

## Psychological Contract and Its Impact on Employee Engagement among Software Professionals

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### Abstract

*Engaging and retaining talented employees are a priority for every organisation including Software sector where turnover of employees is considered to be high. To reduce the turnover intention of software employees many organisations are striving hard to get there employees well engaged. Psychological Contract plays an important role to attract, engage and retain employees in an organization. The study discuss about the relationship between Psychological Contract (PC) and Employee Engagement (EE) among the Software employees considered for the study working at Technopark, Thiruvananthapuram district , Kerala. 320 respondents from the select IT firms were contacted for the study. The data were collected using self-administered structured questionnaires. Psychological Contract was measured in using 28 item scale including factors like transactional contract, relational contract, employer obligation, employee obligation by Millward & Hopkins, (1998) and Psychological Contract Inventory by Rousseau, (1995). Employee engagement was measured using Gallup's 12 item scale. The study also tries to find out whether the demographic variables make any difference in exhibiting Employee Engagement. Kolmogorov-Smirnov test was used for testing the normality of the sample. Independent sample t-test, One-way ANOVA, and Multiple Regression analysis were used for analysing the data. The results revealed that there is a significant positive relationship between Psychological Contract and Employee Engagement.*

**Key Words:** *Psychological Contract, Employee engagement, IT sector*

### 1. Introduction

Many earlier researches emphasize that engaged employees can become more productive make the organisation reach more heights. The present study examines the relationship between psychological contract and employee engagement among software professionals in Kerala. When promises are kept or expectations met, individuals consider psychological contracts fulfilled (Rousseau, 1989; Kickul & Lester, 2001) and when psychological contract fulfilment is attained they try to exhibit high engagement levels. The first research based on

employee engagement and its association with psychological contracts was based on a work done by Bal, Kooij, & DeJong, 2013; Chang, Hsu, Liou, & Tsai, 2013. They empirically analysed that an increase in psychological contract fulfilment can significantly increase employee engagement. Psychological contracts highlight individual's expectation about the organization and what is expected of them. The psychological contract explains how the individual believes the organization is fulfilling its obligations. This relates to the exhibition of engagement level by employees. Traditional job contracts are becoming rare case and now a days the effect of psychological contract is what employees look forward for better performance. For better relationship with the organisation as well as the management obligations must be kept on both sides. A major point to look forward in this regard is psychological contract fulfilment. Psychological contract fulfilment includes completing the obligations from employers side and the fulfilment of obligations from the employee side as well. For the purpose of the study two psychological contracts are considered. (i) Transactional contracts are of a limited duration with well specified performance terms. It is present when the employment arrangement is for a short-term, primarily focused on exchange of work in lieu of money with a specific and definite description of duties and responsibilities and limited involvement in organization. This is particularly true for employees hired on short-term contracts as well as workers located off-site. (ii) Relational contracts are open-ended membership but with an incomplete or ambiguous performance requirements attached to continued membership. They result from long-term employment arrangements based upon mutual trust and loyalty. Growth in career and remuneration come mainly from seniority and other benefits and rewards are only loosely related to work performance. The contract is derived from long term membership and participation in the organization. This type of contract is very common in family run organizations in India where 'trusted and loyal' employees manage most of the senior managerial/supervisory work in the organization. When all the factors related to psychological contracts are fulfilled employees may exhibit a behaviour known as employee engagement. Employee engagement is the extent to which employees feel passionate about their jobs, are committed to the organization, and put discretionary effort into their work. Employee engagement is a property of the relationship between an organization and its employees. An engaged employee is one who is fully absorbed by and enthusiastic about their work and so takes positive action to further the organization's reputation and

interests. An engaged employee cares about their work and about the performance of the company, and they want to feel that their efforts could make a difference. It is generally seen as an internal state of mind; physically, mentally and emotionally that binds together the work effort, commitment and satisfaction in an employee.

