

# Downsizing and psychological contract violation essay examples

[Business](#), [Employee](#)



RESEARCH SUGGESTS THAT THOSE ORGANIZATIONS DOWNSIZING CAN REDUCE THE LIKELIHOOD OF PSYCHOLOGICAL CONTRACT VIOLATION BY ENSURING THAT HR PRACTICES CONTRIBUTE TO EMPLOYEE'S PERCEPTIONS OF PROCEDURAL FAIRNESS

## **Introduction**

The research carried out so far about the relationship between downsizing and psychological contract violation shows that the organizations that practices downsizing can greatly reduce the likelihood of psychological contract violations, by ensuring that human resource practices contribute to the employee's perceptions of procedural fairness. This paper shall coherently and comprehensively discuss the above claimed notion so as to validate whether it is true or not. However, we discuss the main theme for this paper, it is prudent that we define the term psychological contract. The term psychological contract can mean a dynamic two way exchange, or the perceived promises and obligations between employees and their organizations (Guest and Conway 2002). The term was coined as a result of the rise due to more cognitive-driven aspects of the employment relationship.

The concept of psychological contract was first come into existence in the year 1960. The concept was coined for the first time by a scholar named Argyris. However, it was until 1990 that this concept began to be widely used. It was after the economic downtown that heated some of the already developed economies in the world that psychological contract received much attention. At that time, economic downtown that heated major economies

led to the restructuring and downsizing in many organizations. Psychological contract proved vital during the hard economic times, this is because, the contract was seen to have direct relationship with employee performance, which in turn had direct relationship with increased productivity. This was because it helped to explain the changes on how employer and employee could coexist to ensure better performance in the organization.

Psychological contract is crucial in the organization; it outlines what the employee should expect from the organization and what the organization should expect from the employee too. It is therefore worth noting that psychological contract is a prerequisite for better performance in the organization.

Development of relationships between the employee's and the organization is linked to the changing ways in which capitalist activity is carried out, apart from that, It is also linked to the development of conservative government and the systematic erosion of trade unions promoting private enterprise, individualism and the managers having the right to manage.

The growth of globalised systems, financial markets influence changes how enterprises behave. Other factors that are linked to psychological contract include the rise in insecurity cases and the unpredictable jobs with no longer being a job for life, changes in how we work-agency workers, subcontractors, outsourcing are also some factors that are directly linked to psychological contract. The next paragraph shall coherently discuss the importance of psychological contract in an organization.

Psychological contract plays very important role in managing change in the organization. Change in the organization is constant and hence inevitable.

The recent surveys by CIPD found more than half of the employees saying that their organization has been going through some kind of major changes during the year. This means that a positive psychological contract is a necessary ingredient that any given organization should have there to because it contributes to the success of the organization. Evidences collected from the already published literatures together with interviews that have been done at various work places suggest that for the organization to ensure maintain good working relationship between employee and employer, there is need to establish and maintain positive psychological contract. Apart from managing change, it also regulates behavior of employees in the organization.

Various organizations both small and big nowadays implicitly use the psychological contract in influencing and shaping the organization's behavior which in turn leads to improvement in business performance. The psychological contract is crucial in the understanding of the employment relationship in English law (Wedderburn, 1986) and it is subject to the general contractual rules of the common law.

Psychological contract is crucial in managing redundancy. This emanates from downsizing or delaying or being forced to dismiss some employees from work because of some reasons such as poor human resource planning or unemployment brought about by application of new technologies. Under such circumstances, the psychological contract might play very important role to the employee. Psychological contract will ensure that the employee is not unfairly dismissed as most organizations always do especially during restructuring of the organization. The psychological contract also helps

different organizations to improve human capital management. As we all understand, improving human capital management will in turn raises productivity in the organization hence leading to a better performance. After effectively discussing about the importance of the psychological contract, it is crucial that we look at what violations mean and whether organizations downsizing can lead to reduction of the likelihood of the violation of the psychological contracts through ensuring that human resource practices contribute to the employee perception of procedural fairness. But before we define what violations entail, it is prudent that we define the term downsizing.

The term downsizing is used in an organization to refer to a situation where the organization reduces the number of its employees on the payroll.

Violation of the contract is where one of the parties involved in the contract fails to honor the agreement made in the contract. This is likely to create a state of disharmony within the organization hence affecting productivity.

