

# DEVELOPING PSYCHOLOGICAL CONTRACT TO SUSTAIN CONSTRUCTION INDUSTRY WORKFORCE: A REVIEW OF LITERATURE

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**Abstract:** Sri Lankan Construction Industry suffers due to shortage of construction labour even though the country records an unemployment rate above four percent. About seven percent of the physical production workforce in the industry is above its retirement age and they still have to struggle due to unavailability of effective and lifelong social security systems (Wijewickreme and Ekanayake, 2010). For the same reason, the industry finds it difficult to attract youth and retain experienced people within the construction industry. Inability of the construction industry to retain its experienced workforce is one of the main barriers to effective technology transfer (Weerasinghe and Ekanayake, 2011). Hence, the requirement of good human resource management practices in making the existing employees more productive and retaining them has become important.

It is found that satisfied employees are those who enjoy coming to work with an attitude to excel and exhibit a sense of pride and ownership in their work (Healthcare Registration, 2007). The key issue in the formation of this employee-employer relationship is the emergence of psychological contract (Barnard, 1973). Psychological contract emerges when an individual believes that he/she owes the employer certain contributions as hard work and loyalty, in return for certain inducements as high pay, job security etc. (Rousseau, 1990). This paper discusses the theoretical background and two models of psychological contract which can be related to the physical production workers of the construction industry. This paper is prepared based on an initial literature survey on an ongoing PhD-research work in the department of Civil Engineering.

**Key words:** Construction labour, Labour turnover, Psychological contract, Technology transfer

## 1. Introduction

In the changing global business environment facing crisis and recovery in the economy, Sri Lanka is gradually standing up on her own feet after thirty years of conflict. Along with the country's economic development, construction and infrastructure development is flourishing, bringing the employees attractive remuneration and compensation packages. However, Sri Lankan Construction Industry is experiencing a dearth of skilled labour and high labour turnover has been identified as a major reason. De Silva, Rajakaruna and Bandara (2008) identified factors that cause the lack of physical production workforce in the industry as;

- Neglected social factors such as poor health, hygiene and welfare facilities: Due to Low profit margins of contractors, they often tend to complete the projects with minimum

provision of facilities to their workers. This may sometimes result in even unacceptable hygienic conditions within the site.

- Low educational level of labour force
- Lack of loyalty: Construction workers are hired on a project basis and made redundant on project completion. This has made a pool of labour, working for a variety of contractors in different types of construction. Therefore they do not have loyalty to a particular employer.
- Limited allocation of funds for employee training and development due to low profit margins
- Low skill levels: It was revealed that only less than four percent of workers in Sri Lanka are systematically trained

and carry certificates that are indicative of their skills. In this situation, the requirement of good human resource management practices in making the existing employees more productive and retaining them has become important. This paper will address this issue using psychological contract perspective, which discusses about the value of mutual trust and obligations between employer and employee for retention. Much research has found that if the organization meets the mutual expectations, psychological contract is in a good state, which in turn leads to job satisfaction, higher levels of commitment and especially in respect to retention of personnel (van de Ven, C., 2006). Similarly, if the physical production workforce is psychologically attached to their employers, turnover rate can be reduced. If there are Human Resource Management (HRM) practices which help building that mutual trust and bond between employer and employee, it will in turn help the industry to minimize a problem from which it currently suffers.

## 2. Construction Industry and Psychological Contract

The distribution of values of Sri Lankan Construction Industry work done by the private sector is 43% whereas the public sector is 57% (The Department of Census and Statistics Sri Lanka, 2007). Wijewickreme and Ekanayake (2010) assert that about seven percent of the physical production workforce in the construction industry is above its retirement age. They also claim that old construction workers still have to struggle as the physical production workforce due to unavailability of an effective and lifelong social security system for them. Therefore, the construction industry finds it difficult to attract youth and retain the experienced people with it. Weerasinghe and Ekanayake (2011) found that inability of the construction industry to retain its experienced workforce is the main barrier for effective technology transfer. They also warn that construction industry may continue as a dirty, dangerous and difficult industry unless it restores an environment which is conducive for appropriate technology transfer. On the other hand, with the post conflict conditions, construction industry is contributing significantly to the fast growth of the economy of Sri Lanka. Therefore, helping

the industry to retain its skilled workforce is extremely important today.

