A study of the Impact of Psychological contract on Organizational commitment among Temporary and Permanent Employees in Organizations

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Abstract

The proportion of the workforce on temporary contracts of employment is increasing, as organizations use temporary employees as a flexible resource. Such temporary staff has a different psychological contract with the organization than their permanent counterparts (Rousseau and Wade-Benzoni). These differences will influence staff attitudes and behavior. In this academic research, the researcher has measured the impact of psychological contract on organizational commitment among permanent and temporary employees in five organizations belonging to the manufacturing industry in Palakkad.During this study the researcher was able to find that the level of Psychological Contract was varying among the permanent and temporary employees. But this was not in the case of Organisational Commitment. Both the Permanent and Temporary Employees showed no significant difference in Organizational Commitment .Traditionally permanent employees were preferred above temporary employees considering this myth of higher levels of commitment.Thus this study has proved that investment in temporary employees would prove to be advantageous, beyond economical benefits. Few of the benefits of these higher levels of Organizational Commitment are Retention (Withdrawal Cognition, Turnover Intention, Turnover), Productive Behavior (Attendance, Performance, Citizenship) and Employee Well-Being (Psychological Health, Physical Health, Career Progress). In the case of improving Psychological contract, it is recommended that organizations must ensure that human resource strategies, policies and procedures are reflective of distributive, procedural and interactional justice, and that organisations communicate honestly and openly with employees, in order to minimise misunderstandings that may result in perceived violations.

Background

This study has been conducted with the intention to analyze the differences in the impact of psychological contract on organizational commitment among permanent and temporary employees. Favorable results on the part of temporary employees further enhances the need for us to leverage on it and also maintain higher levels of psychological contract which has other favourable antecedents (Guest 1995).

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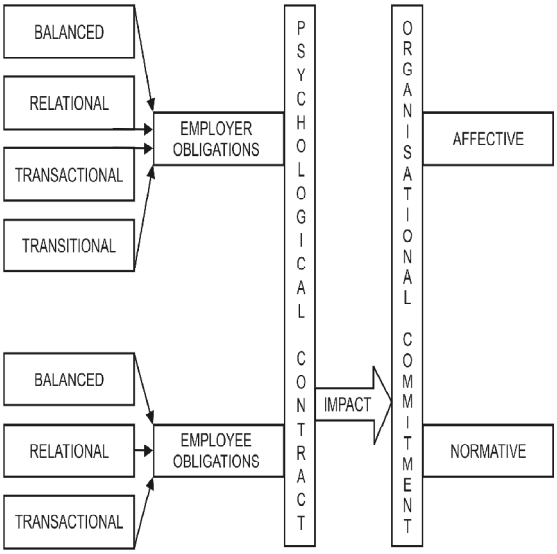
Statement of Problem

There are obvious links between the nature of the psychological contract and the individual's commitments to the organization .Those with contracts that are predominantly transactional in nature are unlikely to have high levels of commitment to the organization. Those with relational contracts, on the other hand, may show much higher levels of commitment. There are, however, a number of different aspects to commitment, and the nature of the psychological contract may have differential effects on these different aspects. Rousseau (1989, 1990, 1995) and Rousseau and Wade- Benzoni (1995) have suggested that non-permanent employees' obligations can be characterized by the saliency of transactional obligations and absence of relational obligations. Indeed Rousseau believes that non-permanent staff will have a predominantly transactional psychological contract

Rationale of the Study

This study aims at identifying the influence level of psychological contract on organizational commitment. This study also aims at identifying the commitment level among temporary employees who seem to be a predominant sector of the work force in most organizations. This trend seems to be prevailing at all levels of management although it seems to be at smaller sizes when we climb up the career ladder.

Conceptual Model of Study (Based on Present Study)



Introduction

Theory and research on the psychological contract have focused on its links to Affective and normative commitment and, to a lesser extent, continuance commitment (Rousseau & Wade-Benzoni, 1995). There are obvious links between the nature of the psychological contract and the individual's commitments to the organization .Those with contracts that are predominantly transactional in nature are unlikely to have high levels of commitment to the organization. Those with relational contracts, on the other hand, may show much higher levels of commitment. There are, however, a number of different aspects to commitment, and the nature of the psychological contract may have differential effects on these different aspects.