## **2. Literature review**

Rousseau (1989) characterized psychological contracts as the convictions that are held by an individual with respect to what they owe the organisation, and what the organisation owes them. Argyris (1960) stretched out the term to employee expectations in the workplace. He also tried to describe PCF as a positive understanding between a group of employees and their foreman. Levinson, Price, Munden, Mandl, and Solley (1962) through their research added the fact that psychological contract include “unwritten contracts” and all “unwritten” mutual expectations between the employer and the employee which they follow in an organisation without specific awareness. Edgar Schein (1965) in their work explained psychological contract as an unwritten agreement between the employees and the management to agree to their common commitments. He further explained that a psychological contract is a certain conduct expectations which measure the employees' feeling of respect and worth. Gibson (1966) envisaged PCF as the regular awareness of the rights and duties of the parties. According to Kotter (1973), PC is an agreement between an employee and the company which describes what they give and receive from each. He explained that there are many ways of expressing PCF. It may have a positive and negative impact on employees. He also added that minimisation of the negative effects or impact of PCF can make employees more productive and helps organisation to be successful. Psychological contract breach can lead to breaks in relationships, decrease in faithfulness, counterproductive work behaviour, devastation, and disregard etc. Rousseau (1995). Weick (1979) and Roehling (1997) in their study explained that perceived PCF can also impact employees working in an organisation and also effect potential employees to take decision on whether to join an organisation or not. He explained that PC is an unwritten obligation and it exists in the mind of employees only. According to De Vos et al. (2003), PC is an important factor in this age of organisational socialisation. He explained that perceived promises can positively influence the productivity of an employee and organisations must

ensure that PC or the perceived promises are kept so that the employees can get a fulfilment of the psychological contract. Kahn (1990) has explained in his work about Psychological contract fulfillment and has developed a relationship between PCF and Employee Engagement. He found that employees may exhibit high engagement levels if their psychological contract are fulfilled.

## **Employee Engagement**

Employee Engagement have been defined by many researchers in several ways. Employee engagement is defined as the vigor, dedication and absorption of employees to do the work (Schaufeli, Salanova, Gonzalez-Roma, & Bakker, 2002). Employee Engagement (EE) is an area which many organisations are concerned about. A Google Scholar report says that only 1,460 articles on this topic were published till 2000, and in the succeeding 5 years, 2001-05, 2,100 more research papers were published, and during 2006-15, 16,100 articles have been added to the literature and still counting on. This shows the significance and wider acceptance of the topic. A universal definition of employee engagement was given by Kahn as “the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances”. Buckingham (1999) has identified in his study that ‘Actively engaged’ employees are enthusiastic and energetic, and are extremely committed to their organization. ‘Not engaged’ are indifferent and are neither positive nor negative towards their organization. The ‘Actively disengaged’ ones are virtually against virtually everything.” AON survey on 2018 trends in Global Employee engagement examined about 1000 companies around the globe and took response from 8 million employees from these companies and found that Rewards and recognition, senior leadership, career development, employee value proposition and enabling infrastructure are the strongest drivers of engagement globally. Harvard Business Review, in the study named “The Impact of Employee Engagement on Performance” examined the employee engagement drivers. The most Impactful Employee Engagement Drivers identified from the survey were-Recognition, Senior leadership, Business goals communicated company-wide and clarity of how job contributes to

strategy. Engaged employees always stay for organisational success by showing a discretionary behaviour which is more than what they are obliged to do Wiley et al.'s (2010). The outputs of high levels of employee engagement are higher job satisfaction, higher organizational commitment, lower intention to quit and higher organizational citizenship behaviours which are empirically tested and demonstrated by Saks, (2006).

### **3. Research Gap**

Many studies have been undertaken in several sectors of the industries relating to Psychological Contract. It is found that only limited studies are done in software sector related to Psychological Contract and Employee Engagement. Though some of the studies have helped to better understand the concept of Psychological Contract and build a theoretical platform for further studies, empirical evaluations are a few. From an academic standpoint there are no published papers exploring the empirical relationship between Psychological Contract and Employee Engagement among software employees especially in Kerala. Empirical studies covering Psychological Contract and Employee Engagement are not identified especially in the context of software sector of Kerala. Hence this study was done at selected Software firms in Technopark, Trivandrum. This study attempts to address the knowledge gap by empirically testing whether the Psychological Contract impact engagement of employees of a firm.

