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Exploring the Psychological Contract in Small Firm Environment

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Abstract
The current business environment is tormented by layoffs and downsizing, loss of job security, erosion of promotional opportunities, and increased uncertainty of regular and orderly pay increases, making employment relationship extremely fragile and individualized (Blomme et al., 2010). These workplace changes have prompted a resurgence of interest in the psychological contract (PC). SMEs occupy an important place in the economy of most countries; especially they are favored for developing countries due to their employment potential. Over the last few decades there has been a tremendous growth in Indian SMEs. This paper aims to address three specific research questions—What are the constituents (contents) of psychological contract in SME’s?; What is the nature of PC, in terms of the transactional/relational characteristics in SME’s? and What is the state of psychological contract (fulfilment/breach) in SME’s? using semi-structured interviews in India. This paper responds to calls for research integrating PC and SMEs, and use PC framework to explore the employment relationship in the small firms.

Keywords: SME, India, Psychological Contract
Introduction

The current business environment is tormented by layoffs and downsizing, loss of job security, erosion of promotional opportunities, and increased uncertainty of regular and orderly pay increases, making employment relationship extremely fragile and individualized (Blomme et al., 2010). These workplace changes have prompted a resurgence of interest in the psychological contract (PC). PC is defined as the mutual expectations held by employees and their employers regarding the terms and conditions of the exchange relationship (Coyle-Shapiro and Parzefall, 2008).

There has been phenomenal growth in the literature on PC in the recent years focusing on eclectic aspects of the PC and the contracting process. It has been consistently found that PC has an impact on employee and organizational outcomes including trust, organizational citizenship behavior, turnover intentions and absenteeism (Katou and Budhwar, 2012). However, as with other areas of management research, plethora of work on PC has, by and large, ignored SME’s with a few exceptions (Milward et al., 2003; Nadin and Cassell, 2007; Atkinson, 2000). One of the reasons for overlooking this sector is the implicit assumption that findings concerning large organizations will have a universal applicability irrespective of firm size (Cooper and Otley, 1998). However, research on small businesses reveals a variety of factors associated with being small (e.g. the informality of relationships; limited resources, etc) that are likely to impact psychological contracting processes and also the nature of obligations associated with them differently (Welsh and White, 1981). Thus a “one size fits all” description of the employment relationship in so diverse a sector would be inappropriate.

SMEs occupy an important place in the economy of most countries; especially they are favored for developing countries due to their employment potential. Over the last few decades there has been a tremendous growth in Indian SMEs (see Figure 1). More and more of such enterprises are now struggling to survive due to immense pressure created both by globalization and giant multinational companies (Mulhern and Stewart, 2003). As SMEs contribute significantly to a nations’ gross domestic product (GDP) and provide employment to a large number of people, the Indian government has been analyzing the need for a shift in its approach towards their growth (Saini and Budhwar, 2008). The existing literature shows a strong deficiency of systematic research in SMEs. The situation in the Indian context is far worse; the field is almost barren (Saini and Budhwar, 2007) and the workers in SMEs have been described as “the invisible workforce” (Curran, 1986). Appropriately this research endeavors to examine the PC in Indian SME’s.
There is a lack of consensus over the definition of SME; there is no single, uniformly acceptable, definition of a small firm the world across (Storey, 1994). While in some countries the term “small” enterprise is defined in terms of the investment made, in some other countries it is based on number of people employed (Srivastava, 2005). The definition of SMEs sometimes also depends on the stage of national economic development and the broad policy purposes for which it is needed. For the purpose of this study, as suggested by Saini and Budhwar (2008), SME’s will be defined as an enterprise in which the investment in plant and machinery is between 2.5 million and 100 million.

SME’s offer a unique context to examine the nature of employee-organization relationship. Wide range of factors, both internal and external to the firm, impacts the nature of employee-organization relationship. For instance, in SME’s there is high degree of informality and close personal ties often reducing the formation and involvement of union in managing the employee-organization relationship. Indeed working in SMEs does not involve much paper work, policies, systems, procedures, rules and strategies, and even the presence of an HR officer is missing. Small firms are relatively free of procedural constraints and tightly defined job descriptions (Arnold, Schalk, Bosley, and Van Overbeek, 2002; Cassell, Nadin, Gray, and Clegg, 2002; Patterson et al., 1996).
Often the employer’s and employee’s obligations to each other are represented, if at all, by a very basic job description departing little from a statement of the wage paid for the number of hours worked. Research also suggests that employees in this sector are less likely to receive fringe benefits and have limited access to training than employees of large companies (Kerr and McDougall, 1999; Kitching and Blackburn, 2002), due, at least in part, to limited resources. These conditions raise interesting questions about the psychological contracts in such businesses. Internal factors such as the importance of familial relationships (Holliday, 1995); cultural values combined with labour market prospects (Ram, 1994) and gender and household relationships (Wheelock and Baines, 1998) makes SME’s a unique context to study.