The proportion of the workforce on temporary contracts of employment is increasing, as organizations use non-permanent staff as a flexible resource. Rousseau and Wade-Benzoni suggested such temporary staff have a different psychological contract with the organisation than their permanent counterparts. Temporary staff, it is argued, will have a transactional contract, with the emphasis upon the economic elements of the contract while permanent staff will have a more relational contract, involving commitment to the organisation, and an interest in a satisfying job. These differences, it is argued, will influence staff attitudes and behaviour. The levels of relational and transactional contracts of permanent and temporary staff did not differ significantly. In addition they had higher, rather than lower, levels of job satisfaction and commitment to the organisation.(MacDonald & Makin 1999)

Rousseau (1989, 1990, 1995) and Rousseau and Wade- Benzoni (1995) have suggested that non-permanent employees' obligations can be characterized by the saliency of transactional obligations and absence of relational obligations. Indeed Rousseau believes that non-permanent staff will have a predominantly transactional psychological contract.

Psychological Contract

Psychological Contract is the sum total of employer/employee obligations covering four employer-to-employee dimensions and three employee-to-employer dimensions. (Rousseau).

Components of Psychological Contract

Employer Obligations	Employee Obligations
Balanced	Team Player/ Balanced Contract
Relational	Relational
Transitional	Transactional
Transactional	

Types of Psychological Contracts

Types of Psychological Contracts Source: Psychological Contract Inventory, Rousseau 2000)

Performance Terms

	Specified	Not Specified
Duration		
Short term	**Transactional**	**Transitional/ No Guarantees**
Long term	**Balanced**	**Relational**

Transactional - of limited duration with specified performance requirements (e.g., working on a short-term project).

Relational—open-ended arrangement with incomplete or ambiguous performance requirements (e.g., mentoring).

Balanced—open-ended relationship with well-specified performance requirements that are subject to change over time (e.g., collaboration on successive projects with clearly defined products and timetables).

Transitional or unstable—no commitments regarding a future relationship along with noexplicit performance requirements.

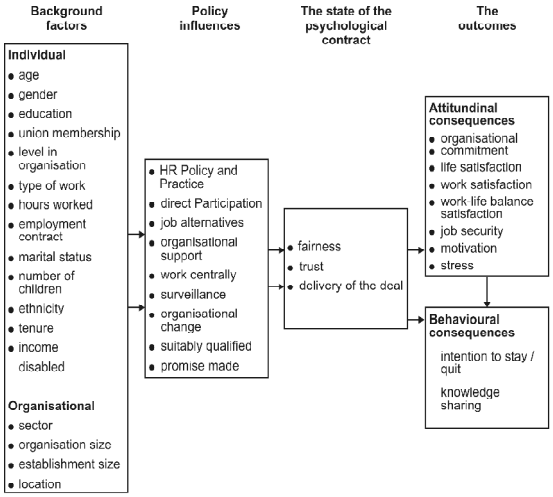
Oganizational Commitment

Organizational commitment refers to employees' commitment to their employers. This is assumed to consist of three dimensions. This conceptualization is based on the three themes identified by Meyer & Allen, 1991, p. 67: Affective, continuance and normative commitment. Affective commitment is concerned with the extent to which the individual identifies with the organization. Continuance commitment, on the other hand, is more calculative. It concerns the individual's need to continue working for the organization. Normative commitment is, in some respects, similar to affective commitment. It is commitment that is influenced by societal norms about the extent to which people ought to be committed to the organization. Meyer and Allen suggest that the levels of all three types of commitment are related to the relationship between the individual and theorganization.

Psychological Contract and Organizational Commitment relationship model

A detailed model of the psychological contract

(adapted from Guest et Al. 1995)



Argyris (1960) introduced the concept of a psychological contract into organizational theory in the early 1960s, when he analyzed relations between supervisors and workers in two factories in terms of implicit deals based on mutual trust. He described a 'psychological work contract' as a tacit agreement in which the workers acted according to certain management goals and, in return, received what they perceived to be adequate income, and a greater sense of autonomy and security. Levinson (1962), who separately invented the term 'psychological contract' at around the same time, defined it as the unwritten agreement of mutual expectations (of various levels of implicit understanding) between organization and employee. Etzioni (1971) used the concept

to categorize organizations according to three types of contracts they might use—coercive, calculative, and co-operative. Later in the US, Rousseau (1989) defined it from the employee perspective and more narrowly, in terms of perceived individual obligations, rather than the less strongly held and less easily defined moral duty understood in expectations.

