

by Julie Brophy

Rethink Retention:

Will Your Best Talent Leave This Year?

'People are quitting their jobs in record numbers' (1)

The Guardian newspaper headline above illustrates a legacy from the pandemic that could have a significant impact on organisations - potentially for many years to come. Behind this statement is a research study by Personio and Opinium (2) which found that in March 2021, "38% of employee surveyed were looking to change roles in the next 6 to 12 months or once the economy has strengthened".

During the lockdowns, many people have taken the opportunity to reconsider their relationship with the work they do, the commute and where they work. As organisations look to bring back employees into a shared working environment, a lot of the conversation is focused on the more 'transactional' elements of the employment contract – for example, location, number of days in the office and flexible working hours. However, I'd like to explore another type of contract - the **psychological contract** – which research has shown has a significant impact on an employees' intention to stay with their organisation. Therefore, it is an area that leaders and managers need to address as part of any retention strategy to mitigate the potential talent exodus.

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Mass Exodus: The Impact of Employee Turnover

If the above figure of 38% of employees is extrapolated to the whole of the UK working population (3) this would mean around 12.5m people looking to change jobs in the next 6-12 months...

And this is not simply pent-up churn – these figures suggest something far more transformational is going on as the average turnover rate in 2019 was only 16% (4). For organisations this exodus could have a significant impact on their financial health as they try to emerge from the economic legacy of the restrictions on trading and general downturn in activity.

There is a lot of material available that puts a financial figure on the cost of replacing leavers, starting with recruitment costs through to loss of productivity as new employees get up to speed on their role and the culture in their new employer.

With the potential for such disruption to their operation, organisations would benefit from revisiting their retention strategies to reduce the number of staff leaving. However, while organisations may be aware of the potential issue, not all of them are translating this knowledge into action. The Personio and Opinium study also found that while “45% of HR decision makers are worried about employees leaving, only 26% say talent retention is an organisational priority”.

As mentioned above, the psychological contract is a key lever that organisations and leaders have to help increase commitment to their organisation and as a result, reduce turnover.

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Is Your Psychological Contract in Good Shape?

The ‘psychological contract’ is a concept developed by organisational scholar Denise Rousseau (5) which she describes as being more than the formal written expectations between an organisation and an employee.

An employment contract usually details the role an employee will fulfil, the hours and location they will work in exchange for the salary and other benefits offered by the organisation. However, the **psychological** contract consists of the *unwritten* and intangible agreement between an employer and employee and includes the informal commitments, expectations and understandings that underpin the formal contract. It is these elements of the contract that are the mainstay of an organisation's culture – the way that things are done and how people behave towards each other.

When these expectations are misaligned or are not met, the psychological contract is said to have been ‘breached’. The disappointment resulting from these differences can cause a decline in the employees' engagement with their job and if not addressed, can increase dissatisfaction and demotivation which can negatively affect performance. In serious cases, the relationship between employer and employee can break down to the point where the employee feels strongly enough to look for another role outside the organisation.

There are different interpretations of what constitutes a psychological contract, but what seems clear is that the pandemic will have impacted on some elements negatively. Below I have listed four that I believe will be amongst the most affected over the last 18 months:

1. **Job security** – how safe is my job in the current climate?
2. **Well-being** – is the organisation / leader looking after me?
3. **Development** – how has my role change? How have I grown?
4. **Fairness** – are the company's processes, pay and perks fair?

During the pandemic, it is likely that organisations will have struggled to deliver on all elements of the psychological contract. Uncertainty in the marketplace, furlough and disruption to production will have impacted job security and, in some cases, perceptions of fairness. Being remote from managers, colleagues and mentors will have affected both formal and informal development opportunities.

If, in the employees' view, the organisation has communicated authentically and clearly about the above factors and has been supportive, the psychological contract maybe in good shape. However, this should not be assumed, so organisations need to engage in conversations with people about their experience during lockdown, how it has left them feeling and the state of the psychological contract between them.

The detail of the psychological contract, and therefore what constitutes a breach, will differ based on individual perceptions. The implications being that a single approach to renegotiating and rebuilding commitment to the organisation will not be as effective as a more tailored response.

Another risk to retention of not addressing contract issues is 'trickle down'. This is where an employee's feelings and disappointment around a breach leaks out and affects others who interact with them. This can result in colleagues starting to question their own contract with the organisation.