Kiran (2010) highlighted that developing a stable work force involves two steps;

1. Understanding why employees leave
2. Developing and implementing strategies to get them to stay

According to Kiran (2010), employees leave jobs for five main reasons;

1. Lack of support at work place
2. Lack of appreciation from the organization and society
3. Lack of opportunity for advancement
4. Poor working conditions
5. Inadequate compensation

It is found that, satisfied employees are those who enjoy coming to work with an attitude to excel. These employees exhibit a sense of pride and ownership in their work. Satisfied employees also believe they are valued for the work they do and have confidence in their ability to do the jobs well (Healthcare Registration, 2007).

When talking about employment, contract is the foundation in employment relations, which establishes inducements and contributions vital to relationship in an organization (Rousseau, 1990). Psychological contract is an individual's belief regarding reciprocal obligations. Beliefs become contractual when the individual believes that he or she owes the employer certain contributions (Ex: hard work, loyalty, sacrifices) in return for certain inducements (Ex: high pay, job security, learning opportunities), and it requires that there be trust on both sides.

These contract promises need not be made explicit. Weick (1981) states that when two parties can predict what each other will do in an interaction, a contract is created to continue these behaviors into their future relationship.

Employees compare the inducements they receive, with the promises made by the organization at the beginning of their employment contract.

The results of this evaluation lead to a feeling of psychological contract fulfillment or breach

(Turnley & Feldman, 1998 cited from Ans De Vos, Meganck and Buyens, 2006).

If employees perceive that the organization has failed to fulfill one or more obligations comprising the psychological contract, breaches occur. Many studies have found a positive relationship between the breach and lower job satisfaction, trust, commitment, organizational citizenship behavior (OCB), more emotional exhaustion, higher turnover intentions and turnover behavior (van de Ven, C., 2006).

A feeling of contract breach has negative impacts on employees' willingness to contribute and intentions to stay with the organization. Guthrie (2001) examined the impact of HR practices on turnover and firm productivity and found a strong relationship with Human Resource (HR) practices on turnover. He also found that retention and productivity both have a strong relationship with the HR practices. It was also found that, psychological contract is of both scientific and practical importance with the retention of their employees (Ans De Vos, Meganck and Buyens, 2006). Two common psychological contract models that the construction industry could develop in order to improve their sustainability are discussed below.

### 1. The psychological contract 'iceberg' model (Businessballs.com, 2010)

The 'iceberg' diagram of Psychological Contract is illustrating some of the important aspects and influences within the Psychological Contract concept. This is useful for leaders, team-builders and trainers for explaining and exploring the concept and its personal meaning for people. An iceberg is considered to be 90% hidden under the water. This concept fits the Psychological Contract very well, in which most of the Contract phrases are unwritten and hidden. The 'sky' and the 'sea' represent external and market pressures acting on employee and employer, affecting the balance, and the rise or fall of the iceberg. When the iceberg grows with the success and experience of the employee, the contract value and written contractual expectations on both sides tend to grow. Increasingly deeper inputs and rewards emerge from being hidden or confused perceptions below the 'water-line', to

become visible mutual contractual agreement above the 'water-line'.

The process can also function in reverse, although in a healthy situation the natural wish of both sides is for the iceberg to rise. The factors 'below the water-line' are strongly a matter of perception unless brought out into the open and clarified.

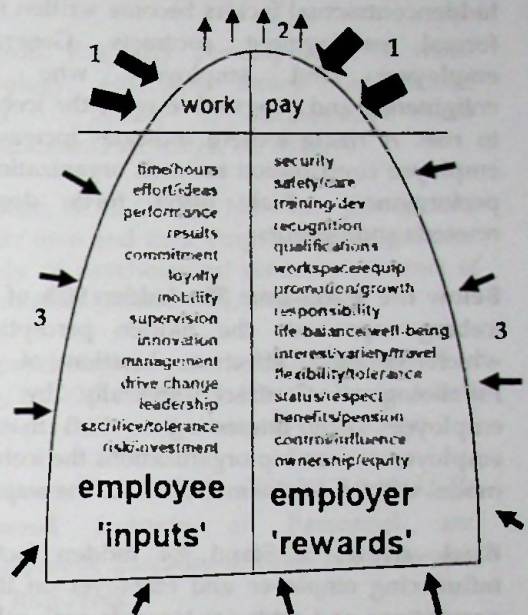


Figure 1: Iceberg Model of Psychological Contract (Businessballs.com, 2010)

**Left side of the iceberg:** Represents the employee inputs as well as the employer's expectations, which may be visible and contractually agreed, or informal and unwritten, or expectations depending on performance and opportunity.