Locating the concept within the disciplinary confines of psychology, she restricted the psychological contract to implicit, internally-driven, and individual perceptions of more easily measurable obligations more amenable to scientific explanation. Expectations, as informal externally-driven roles, would thus be left for sociological study. More recently, Guest (1998: 660-661), in the UK, has refused some of this boundary work, developing the concept within the disciplinary boundaries of social psychology towards a more complex model of social and psychological causes and effects. He has constructed a model in which organizational commitment is one outcome of the particular state of the psychological contract, as a deal2 that comprises perceptions of trust, fairness and its 'delivery', which is caused by factors such as an organizational culture/climate of 'high involvement and partnership', 'progressive' HRM policy and practice, past experiences, future expectations and choices (Guest 1998: 661). However, although bringing in more of the 'social' to his psychology of the individual, Guest retains a positivist psychological model of measurable variables in linear cause and effect relations. Thus his model has been criticized as 'biased' towards linking HR practices and organizational performance outcomes (Legge 2001: 30- 32), and thus enrolling HR knowledge in the service of organizational regimes of government.

Watson, on the other hand, has constructed a sociological interpretation (Watson 2000; 2002). Re-naming the calculative process an 'implicit contract', he has brought a more sociopolitical understanding of relations between members of an organization in which , although 'unequal as the two parties typically are in terms of power and resources, is essentially one of exchange within the negotiated order that is the work organization' (Watson 2003: 18—emphasis in original). He linked the implicit contract to a range of factors in the employee-employer relationship, including not only trust, commitment and discretion but also type of effort (mental/physical), contribution of tasks done (conception/execution), type of control experienced (responsible autonomy/direct), and relationship to technology (distant/close) (Watson 2000: 142). For Watson, the type of implicit contract can be described along a continuum between the extremes of these dichotomies. On the one hand, there are those involving people with a distant relationship to technology, a diffuse employment contract and contractual commitment, a high trust employer-employee relationship, who perform with responsible autonomy high discretion conceptual tasks that require mental effort, and who enjoy high material rewards, prestige, job satisfaction and

career advancement. On the other hand, employees who have a close relationship with technology, a restricted employment contract and specific contractual commitment work within a low trust employer-employee relationship, execute tasks prescriptively under direct controls that require physical effort and return low levels of material reward, prestige, job satisfaction and career advancement.

Watson drew on an earlier socio-cultural interpretation of the psychological contract by Fox (1974: 66-68), who described it in terms of 'institutionalized trust' embodied in organizational rules, roles and social relations.3 For Fox (1974: 365), economically determined relations and their bureaucratic controls within industrialized societies have increasingly fragmented and specialized work processes that, in turn, have undermined high-trust relations within organizations. Fox used the concept of the psychological contract to explain differences in mutual expectations or obligations between employee and organization, with respect to the amount of trust in their social relations and the amount of 'discretion' found in an individual's role. Using a distinction made by Jaques (1956; 1967) between discretionary and prescribed work, 4 Fox (1974: 26-27) described high discretion work as based on 'wisdom, judgment, expertise' that requires 'self-control', while low discretion work is based on management's lack of trust in the employee's commitment to organizational goals that requires close control through supervision and bureaucratic rules. For Fox (1974: 14), the psychological contract can be defined anywhere along an expectation-obligation and social-economic spectrum.

Changes in the psychological contract that move it away from an expectation and towards a more rule-bound obligation, places the individual in a lower-discretion role and/or within lower trust power relations. Those in low-discretion and low-trust positions (situated generally at the bottom of an organizational hierarchy) operate within a psychological contract of minimal mutual expectations beyond economic exchange of labor: their work is highly directed and there is little prospect of progression through a career. On the other hand, those in high-discretion and high-trust positions at higher levels of the organizational hierarchy engage in a psychological contract that entails a more strongly 'social' contract of exchange: they enjoy less direct controls over their work and more rewards (pay, status, career prospects) and give greater commitment to the organization's goals and values (Fox 1974: 76-77).

In sum, various authors have described how an implicit contract comprises an economy of exchange under conditions defined by calculative participants, their subjectivity (trust, commitment, expectations and obligations), subjection to various types of control (discretionary and prescribed, responsible autonomy and direct) and other mutually exclusive investments offered by the individual (amount and type of effort, skills, knowledge, experience, and career capital) or the organization (money as income; material recognition of length of service; corporate capital for technology, work spaces, training programs, etc; power and status; career advancement; job security and satisfaction).