There are many causes of violations as shall be discussed below. It is prudent to note that although contracts can be breached in a variety of ways, there are however, a number of common forms. For instance, the employers may give extraordinary promises that he/she may not be able to fulfill. It is also not strange that the Managers or the executives may say one thing and do the opposite all together. All these can lead to contract breaches. The most common cause of violation is connected with change in position of the superiors. It is true that when an individual's boss is promoted, terminated or retires, then old deals are likely to be abrogated. Similarly, when there is a change in human resource practices, this can

easily break down the old commitments. (Rousseau, 1995)

The notion that downsizing can reduce the effect psychological contract violations have received mixed reactions among different scholars, some have accepted the notion while others have completely disagree. The proponent proposing the motion says that, downsizing will ensure that the organization remains with the employees which they could successfully take care off. This might mean that Job satisfaction is fully met. This make the employees to be fully committed hence increasing the turnover of the organization. Downsizing therefore is believed to be associated with proper implementation of the organizations agreement between the employer and the employee hence increasing the employee job satisfaction, trust, intention to remain in the Job hence leading to increased turnover.

On the other hand, some scholars have revealed that organizations downsizing is strongly related to the breach of psychological contracts because, in most cases it do lead to the unfair dismissal of the employee. For instance, various researches that have been conducted by scholars such as Robinson shows that breach of psychological contracts reduce the employee morale hence contributing to low. Apart from lowering employee morale, it is also evidenced that breach of psychological contract lowers the employee intention to stay and trust. This greatly lowers productivity in the organization hence contributing to low performance. It is crucial to note that despite the fact that psychological contracts are formed on the basis of trust, any form of breach may lead to a strong emotional feeling of betrayal among employees (Robinson & 1994).

## **Procedural justice**

Study conducted by Brockner et al about the relationship between fairness and downsizing. It is prudent to note that most employees connect layoffs to procedural injustice. It is evidenced from the study conducted by Brockner that “ layoffs” are perceived as being a breach of psychological contract. Such layoff reduces the employee morale and hence contributing to low performance. This is because; there is a direct relationship between procedural justice, psychological contract and the breach of the contract when they resort to layoffs. According to (Parks and Kidder 1994). As a result, the employees shall reduce their commitment to the organization. This shall translate to less employees’ willingness to give their best for the good of the organization.

It is true that much overworking may make the employee to feel emotionally exhausted. However, where the set targets are clear and the managers fulfill their promises; this might not be highly experienced. Managers who ensure that their employees are fully satisfied by remunerating them in good time are likely to record high performance. As we all know it is a promise that motivates employees to work hard in order to meet the set target. Therefore fulfilling the promises further uplift the spirits of the workers.

As Schain put it, psychological contract changes over time as the organization’s needs and the employees’ needs change. It is therefore prudent that the psychological contract be negotiated upon so as to cater for the changing needs. This is because both the employee and the organizations demands keep on changing from time to time. For instance, the demand of an employee who is nineteen years old is very different from

the demands of one who is in his early forties. The same also applies to the organization. Research shows that what the organization may expect or demand from the organization during economic boom is very different from what the same organization may demand during economic recession.

Workers who are in their 20s try out, experiment and explore alternative job career options and paths that are most appealing and personally fulfilling.

This is done so that an individual explore the paths that are most of their future interests. However, at early and late 30s, individuals have identified a positive path from a work content, lifestyle and reward perspective.

Employees who are more mature in the organization expect to be treated with much respect as they seek stability within the organization. Lying off some mature employees may cause protest within the organization and hence that may lower the commitment of the remaining employees.

In conclusion, it is prudent to note that psychological contract plays a much greater role in the organization. A psychological contract is a legal document that outlines the nature of the relationship between the employee and the employer. As was discussed earlier, the document is vital for the success of the organization, this is because it outlines what the organization expects from the employee and what the employee in turn expects from the organization. The contract is evidence that a contract exist between the employer and the employee. It is therefore prudent to note that the existence of the contact makes the employee to be fully committed to work hence improving performance. Researches that have been carried out show that for the organization to fully satisfy the needs of his/her employees, and then it is vital that proper mechanism be put in place so as to ensure that



the employee morale is maintained constant. This is because there is a direct relationship between output productivity, job satisfaction and the employee commitment. In the organization where the needs of the employees are fully taken care of, productivity is always higher. This is because, the employees associate better treatment with procedural justice. They believe that where their demands are fully satisfied there is justice. For the organization to maintain its workforce there is needed to ensure that the psychological contract is honored. No employee should be laid off from the job before he/she completes his/her contract. This is because, such an attempt might be taken as by the other remaining employees as a breach of the psychological contract. What might follow is low productivity and hence the company might record a lower profit margin compared to the previous financial year. It is therefore prudent to note that, for the organization to effectively manage its work force and to ensure that they fully commit themselves to the work, positive contract is called for.

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