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The Impact of Psychological Contract on Employer-Employee Relationship in Operational Level Employees in Selected Two Apparel Companies in Anurdhapura, Sri Lanka

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Abstract

Area of the Study

As a significant determinant of psychological contract to the employment relationship, this study is to investigate the impact of psychological contract on employer-employee relationship in selected apparel organization in Sri Lanka.

Problem of the Study

This research study attempts to explore the impact of psychological contract on employer-employee relationship of operational level employees in selected apparel organizations in Sri Lanka. Thus, the research problem of this study was; “Does the psychological contract have an impact on employer-employee relationship of operational level employees in selected apparel organizations.

Method of the study

The data was collected from a randomly selected sample of 170 operational employees in apparel industry by using a structured questionnaire, which consisted of 38 statements with a 5 point Likert scale. The data analysis included the univariate and bivariate analysis with the SPSS 16.0 (Version).

Findings of the Study

The findings of this study are that, perceived organizational support, organizational commitment and organizational citizenship behavior were positively correlated with transactional and relational psychological contract of sewing machine operators. As the regression analysis 29.9% variation in employer-employee relationship explained by the transactional contract while 50.4% variation in employer-employee relationship explained by the relational psychological contract.

Conclusion of the Study

It is concluded that psychological contract is an important variable to explain the employer-employee relationship. This study provides support for filling the gap of theoretical and practical understanding of the employer-employee relationship and psychological contract in apparel industry which is more helpful to maintain favorable relationship with employers and employees.

Keywords: Psychological Contract, Employer-Employee Relationship, Relational Contract, Organizational Citizenship Behaviors.

Introduction

The success and growth of any organization highly depends on the effective management practices, level of understanding and the favourable relationship in between the employees and employer in an organization. According to Ubengama (1986), the way the

relationship exists between manager and employees may affect productivity in better or worse.

These days different type of workforce is bulging, which is created with by consisting core employees along with subcontractors, consultants, part time and temporary employees. But people are required to take responsibility of their own careers, instead of relying on organizations to provide them with a clearly introduce career path (Johns 1999; Sullivan in 1999 as Cited in Patrick 2008). Based on that new management techniques have also introduce to deal with this changing work environment (Patrick 2008).

The recent clamorous work environment, argue that the traditional psychological contract, long-term job security in return for hard work and loyalty, has been less important (McGoldrick 2003). Kataria(2015) stressed that, the quality of employee relationship leads to arise the trust and justice on one hand and psychological contract on other hand.

In addition to that these a day's organizational environment is rapidly changing, based on that organization has to change their employment relationship according to that. The psychological contract is a bestway to explain the important of changes regarding employee relationship. Many researchers have given considerable attention on this topic and it is obvious that psychological contract may affect to the employee-employer relationship.

The psychological contract has used to explain the different employment relationship and has been defined as "an individuals' beliefs regarding the terms and conditions of a reciprocal exchange agreement (McGoldrick 2003). The employee and employer actually owe each other, thus fulfilling these obligations more difficult. As a result, there is an increased likelihood of misunderstanding and breaching of the psychological contract (McGoldrick 2003). Therefore, this research aim is to discuss the psychological contract and its impact on employer-employee relationship of operational level employees in the selected apparel organization in Sri Lanka.

Problem Background and Problem of the Study

The major problem faced by every organization is to maintain a healthy employer and employee's relationship and for gaining high level of productivity. Favourable employer and employee relationship is led for high organizational performance. It can be stressed that some workers worked inappropriate manner in their work environment, which led to low productivity on the side of the workers.

According to Cavanaugh and Raymond (1999), both the popular business articles and academic literature discuss the aspect of the new psychological contract while a little studies have attempted to find the relationship between the work experiences of employees and their adoption of beliefs or perceptions congruent with the transactional and relational components of the new psychological contract. Furthermore, few studies have identified the impact that

employees' level of agreement with aspects of the new psychological contract may have on work outcomes.