Objectives

General Objective

- To examine the differences between the psychological contracts and organizational commitment of permanent and temporary employees

Specific Objective

- To find whether there is significant difference in Psychological contract between Permanent and Temporary employees.
- To find whether there is significant difference in Organizational Commitment between Permanent and Temporary employees
- To find whether there is difference in the population means across organizations in Psychological Contract
- To find whether there is difference in the population means across organizations in Organizational Commitment.
- To examine if there is significant difference in Employer and Employee Obligations of Psychological Contract between permanent and temporary employees
- To examine if there is significant difference in Normative and Affective Organizational Commitment between permanent and temporary employees

Summary of Findings

No	Finding	Explanation
1	There is significant difference in Psychological contract between Permanent and Temporary employees.	The psychological contract varies among the temporary and permanent employees. This is evident with the differences in their mean. Thus organizations must take care of this variable and maintain higher levels so that the positive consequences entioned in the Guest (1995) model may be achieved. The reason for this result is that a number of different aspects to commitment, and the nature of thepsychological contract may havedifferential effects on these different aspects. Rousseau (1989, 1990, 1995) and Rousseau and Wade-Benzoni (1995) have suggested that non permanent employees' obligations can be characterized by the saliency of transactional obligations and absence of relational obligations
2	There is no significant difference in Organizational Commitment between Permanent and Temporary employees.	This level of similarity in the commitment levels can be taken on a positive note as they are both above the mean standard of 3.01. This phenomenon may be due to the influence of our culture where one is duly committed to ones employers under any term of employment. This may also be due to the proper treatment of the various precedent variables like fairness, trust and delivery of the deal. One can also take into consider the effect organizational and regional culture as an influencing element for this result. Sels, L., M. Janssens, and I. Van den Brande (2004)

3	There is no difference in the population means across organizations in Psychological Contract	This finding shows one the impact of changes in the environment that influence the psychological contracts. The sample population includes various kinds of manufacturing organizations belonging to various industries. There are differences in their administrative patterns, thereby, influencing the result.Precot – meridian and IndZil Electrosmelts have shown higher mean scores but also have higher levels of standard deviation. This result maybe caused by the sampling design of taking data from employees of all staff levels. This shows that Psychological contract has various causes such as external and internal environment that could induce these variations.
4	There is difference in the population means across organizations in Organizational Commitment.	There is consistency in the values of Organisational commitment across the sample population from various organizations.This maybe due to the similarity in the influence of the organizational and regional culture on all employees. Another reason for this result maybe the homogeneity in the sample taken since it is from the same area This further highlights the importance of maintaining these high levels as the consequences as shown in the multidimensional model (Diagram 2.3) proves it to be advantageous in enhancing the organization's performance.
5	There is significant difference in Employer and Employee Obligations of Psychological Contract between permanent and temporary employees	In both permanent and temporary employees one can see that Employee Obligation Perceptions are higher than that of Employer Obligations but with notable differences in all levels of Psychological Contract. The temporary employees have shown a lower level of Psychological Contract. The reason for this result maybe the fact there may be gaps and lack of clarity in the mutual commitments made. Most respondents that their contributions were not matched by the promises made by the employer.
6	There is no significant difference between permanent and temporary employees in Normative and Affective Organizational Commitment	Here one notices that affective organizational commitment is below the 3.84 standard mark whereas Normative commitment is considerably higher than the standard. The result maybe because the commitment in the employees is mostly due to a feeling of obligation to continue employment. An additional contribution to this result is the scarcity of employment opportunities which makes them even more committed to the organization

Implications

Recommendations for Human Resource Management

Given these results, the empirical research that links psychological contract fulfillment to organizational commitment, the following recommendations in the area of human resource activities are offered to assist management to clarify and sustain the psychological contract.

Recruitment and Orientation

During recruitment interviews, HRM personnel should clearly and honestly communicate the responsibilities and expectations of the employee, as well as those the organisation will give in exchange. Only 35 % (Employer Balanced Contract value) of respondents agreed that the nature of their job was how the organisation promised it to be, and that the organisation had not misrepresented the expertise, work style or reputation of the organisation or its employees. As the psychological contract begins its formation during the hiring process, it is important that the organisation does not "over-sell" the job, thereby setting up unrealistic expectations which, when violated, may result in dissatisfaction and lowered commitment (Makin, Cooper & Fox, 1996; Rousseau, 1995; Schuler, Dowling, Smart & Huber, 1992; Sims, 1994; Singh, 1998). Once the new employee enters the organisation, it is important that they do not misinterpret obligations and entitlements.

Incongruence is one of the major contributors to psychological contract violation (Makin et al., 1996; Morrison, 1994; Rousseau, 1995; Sims, 1994). Ambiguously worded passages in human resource manuals and policy documents may widen the interpretation of obligations and entitlements, creating greater potential for misunderstanding and perceived violation (McLean Parks & Schmedemann, 1994). Realistic job previews that contain a detailed description of relevant job aspects, including negative as well as positive features, will contribute to the formation of pragmatic psychological contracts and reduce turnover (Bretz & Judge, 1998; Meglino, Ravlin & DeNisi, 2000).