### **4. Objectives of the study**

- i) To study the effect of Psychological Contract and Employee Engagement among select Software professionals.
- ii) To determine the effect of factors of Psychological Contract and Employee Engagement
- iii) To examine the relationship between demographic variables and Employee Engagement

### **5. Hypothesis**

- 1: There is a significant positive relationship between Psychological Contract and Employee Engagement
- 2: There is a significant positive relationship between Relational Contract and Employee Engagement

3: There is a significant positive relationship between Transactional Contract and Employee Engagement

4: There is a significant positive relationship between Employer Obligation and Employee Engagement

5: There is a significant positive relationship between Employee Obligation and Employee Engagement

6: There is a significant positive relationship between Age and Employee Engagement

7: There is a significant positive relationship between Gender and Employee Engagement

8: There is a significant positive relationship between Experience and Employee Engagement

## **6. Research Methodology**

The research method used for the study is descriptive in nature. The study aims at investigating the relationship between relationship between Psychological Contract (PC) and Employee Engagement (EE) among employees of selected software companies in Technopark, Thiruvananthapuram district. The independent variable for the study is Psychological Contract (transactional contract, relational contract, employer obligation, employee obligation) and the dependent variable is Employee Engagement. 320 respondents from 15 selected software firms in Technopark, Trivandrum were included in the study. Random sampling method was used to select 320 employees (178 female and 142 male) from these select firms. Self-administered structured questionnaire was used to collect data. The questionnaire has three parts. The first part contains the demographic profile, the second part contains the PC scale adopted from 28 item Psychological Contract Questionnaire Scale (Millward & Hopkins, 1998) and Psychological Contract Inventory (Rousseau, 1995). PC part consist of 28 questions with dimensions like transactional contract, relational contract, employer obligation, employee obligation as the scale variables. Employee engagement was analyzed using an 12 item EE scale developed by Gallup (1988). A total of 40 scale items were used in the questionnaire.

## **7. Discussion**

Kolmogorov-Smirnov tested was used to identify the statistical normality of the data. The significance level was found to be less than .05 and thus the data was found to be normal data. The reliability was assessed through examining reliability coefficients. The Cronbach's  $\alpha$

reliability test on the 40 statements for this sample has revealed that reliability is acceptable,  $\alpha$  being 0.824.

Reliability Statistics		Case Processing Summary	
Cronbach's Alpha	N of Items	Cases Valid	N %
.825	40	320	94.1
		Excluded <sup>a</sup>	20 5.9
		Total	340 100.0

a. Listwise deletion based on all variables in the procedure.

Multiple regression analysis was used to analyse the significance of the variables. The analysis revealed that all the four dimensions of Psychological Contract (transactional contract(PCTC), relational contract(PCRC), employer obligation(PCERO), employee obligation(PCEO))has a significant positive relationship with Employee Engagement. The overall regression model was significant for the predictor variables including (PCTC, PCRC, PCERO, PCEO) for F value = 29.360, the significance level was less than 0.05 and  $R^2$  as 0.272. Hence it can be inferred that all the four dimensions of Psychological Contract (transactional contract, relational contract, employer obligation, employee obligation) has a significant relation with Employee engagement.

Model Summary <sup>b</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.521 <sup>a</sup>	.272	.262	5.46940	.272	29.360	4	315	.000	.476

a. Predictors: (Constant), PCEO, PCERO, PCT, PCR

b. Dependent Variable: EE

The correlation between the two variables EE and PC is found to be 0.456, which implies that they are positively correlated. The significance level was found to be less than 0.05 and hence the null hypothesis is rejected. It implies that PC and EE have a positive significant relationship with each other.