A deep literature has done from the past few decades on psychological contract: how it is related to employees' beliefs and perceptions, violation of psychological contract and how violation affects employees' attitude and behaviour. As the world is changing because of downsizing, layoffs, mergers and acquisitions and outsourcing an organization cannot survive only by having good technology or with good training and development programs but an organization have to focus on one thing that cannot be copy by other organization. The question is what that thing is? It is called employee-employer relationship. Organizations now, implement new ways to improve the employee-employer relationship. In this paper stress is on the concept of psychological contract and employee-employer relationship. Therefore, this study focuses on finding out whether there is an impact of psychological contract on employee-employer relationship. It highlighted the various strategies that an organization can adopt for improving their employee employer relationship.

Literature Review

Psychological contract is gradually emerged during the course of the employer-employee relationship (Rousseau in 2003 as cited in Kataria 2015). Further, psychological contract represents the employees and employers beliefs or perceptions regarding the employment relationship (Robinson & Rousseau in 1994 as cited in Kataria 2015). Even though there is general agreement that there are four sets of obligations identified as employee and organization obligations, the dimensionality of psychological contract continues to be elaborated (Rick & Bruning 2008). Within these sets of obligations there are mainly two obligations which are name as transactional and relational obligations (Rick & Bruning 2008). In an aggregate level, psychological contract have been classified into transitional, transactional, balanced and relational contracts, which vary in strength and generality (Bhargava 2009). Transitional contract refers to the relationship between the two parties reflecting the absence of commitments regarding future employment; Transactional psychological contract indicates obligations that may be considered to be "economic" in nature, largely based on remuneration and other short-term benefits to the employee which are publicly observable; Relational contracts involve the long term obligations based upon trust and are concerned with personal, socio-emotional as well as economic resources and the third type of psychological contract referred to as "balanced contract", which contains both transactional and relational dimensions (Bhargava 2009).

Shapiro and Kessler (2000) found that the majority of employees are facing contract breach. Further findings suggested that, managers are responding as representatives of the employer broadly support this and the extent of perceived employer contract fulfillment has a significant effect on employees perceived organizational support, organizational commitment and organizational citizenship behavior. With regard to the two measures of contract fulfillment (Transactional and Relational), the findings were broadly similar (Shapiro & Kessler 2000). According to Tyagi and Agrawal (2010), psychological contract breach has negatively related

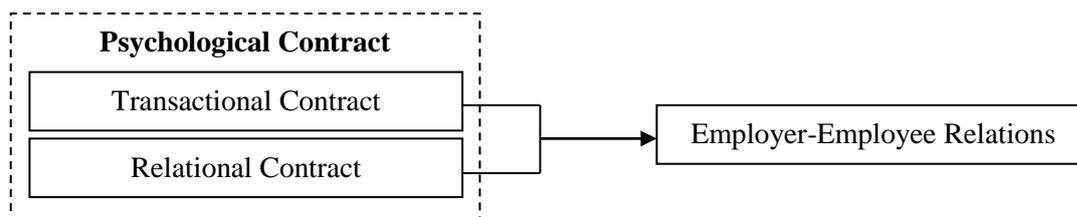
to a wide variety of employee workplace attitudes and behaviors. For example, psychological contract breaching has been found negatively related to job satisfaction, commitment, trust in role performance and organizational citizenship behaviors (Tyagi and Agrawal 2010).

Violation of the transactional obligations of the psychological contract (e.g., pay, benefits and promotion) has led to decrease in job satisfaction while violation of relational obligations (e.g. loyalty and support) has led to lower the organizational commitment (Anderson & Schalk 1998, Guzzo & Noonan 1994, Robinson, et al. 1994, Rousseau in 1990 as cited in Tyagi & Agrawal 2010). Low levels of commitment have affected to increase incidences of absenteeism, tardiness and turnover which lead to expenses and lower productivity.

Research Framework

According to Shapiro and Kessler (2000) given that managers as agents of the organizations, are in a position to delivering promises or future commitments to employees, they themselves may maintain psychological contracts regarding the mutual obligations between themselves and employees. This is consistent with Rousseau's interpretation that 'organizations become party to psychological contracts as principals who directly express their own terms or through agents who represent them.

Figure 1. Conceptual Framework



Psychological contract is identified as the independent variable and the employer-employee relationship is identified as the dependent variable. Based on that, to achieve the objectives of the study following hypothesis has been developed by researcher for the testing.