**Right side of the iceberg:** Includes rewards given by the employer. These are also the employee expectations, which may be contractually agreed, or would be unwritten.

**Work and pay:** Represents the basic employment contract. This is typically the written contractual obligations on both sides. The iceberg diagram shows the most basic work and pay exchange but, in reality most workers are formally responsible for other inputs and are formally entitled to benefits beyond pay alone.

**Black arrows 1:** Represent market influences on work and pay, which are specific and visible to the employment situation. These include market demand for and availability of people who can do the job concerned etc.

**Black arrows 2:** Represent the propensity for the iceberg to rise with success and maturity in the job and organization. More experienced and high-achieving employees will see their personal icebergs rising where the hidden contractual factors become written into formal employment contracts. Generally employees and employers who are enlightened and progressive want the iceberg to rise. A rising iceberg indicates increasing employee contribution towards organizational performance, which bring forth deeper rewards and benefits.

**Below the water-line:** The hidden 90% of the iceberg represents the hidden perceptions which strongly affect explanation of the Psychological Contract, specially by the employee. It is interesting to find that in employee ownership organizations the iceberg model will tend to be mostly out of the water.

**Black arrows 3:** Stand for hidden factors influencing employee and employer on their perceptions and attitudes towards each other. These factors may be clearly understood but may include hidden influences which are not well understood by either party. Both sides may assume the other side already knows about these factors. But they can be made more transparent and agreed if management philosophy and methods strive for good open positive communication between employer and employees.

## 2. Total Reward Scheme (Thompson, 2002)

The provision of a total reward scheme demonstrates the components of good HRM practices for making a strong psychological contract (Thompson, 2002). It includes two kinds of benefits.

1. Transactional benefits - which are more monetary basis and short term including pay and benefits
2. Relational benefits - which are mainly contributing to build the psychological

contract and are more long term oriented as learning, development and work environment. Non-financial recognition such as Employee of the month, good organizational culture, provision of opportunities for employees to involve in organizational growth, be a part of organizational success in achieving something by taking initiatives etc. makes the employees feel that they are a part of the organization, it needs their constructive contribution in order to achieve the organization's objectives. It is found that if 'relational benefits' are strong, the employee loyalty towards an employer, intention to stay, job satisfaction, trust, commitment etc. increases.

I n d i v i d u a l	Transactional		C o m m u n i c a t i o n a l
	PAY	BENEFITS	
	<ul style="list-style-type: none"> <li>• Base pay</li> <li>• Annual bonuses</li> <li>• Long term incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Pensions</li> <li>• Holidays</li> <li>• Perks</li> <li>• Flexibility</li> </ul>	
	LEARNING AND DEVELOPMENT	WORK ENVIRONMENT	
	<ul style="list-style-type: none"> <li>• Training</li> <li>• On-the-job learning</li> <li>• Performance management</li> <li>• Career development</li> </ul>	<ul style="list-style-type: none"> <li>• Work-life balance</li> <li>• Non-financial recognition</li> <li>• Organization culture</li> <li>• Leadership</li> <li>• Communication</li> </ul>	
	Relational		

Figure 2: Total Reward Model of the Psychological Contract (Thompson, 2002)

## 3. Conclusion

Many employees still live for the weekends and their annual holidays; also most of the employees hate their work and are not actually aligned with their employer, which makes the employer suffer than its staff (Businessballs.com, 2010). Understanding the concept of Psychological

Contract and practicing the models described above will assist construction organizations to structure and manage their businesses, and deal with employees within them in a more conducive way. These models help employers understand why employees are 'difficult to motivate', or 'difficult to manage' specially in ongoing projects of Construction Industry, understand more about the real 'give and take' concept for an organization and leading the organization.

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