Factors Determining Psychological Contract of IT Employees in India

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ABSTRACT

This article explores the domain of psychological contract with respect to employees of IT industry in India and identifies the factors that determine positive psychological contract amongst the employer and employees. Longitudinal data was collected from 245 employees of top Indian IT companies based out of Pune and Bengaluru. Through exploratory factor analysis, the determining factors of psychological contract were identified. The significant differences of variables like gender, marital status, work experience, designation with factors of the psychological contract were also determined by using T-test and ANOVA. The results show that gender has no significant difference w.r.t. the factors determining psychological contract as far as IT professionals are concerned. However, marital status, total work experience, designation and tenure in the current organisation do have a significant difference as far as the determinant factors of psychological contract are concerned.

KEYWORDS

Mutual Expectations, Psychological Contract, Reciprocity, Relational Contract, Social Exchange, Transactional Contract

INTRODUCTION

In today’s VUCA business world, the skilled knowledge workers are the most valuable assets of any organization. It is critical for the success of the organizations to maintain progressive and harmonious relationships with the employees. The increasing global competition intensifies stiff economic uncertainty leading to an environment of volatility and an aura of uncertainty for the employers (Rousseau, 2011). The ever-changing dynamics of organizations makes it challenging for the employers to retain efficient, dynamic and a profitable workforce. IT industry in India has been in the forefront of this challenge for quite some time now.

The Indian IT industry is the vanguard of the country’s resurgence story post liberalization. In FY - 2015, the industry clocked revenues of USD 146 billion with its exports segment poised to reach USD 98.5 billion (NASSCOM press release, 2016). In FY 2016 the exports are expected to grow by 12-14% as per NASSCOM’s estimates. The industry currently employs more than 1 million people directly with indirect employments reaching to 2.5 million people. Amidst such a glory tale, there are certain blemishes as well. International Business Times reported that the attrition rate of TCS touched almost 13.3% in the second quarter of 2016. Infosys also seemed to be having a hard time as

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well. As per its publicised reports, attrition has been 21% for the quarter ending on June 30th, 2016 (Prabha, 2016). At a juncture like this, it is very important for organisations to understand what can help arrest this surging rate of attrition.

Clear understanding of psychological contract and its determinant factors can help Indian IT organisations in this direction proactively to curb the turnover intention of their employees (Ballou, 2013). Psychological contract is a perceived mutual agreement that exists between two parties (Argyris, 1962; Levinson, 1962; Rousseau, 1998); the employee and the employer in this case. It is an employees’ discernment about a relationship of obligatory reciprocity that they feel exists between them and their employer (Rousseau, 1989). It is quite subjective in its disposition, owing much to the individual differences in cognitive and perceptual frontiers (Levinson, 1962).

However, in essence, it is a promissory contract comprising of a promise, payment and acceptance (Rousseau & Parks, 1993). The various determinant factors that drive psychological contract between employees and their organisations can lay the foundation of this proactive approach. As psychological contract and its fulfillment has been found to augment engagement amongst employees (Chang et al., 2013; Bal et al., 2013).

It is all about an individual’s beliefs or expectations about the terms of an exchange agreement that exists between him and his organisation (Rousseau, 1995). The organisations are equally responsible in shaping the psychological contract of their employees (Conway & Briner, 2005) through promises and inducements for greater efforts and performance (Bal et al., 2010; Rousseau, 1995). Based on the tenets of the Social Exchange Theory, psychological contract is more of a promissory contract comprising of a promise, acceptance and payment (Rousseau & Parks, 1993). Studies by Rousseau (1994) and Robinson (1996) have shown evidence that a breach of psychological contract may lead to a decline in the organizational citizenship and employee’s willingness to contribute towards the growth of the organization. Study conducted by Guzzo and Noonan (1994) corroborate that there is a positive relationship between breach of psychological contract and actual turnover. Hence this study tries to determine those key factors that contribute towards garnering psychological contract amongst employees in the IT sector in India. Also, it seeks to explore the role played by various socio-demographic factors on psychological contract.

THEORETICAL FRAMEWORK

Robinson and Rousseau (1994), in their seminal work, found that the employees felt, over time, an increase in their sense of obligation towards their organisations. While, they felt a decrease in obligation towards the organisation as far as they themselves were concerned. They perceived their working for their organisation as an investment that they are doing in the said organisation. Hence, in return, they expect their organisations to harbour a higher sense of obligation towards them. They also, found out that more than 50% of the people they studied felt that their organisation has violated their psychological contract in more than one occasions. This essentially means that the organisation somehow did not fulfill the obligations which the employees perceived they had towards them. This demonstrates that it is imperative for organisations to be aware of the factors that drive psychological contract amongst employees as well as what is viewed as a ‘violation’ by the employees. Robinson and Rousseau (1994) also inferred that since trust is the foundation of psychological contract, hence any violation may lead to a feeling of betrayal in the employee leading to higher turnover, lower trust and job satisfaction. Guzzo et al. (1994) and Schalk et al. (1995) also support this finding.

Psychological Contract is the perception of a mutual agreement between two parties (Argyris, 1962; Levinson, 1962; Rousseau, 1998). “It consists of individual beliefs regarding terms of an exchange agreement between individuals and their organisations” (Rousseau, 1995, p.9). The perception of mutuality remains at the heart of Psychological Contract. In comparison to other forms of contract, psychological contract is more subjective in nature, and exists in the minds of the perceiver (Suazo et.al. 2009). It can be further subdivided into transactional Contracts and relational
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