In term of the relative importance of psychological contract, it was found that employees primarily expect the organization to provide them salary benefit and resource availability (Bhargava 2009). Further Bhargava (2009) stressed that; transactional psychological contract indicates obligations that may be considered to be "economic" in nature, largely based on remuneration and other short-term benefits to the employee which are publicly observable. Based on that, the first hypothesis aims to find out level of employer-employee relationship towards the use of transactional contracts.

H1: There is positive impact on Transactional Contract on Employer-Employee Relationship.

In addition to that Bhargava (2009) reveals that employees expect the organization to provide them opportunities for growth, work culture and development opportunities in relation to the relational contracts, it involves the long-term obligations based upon trust and are concerned

with personal, socio-emotional as well as economic resources. Based on that, the second hypothesis aims to find out level of employer-employee relationship towards the use of relational contracts.

H2: There is positive impact on Relational Contract on Employer-Employee Relationship.

Psychological contract represents the employees and employers beliefs or perceptions regarding the employment relationship (Robinson and Rousseau, 1994 as cited in Kataria 2015). According to Tyagi and Agrawal (2010), psychological contract breach has been found to be negatively related to a wide variety of employee workplace attitudes and behaviors. For example, Psychological Contract Breaching has been found to be negatively related to job satisfaction, commitment, trust in role performance and organizational citizenship behaviors (Tyagi & Agrawal 2010). Based on that third Hypothesis aims to find out level of employer-employee relationship in term of psychological contract.

H3: There is positive impact on Psychological Contract on Employer-Employee Relationship.

Method

Research Design

This study was conducted in a quantitative design by collecting data through adopted standard questionnaire and the two variables were identified and tested based on the hypotheses developed. This study focuses on hypotheses testing and identifies regression analysis and correlation between two variables. None of the variables were controlled or manipulated. As the study was conducted in the natural environment where events normally occur, it is non-contrived setting: no any artificial or contrived setting was created for the study.

Measures

The sample used in this study was 160. The data was gathered by a structured questionnaire. In the measurement of independent variable (psychological contract) as the transactional and relational contract as well as dependent variables (employer-employee relationship) as perceived organizational support, organizational commitment and organizational citizenship behaviours. These two variables were measured using a questionnaire with five point Likert Scales, which was designed as strongly agree, agree, neutral, disagree and strongly disagree with the point of 5 to 1 respectively for positive statements and 1 to 5 in reverse order respectively for negative statements.

For measuring employee psychological contract used adapted standard questionnaires, which was constructed and standardized by Bhargava (2009). It contained 13 items, which measured various aspects of psychological contract of employees in apparel industry. Organizational commitment was measured using six items taken from a nine items scale developed by Cook and Wall (1980). Perceived organizational support was measured using seven items from a 36-item scale developed by Eisenberger et al. (1986). Organizational citizenship behaviour was measured using six items from a 24-item scale developed by Dyne et al. (2004).

Following is the original questionnaire developed to assess the psychological contract and employer-employee relationship of the employees.

Psychological Contract

Dimension	Indicators	Original Question
Transactional	Salary and Benefits	Health Care Benefits
		Retirement Benefits
		Fair pay in comparison to employees doing similar work in other organization
	Equity	Adequate equipment to perform job
		Being treated fairly
Relational	Growth Opportunity	Recognition of my accomplishment
		Opportunity to develop new skills
	Work Culture	Family like culture
		Supportive co-workers
		Approachability to Supervisors
	Developmental Opportunity	Job Training
		Feedback on performance
Assistance with Career management		

Organizational Citizenship Behaviour

Organizational Citizenship Behaviour	Innovation	Makes Innovative suggestions to improve the department
		Make constructive suggestions for improving how things operate
	Sportsmanship	Defence the organization when other employees criticize it
		Always find fault with what the company is doing
	Compliance	Produces as much as capable of all times
		Always come to work on time
Perceived Organizational Support	Employee's Performance	The organization value my contribution to its well-being
	Employee's goal and options	The organization strongly consider my goals and values
		The organization cares about my opinions
	Employee's well being	If given the opportunity the organization would take advantages of me
		The organization cares more about making a profit than about me
	Employees satisfaction on job	The organization cares about my general satisfaction at work
Special Favour	The organization is willing to help me when I need a special favour	
Organizational Commitment	Organizational Identification	I am quite proud to be able to tell people who it is I work for
		I would not recommended a close friend to join our staff