Act Now to Retain the Best and Avoid Trickle Down

Research by Solinger et al (6) has shown that employees can bounce back from a psychological contract breach over time. How long this will take depends on personal as well as organisational factors.

Given the imminent shuffle within the job market, a 'wait and see' approach is a dangerously passive position for an organisation to take. A more proactive response is to strengthen the retention strategy to not only look at employees' expectations around the tangible elements of the contract, but also address, and start to rebuild, the psychological elements.

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There are things that leaders and managers can do to redress the damage done by contract breaches and these include:

1. Renegotiating the psychological contract

The first thing for an organisation and its leaders / managers to do in renegotiating a psychological contract is to show an intent to address the perceived breaches.

The organisation should acknowledge that things have changed, and they may not have delivered against the unwritten agreement. The conversation should then move on to other areas, such as above, to outline what the organisation will offer in future, with the caveat that any promises made, or expectations set, are realistic and deliverable so that the possibility of future breaches is reduced.

Rousseau summaries the role of a manager in renegotiating a psychological contract in four steps:

1. Explain why the old psychological contract is no longer appropriate
2. Involve your staff in developing transitional arrangements to anticipate necessary changes
3. Propose and negotiate the new psychological contract
4. Implement these new psychological contracts in words and actions.



2. Listening to Employees

To monitor the changing status of the psychological contract, employers should regularly listen to their employees and adjust their retention strategy accordingly.

In our experience, two ways in which they can begin are:

1. *Creating a psychologically safe environment* – leaders and managers need to provide an environment where employees can talk about their experience of the organisation during lockdown – the good, the bad and the ugly. By providing an opportunity for employees to share their feelings – where they know there will be no come back or retribution – leaders and managers will be able to hear and understand the *real* feelings of their teams, rather than a more socially accepted, safe version which will not help in working towards an effectively renegotiated psychological contract.
2. *Conduct staying interviews* – these are positively focussed interviews between a manager and an employee that are designed to learn what keeps the employee committed to, and working for, the organisation. As the psychological contract will vary from person to person, these interviews will highlight specific motivators and engagement factors which should be built on going forward and considered as part of the psychological contract.

3. Specific Interventions

The findings from the employee listening will help inform what specific actions are required to address the contract breaches.

Where possible, involve employees in the development and delivery of interventions. Over the last 18 months, remote working will mean they are likely to have experienced increased autonomy, and anecdotal evidence suggests that employees have an expectation this will continue after people return to shared working environments. Organisations can use the co-development of interventions to reinforce their intention around developing the new psychological contract.

However, as discussed above, it is important that the interventions developed can be implemented and sustained or the cycle of expectation setting and psychological contract breach will be repeated, in which case organisations will remain vulnerable to increased employee turnover and become losers in the big shuffle.

Conclusion

The pandemic has given people the opportunity to reassess their relationship with work, how and where they work as well as what they value.

An expected consequence of this is that a significant number of employees may look for new opportunities or roles outside of their current organisation. There is a financial, productivity and emotional cost of this employment shuffle. In response, organisations should proactively develop a retention strategy to mitigate the effect.

It is important that any strategy identifies both the transactional AND emotional elements of the employment contract i.e. attention should be paid to understanding and addressing breaches to the intangible, unwritten psychological contract so it can be renegotiated.

If you would like to know more about the role of the psychological contract in retaining your staff, please contact Julie Brophy at Julie.brophy@oecam.com



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1. Guardian "People Are Quitting Their Jobs in Record Numbers" (23 June 2021)

<https://www.theguardian.com/commentisfree/2021/jun/23/people-quitting-jobs-record-numbers-companies-take-note-treat-them-better>

2. "Counting the Cost: How Businesses Risk a Post Pandemic Talent Drain" – Personio and Opinium (research conducted 12-22 March 2021).

3. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/july2021>

4. CIPD & Omni – Resourcing and talent planning survey 2020

5. Rousseau, D. (1989). Psychological and implied contracts in organizations. *Employee Responsibilities and Rights Journal*, 2, 121–139

6. Solinger, N. O, Matthijs Bal, P, Holmans, J and Hansen, P (2015) Bouncing back from psychological contract breach: How commitment recovers over time *Journal of Organizational Behaviour*: August 2015