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3513.096	4	878.274	29.360	.000 <sup>b</sup>
	Residual	9423.026	315	29.914		
	Total	12936.122	319			

- a. Dependent Variable: EE
- b. Predictors: (Constant), PCEO, PCERO, PCT, PCR

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1629.177	1	1629.177	45.819	.000 <sup>b</sup>
	Residual	11306.945	318	35.556		
	Total	12936.122	319			

- a. Dependent Variable: EE
- b. Predictors: (Constant), PC

The ANOVA table also shows significance less than 0.05 predicting a significant positive relationship between PC and EE rejecting the null hypothesis. The results show that there is a significant positive relationship between transactional contract, relational contract, employer obligation, employee obligation with Employee Engagement. Among the four predictors, relational contract have highest correlation (.580) with employee engagement, employee obligation and employee engagement correlation being .499 and lowest being transactional contract with correlation being 0.115.

To analyze the relation of demographic variables like age, gender, and experience with employee engagement, independent sample t-test and one way ANOVA were used. For testing the significance of Gender on EE, independent sample t-test was done. The significance level was found to be  $p > 0.05$  ie.  $P = 0.174$ , so the null hypothesis was accepted and hence there is no significant relationship between Gender and Employee Engagement. For testing the significance of Age on EE, one way ANOVA test was done. The significance level was found to be  $p < 0.05$  ie.  $P = 0.001$ , so the null hypothesis was rejected and hence there is a significant relationship between Age and Employee Engagement. Further analysis was done and was found that employees of age group 25-35 years show more engagement level. For testing the significance of Experience on EE, one way ANOVA test was done. The significance level was found to be  $p > 0.05$  ie.  $P = 0.533$ , so the null hypothesis was accepted and hence there is no significant relationship between Experience and Employee Engagement.



## 8. Findings from the study

The study was conducted on 320 employees (178 female and 142 male) from the select 15 software firms in Thiruvananthapuram city. The relation of demographic variables like age, gender and experience with employee engagement was analysed and found out that gender and experience have no significant relation with employee engagement. But age is showing a significant relation with employee engagement. The results shows that there is a significant positive relationship between Psychological Contract (transactional contract, relational contract, employer obligation, employee obligation) with Employee Engagement. Among the four predictors relational contract have highest correlation (.580) with employee engagement, employee obligation and employee engagement correlation being .499 and lowest being transactional contract with correlation being 0.115. The results reveal that engagement level is higher when relational contract is fulfilled. This indicates that long-term employment arrangements like trust and loyalty; growth in career and remuneration and long term relationships help employees to engage more. Employees look forward for long term membership and participation in the organization. The results also indicates that Transactional contract which implies a short term relations is a least factor for engaging employees

## 9. Limitation and Implications

In spite of having some useful findings this study suffers with some limitations. In this study, the generalized concept of Psychological contract and engagement was considered. This study was done by collecting data from Technopark, Thiruvananthapuram district only. Hence comparisons with other regions of Kerala are not possible. From the study we could find out that most of the respondents are having positive perception towards Psychological contract. Hence firms should try to develop more strategies to fulfil psychological contract of employees. Since the study identified the positive relation of PC towards EE, the firms should try to enhance the level of fulfilment of psychological contract of employees. Long term contract or relational contract is more predicted behaviour to exhibit employee engagement so firms should try to ascertain long term psychological/ relational contract fulfilment of employees.

## **10. Conclusion**

The study was conducted on 320 employees (178 female and 142 male) from the select 15 software firms in Thiruvananthapuram city. The results show that there is a significant positive relationship between Psychological Contract (transactional contract, relational contract, employer obligation, employee obligation) with Employee Engagement. The study identified the positive relation of PC towards EE, so the firms should try to enhance the level of fulfilment of psychological contract of employees. Long term contract or relational contract is more predicted behaviour to exhibit employee engagement so firms should try to ascertain long term psychological/ relational contract fulfilment of employees.

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