	Organizational Involvement	I am not willing to put myself out just to help the organization
		In my work I like to feel I am making some effort, not just for myself but for the organization as well
	Organizational Loyalty	I sometime feel like leaving this employment for good
		Even if the firm were not doing too well financially, I would be reluctant to change to another employer

Reliability and Validity of the Instruments

The inter item consistency reliability was examined with Cronbatc's Alpha test the results of Cronbach's Alpha test are given in Table 01, high suggest that the internal reliability of each instrument is satisfactory.

Table 01: Cronbach's Alpha Coefficient

	Instrument	Cronbach's Alpha
1	Psychological Contract	0.869
2	Employer-Employee Relationship	0.824

The content validity of the instrument was ensured by the conceptualization and operationalization of the variable on literature, and indirectly by the high internal consistency reliability of the instruments as denoted by Alphas.

Techniques of Data Analysis

Data collected using the primary (Questionnaire) method were analysed using the statistical data analysis, SPSS (Version 16.0) for validity reliability and for the impact testing. Further, data analysis included univariate, bivariate and multivariate analysis.

Results

For investigating the responses of independent and dependent variable of the operational level employees of the apparel industry, univariate analysis was used. The results of the univariate analysis are given in Table 02.

According to Table 02, organizational citizenship behaviour, perceived organizational support and organizational commitment of operational level employees in apparel industry are normally distributed. And transactional and relational contract also.

Table 02: Univariate Analysis

		Organizational Citizenship Behaviour	Perceived Organization al Support	Organizational Commitment	Transactional Contract	Relational Contract
N	Valid	170	170	169	170	170
	Missing	0	0	1	0	0
Mean		4.3784	4.1059	3.8679	3.7588	4.2272
Median		4.5000	4.0714	3.8333	3.8000	4.2500
Mode		4.17	4.00	3.50	4.00	4.00
Std. Deviation		.43807	.35517	.50293	.56397	.48032
Variance		.192	.126	.253	.318	.231
Skewness		-1.248	-.270	.108	-1.981	.025
Std. Error of Skewness		.186	.186	.187	.186	.186
Kurtosis		1.862	.772	-.549	7.472	-.402
Std. Error of Kurtosis		.370	.370	.371	.370	.370
Minimum		3.00	3.29	2.83	3.60	1.88
Maximum		5.00	5.00	5.00	1.40	3.12
Sum		744.33	698.00	653.67	639.00	718.62

In addition to that, the demographic variable of gender, age, marital status, education qualification and working experience were analyzed in relation to the selected sample. In this study 100% of sewing machine operators were female. Majority of respondent were 37.1% which is between 18 – 25 ages categories, while working experience of majority respondents were in between 1 - 5 categories with 62.4%.

Further, regression analysis was done to identify the impact of psychological contract and employer-employee relationship. According to Table 03 of model summary, value of adjusted R square is 0.493, depicting that employer-employee relationship is explained by 49.3% through variation in psychological contract.

Table 03: Regression Analysis between Psychological Contract and Employer-Employee Relationship (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.731a	.535	.529	.26409

a. Predictors: (Constant), Relational Contract, Transactional Contract

According to Table 04, the p-value is less than 0.001. This means psychological contract has impact on employer-employee relationship.

Table 04: Regression Analyses between Psychological Contract and Employer-Employee Relationship (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.262	1	12.262	162.166	.000a
	Residual	12.628	167	.076		
	Total	24.890	168			

a. Predictors: (Constant), Psychological Contract

b. Dependent Variable: Employer-Employee Relationship

The bivariate analysis, Pearson's correlation between organizational citizenship behaviour, perceived organizational support and organizational commitment, and transactional and relational contractoperational level employees in apparel industry are illustrated in Table 05.

