup>	(E-O) <sup>2</sup> /E
10	12	2	4	.33
20	18	2	4	.22
10	8	2	4	.5
10	12	2	4	.33
<b>Total</b>				<b>1.38</b>

Calculated Value = 11.3

Tabular Value = 3.841

Degree of Freedom : (Row-1) (Column-1)

1. (2-1)

= 1 Degree of Freedom

TABULATED VALUE AT 5% LEVEL OF SIGNIFICANCE AND 1 DEGREE OF FREEDOM=3.841

Since, the calculated value is greater than the tabulated value hence we reject the null hypothesis. Hence there is a correlation between psychological contract & employee's behavior/satisfaction level.

#### **Implications of the study:**

- There is need to be aware of the messages given by senior management at different management stages in the management process
- Managers need to be engage in genuine relationship with bank employees as this is likely to influence their ability in framing and managing expectations.
- Organizational change somewhere puts pressures on the PC.
- Openness of communications is another determinant of PC. Open communications has become 'virtuous circles' in organizations and closed ended communications has released to 'vicious circles'.
- Leadership component generally monitors the transparency level with right culture.
- Psychological contracts relies heavily on relative factors.

#### **The Complexity of Psychological Contracts:**

The characteristic, scope and complexity of psychological contract are examined by the characteristics, scope and complexity of people urge at working environment.

Employment is highly determined by factors outside the work environment. Individual's lives today are more enriched, more diversified and definitely more informed and connected as ever. The employer/employee relationship-as observed in psychological contract - has undergone tremendous changes in virtual work environment.

It is pertinent to note that there are also significant changes impacting traditional entities, markets and governance. Social connectivity and scientific dependency poses a major threat to bureaucratic business models. Type Y and Z employees always desire for an open market model and rationality which traditional models fails to fulfill such desires. Hence it can be said that the

implication and intricacy of psychological contract has been expanded drastically in response to these changes in traditional entities.

## **Conclusion**

From above discussions, it is well understood that psychological contracts play a critical role in organizations, unfortunately it has not yet developed as a vital scientific tool/process. But nevertheless psychological contract has been evaluated to be a working model. In the real sense, it lays a guiding philosophy - in the implementation of various organizational tools and processes, especially behavioral sciences.

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