In the light of abovementioned features of SME’s, it can be suggested that the vast majority of obligations between the employee and the employer are implicit and emerge informally, i.e. are part of PC rather than the formal contract. This in turn suggests that PC may have a more central or potentially more important role to play in small businesses than in larger companies where obligations are usually more explicitly defined. As Guest (2004) suggests, it is conditions such as smaller firm size, a reliance on personal relationships and informality with workers, along with declining union representation that renders PC an ideal conceptual framework for analyzing and exploring the contemporary employment relationship.

PC literature focuses on the content of the PC (e.g. Herriot et al., 1997); the types of PC (e.g. Beaumont and Harris, 2002) and the state of PC (e.g. Conway and Briner, 2002). PC contents specifically focus on identification of elements/obligations (contents) which employees and employers expect from one other (Rousseau and Tijoriwala, 1998). PC can also be understood in terms of its contents—“transactional” or “relational” (Rousseau, 1995). Transactional contracts as understood in the economic theory are representative of highly specific exchanges, of narrow scope, which takes place over finite period (Robinson, 1996), focus on material rewards and are publicly observable. Relational contracts on the other hand are broader, more amorphous, open-ended, focus on intangibles as well as material rewards, and are wide ranging and subjective to the parties involved. Finally, the state of PC examines the extent to which PC has been fulfilled or breached. To get a comprehensive understanding, this research would examine PC from these three aspects: Specifically, the research questions the study would address are:

- What are the constituents (contents) of psychological contract in SME’s?
- What is the nature of PC, in terms of the transactional/relational characteristics in SME’s?
• What is the state of psychological contract (fulfilment/breach) in SME’s?

The extant PC literature represents the perspective of the employee only, with relatively few studies presenting the employer or organization’s perspective. This is quite startling given that a key characteristic of PC is that it is reciprocal (Rousseau, 1995). The reason given for this neglect is the complexity of employment relationships characterizing those firms typically studied and the difficulties this brings in determining who represents the organization, what Guest (1998) defines as the agency problem. Small firms enable the perspective of the employer to be more easily obtained. Small businesses are much simpler, with the employer being much easier to identify (Crossman, 2002; Millward and Brewerton, 2000). Thus, given the PC is relational in nature, this study examines PC from both the employee and employer perspective.

Methodology

The research is intended to be exploratory in nature. Small firms¹ across different sectors in India will be approached for data collection. Semi-structured interviews based upon critical incident technique (Herriot et al., 1997; Cassar et al., 2013), will be employed to examine the research questions. This would facilitate three objectives of the research- understanding the contents of PC, categorization of the employment relationship offered by the employer as well as the employees (in terms of typologies- transactional or relational) and the extent to which they have been fulfilled. The owner/ senior manager of each firm will be interviewed to provide the employer’s perspective. 4-5 employees from each firm will be interviewed to obtain the employee’s perspective of PC.

After obtaining permission from the respondents, the interviews will be transcribed or handwritten notes will be taken and transcribed verbatim. The interview transcripts will be analysed using template analysis, a technique that is often referred to by other terms, such as ‘code book analysis’ or ‘thematic coding’ (King, 1998). The basic idea of template analysis is to identify themes represented in the data, themes that are indicative of the salient and common issues that emerge in response to the questions asked.

¹ Indian companies are classified into SME category by the Ministry of Micro, Small, and Medium Enterprises under Government of India (MSMED Act, 2006). Companies that fall under the purview of this act will be approached for data access.
Expected Contribution

This proposal has significant theoretical, methodological and practical contributions. Several authors have reiterated the lack of research attention given to SMEs (Saini and Budhwar, 2008; Chandler and McEvoy, 2000). Chandler and McEvoy (2000) suggest that there is a lack of research focusing on employee organization relationship in small firms. We respond to these calls for research integrating PC and SMEs, and use PC framework to explore the employment relationship in the small firms. Based on the findings, we will develop a testable research framework for SMEs studying PC in the Indian context. By doing so the study has the potential to enhance our understanding of both small firms and PC in SME’s, a vital, but under-researched, sector of the Indian economy. By capturing both the employee as well employer perspective of PC, this study would give voice to a thus far largely silent partner in PC- the employer.

The study would also contribute in terms of its methodology. Much of the extant literature on PC has focused on quantitative approach. Using a qualitative *emic* approach to explore PC will provide rich insights and capture the indigenous realities of contracting process. In terms of the implications, the findings of this study would be of relevance both to those owning and running small firms and to those who provide HR expertise and advice in this context. Practitioners need to possess a better understanding of the issues pertaining to SMEs and PC while making strategies. Policy makers can also benefit from understanding the nuances of employment relationships of the sector and make more informed policies. In summary, the paper has been presented in Figure 2.
Figure 2: Proposed Research Workflow
References


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