According to the results of the Pearson's correlation shown in Table 05, there was a positive significance relationship between employee psychological contract and employer-employee relationship of the operational level employees in the apparel industry. The Pearson correlation between the two variables of operational employees was 0.702 which is positive.

It shows that there was a positive relationship between psychological contract and employer-employee relationship. Also, the found relationship is statistically significant at 0.01 levels (2- tailed). The found relationship is statistically significant as correlation is significant at 0.000 levels (2-tailed). Thus, there is statistical evidence to claim that psychological contract and employer-employee relationship is positively related.

Table 05: Correlations between Psychological Contract and Employer-Employee Relationship

		Employer- Employee Relationship	Psychological Contract
Employer-Employee Relationship	Pearson Correlation	1	.702**
	Sig. (2-tailed)		.000
	N	169	169

** . Correlation is significant at the 0.01 level (2-tailed).

Discussion and Conclusion

According to the results of mean values of psychological contract dimensions, it can be ordered by considering the importance. Relational contract and transactional contract were the dimensions of psychological contract of this study. From entire dimensions relational contract was the most importance one which have highest mean value that is 4.2272. The next important dimension was transactional contract with the mean value of 3.7588. These

dimensions of psychological contract were taken from the standard questionnaire, which was originally developed by Bhargava (2009).

When considering about level of employer-employee relationship of the target sample of operational level employees, it was found that there was favorable level of employer-employee relationship. This employer-employee relationship consisted with mean value of 4.1193 and standard deviation of 0.38491 with regarded of operational level employees. Hence, it was revealed that the machine operators in selected to organizations have satisfied employer-employee relationship with their jobs.

Organizational citizenship behaviour, perceived organizational support and organizational commitment were the dimensions of employer-employee relationship of this study. From all these dimensions organizational citizenship behaviour was the most importance one which have highest mean value that is 4.3784. The second important dimension was prioritization with the mean value of 4.1059 which is perceived organizational support. Final dimension was the organizational commitment with the mean value 3.8679.

Further it was found that there are factors which significantly contribute to measure the employer-employee relationship in the apparel industry in Anuradhapura District. Accordingly the results of simple regression analysis, transactional contract have a positive impact on employer-employee relationship with the strength of b value 0.547 and value of adjusted R square is 0.294, depicting that employer-employee relationship is explained by 29.4% through variation in transactional contract (Refer Appendices).

The results of simple regression analysis, relational contract have a positive impact on employer-employee relationship with the strength of b value .710 and value of adjusted R square is 0.501, depicting that employer-employee relationship is explained by 50.1% through variation in relational contract (Refer Appendices) .

Overall the results of multiple regression analysis, transactional contract and relational contract have a positive impact on employer-employee relationship with the strength of b value 0.731 and value of adjusted R square is 0.529, depicting that employer-employee relationship is explained by 52.9% through variation in transactional contract and relational contract at once.

According to data analysis result, it was found out that there is a strong positive relationship between psychological contract and employer-employee relationship. The correlation between both two variable of operational level employee was 0.702, which was significant at 0.000 levels. This correlation was higher bound of strong correlation (0.5). So, it was found out that the correlation was strong (refer Table 05).

Shapiro and Kessler (2000) finding suggest that the extent of perceived employer contract fulfillment has a significant effect on employees' perceived organizational support,

organizational commitment and organizational citizenship behaviour, with regard two measures of contract fulfillment, the findings were broadly similar. Further they stressed that there is considerable impact from transactional contract and relational contract to the perceived organizational support, organizational commitment and organizational citizenship behaviour.

As indicated by the empirical data, the employer-employee relationship of machine operators in the apparel industry is strongly depended on the psychological contract. The employer-employee relationship of machine operators in the apparel industry was high. Also their psychological contract was high. The correlation between two variables is strongly significant. It means that the perceived organizational support, organizational commitment and organizational citizenship behaviour (dimensions of employer-employee relationship) were enhanced by the transactional contract and relational contract (dimensions of psychological contract).

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Annexes

Regression Analysis on Relational and Transactional Contract

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.547a	.299	.294	.32331

a. Predictors: (Constant), Transactional Contract

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710a	.504	.501	.27190

a. Predictors: (Constant), Relational Contract

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