Organisational Rules, Policies and Procedures

The organisation's rules, policies and procedures should be based on the foundation of distributive, procedural and interactional justice. Any perceived inequity in the distribution of rewards, any perceived injustice in decision making processes, or any perception that one has been treated with disrespect or in an undignified manner, may lead to unmet expectations becoming violations of the psychological contract (McLean Parks & Kidder, 1994; Robinson, 1996). This is an important issue as only 29% (Employer Obligation Fulfillment value) of respondents agreed that the organisation had fulfilled its promises regarding their promotion or advancement schedule, in relation to performance feedback and

reviews, and in commitment (Daily & Kirk, 1992; McFarlane Shore & Martin, 1989; Sweeney & McFarlin, 1993).

Performance Reviews

The organisation must ensure that performance reviews are conducted on a regular basis. Performance reviews are important as they offer an opportunity for the employee to receive accurate feedback on their performance and may help dispel any false beliefs, of either party, that they have fulfilled their part of the psychological contract (Makin et al., 1996; Rousseau, 1995). An unrealistic self-assessment by the employee will impact on the comparison process because, without accurate feedback, there is the potential for the employee to misperceive the balance between the fulfillment of their obligations against those of the organisation (Wolfe Morrison & Robinson, 1997). In addition, the performance review offers an opportunity for the organisation and employee to review and agree upon future opportunities for responsibility and challenge, and any prospective involvement in the management of change. Reviewing and renegotiating such aspects of the psychological contract on a regular basis will reduce psychological contract violations that are caused by incongruence or misunderstanding between both parties (Makin et al., 1996; McLean Parks & Schmedemann, 1994; Morrison, 1994; Rousseau, 1995; Sims, 1994).

Training and Development

Organisations should ensure employees have the opportunity for on-going training and development. The provision of training and development sends a message to employees that the organisation cares about them and supports them (Eisenberger, Huntington, Hutchinson & Sowa, 1986). Any unmet promises in this area will reduce management credibility (King, 2000; Singh, 1998) and lower the trust that the employee has in the organisation (Robinson, 1996). This, in turn, will increase the vigilance of the employee in monitoring how well the organisation has fulfilled its obligations and promises in other areas, and increases the chances that the employee will perceive future unmet promises as violations (Wolfe Morrison & Robinson, 1997

Communication

The organisation should ensure that they have effective channels of communication. One of the keys to the successful development of mutually beneficial psychological contracts is open communication (Argenti, 1998; Rodwell, Kienzle & Shadur, 1998; Singh, 1998). Clear and honest discussion of mutual obligations will facilitate the under standing of expectations, organisational culture, employee development, compen sation and benefits. If the organisation gives adequate explanation and justification for unmet promises, it will heighten the employee's level of trust and credibility in the organisation. This, in turn, will lead to the employee being less likely to perceive an unmet promise in the first place, and they will be more likely to retain their trust and credibility in the face of an actual or perceived violation (Robinson, 1996). In times of organisational change such as the announcement of

restructuring or strategic shifts (Morrison, 1994; Rousseau, 1995), or when revisions are to be made to employee benefits (Lucero & Allen, 1994), it is imperative that the organisation gives adequate explanation and justification for unmet promises. Employees will then be more likely to retain their trust and credibility in the face of actual violations (Robinson, 1996).

Scope for further research

The aim of the present was to find the difference in Psychological Contract and Organizational Commitment among permanent and temporary employees. This study was restricted to only on one of the outcomes of Psychological contract (Guest 1995). Thus there is further scope for research in that area. One can also see that there are further precedents and antecedents of organizational commit ment. Thus there is definitely scope for further research. This study may also be extended to the service industry.

Limitations

This study has been restricted to a few organizations in Palakkad due to resource constraints. Thus the data derived from this study would also be limited. The study seeks only to understand the impact of psychological contract on organizational commitment. The various other factors that may influence the organizational commitment have not been considered. The other possible outcomes of psychological contract are also not considered in this study. Since continuance organizational commitment scores were considerably lower in the parent study, it was dropped out of the study.

Conclusion

The main aims of this study were to advance understanding of temporary and permanent employees by proposing the psychological contract as a theoretical framework to explain differences across work status on organizational commitment.

In conclusion, we recommend that organisations ensure that human resource strategies, policies and procedures are reflective of distributive, procedural and interactional justice, and that organi sations communicate honestly and openly with employees, in order to minimise misunderstandings that may result in perceived violations. These principles of workplace justice and effective communi cation need to become embedded in the organisation's culture and be reflected throughout all human resource activities.

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