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MANAGEMENT 5.6.1

The 3 Vital Key Ingredients to Staff Retention

Part 1 — The Psychological Contract

Did you know that when you hire new people, there exists a psychological contract which, if it is more important to them than the written employment contract? How do you know if you have inadvertently breached this psychological contract? You see a decrease of motivation, you'll hear complaints about breakdown of communication, people will become more critical about the company and ultimately you'll lose good people. This leads many Managers to complain about a lack of loyalty and scratch their heads in puzzlement as to how you build and retain a great team.

This contract is all about the perceptions of the employee and employer and their mutual obligations to each other. In reality, they are using different measurements of success.

The employer measures the employee performance through the lens of the employment contract, and the employee measures the employer's performance through the lens of the Psychological Contract.

This mysterious Psychological Contract is inferred from actions, the past, as well as statements made by the employer during both the recruitment process and reinforced through the appraisal process. In other words, what is said in these two situations are seen by the employee as "promises" and "expectations" offered by the employer — and believed by the employee to be part of the relationship with the employer. The bad news is that these obligations for

the employer are informal and imprecise, and they may have no idea of the "deal" they have just struck, and will be measured against.

This "contract" is based on the employee's sense of fairness and trust and their belief that the employer is honouring the "deal" between them. This means that you can honour the employment contract, but not deliver on "promises" you made when you hired them and they feel let down.

It is not breaching the written contract which increases staff turnover, it is breaching the Psychological Contract that has the most devastating impact on employees.

Initiated in the Recruitment Process

Think for a moment about the recruitment process. Most managers paint a cosy picture of the company, where it is going and what it can do for its employees. Usually, they match what they know the person is looking for, with reassurances about what the company has to offer. In other words, the Manager "sells" the job to the employee. And some of the most important parts of the "sale" are often the hardest for the Managers to deliver on. What they don't realise is that this employee is now measuring the company, through their direct line Manager, on how well they are delivering on these "promises" and "expectations".

The “sale” usually includes things such as being part of a great team, recognition of innovative ideas, feedback on their performance, opportunities for training and development. If your Managers spout all the good stuff at the interview, then not deliver, they have started the motivational rot.

Reinforced by the Appraisal Process

Managers often use the appraisal process to try to regain lost ground, raising a now disappointed employee’s hopes once again. Further "promises" and "expectations" are made. However, the Manager, already swamped with work, often fails to follow-through on the issues which had the highest priority for the employee. While traditionalists believe that wages are the main point of contention, the employee is also looking to have other obligations fulfilled. Many times, both sides are working their way through completely different priorities. No wonder people are so cynical about appraisals!

Traditionalists focus on reward, pay and bonuses as a prime source of motivation. But Herzberg*¹ thought that employees were motivated to higher levels of performance by less material incentives such as interesting work and the opportunity to develop their skills. Our experience in the field confirms this research. Getting the pay right is no guarantee of commitment.

My belief is that the Psychological Contract is the main reason most employees complain of a breakdown in communication, despite Management believing they are communicating effectively.

Herzberg*¹

Herzberg F (1987). "One More Time: How Do You Motivate Employees?" Harvard Business Review. Vol 65, No 5, September/October. pp 109-120.

Internal Branding

So many corporations have now recognised the need for a corporate identity with corporate values that both customers and employees can relate to. The employer brand, or internal branding, gives the employees a reason to buy into the relationship with the employer. However, while internal branding has time, energy and money spent on its creation, most companies do not follow through by training their Managers how to manage expectations raised by the internal branding.

Whether you are proactively designing internal branding, or just allowing a culture to develop, you are creating an environment, which your employees will expect you to live up, or down to.

Job security is no longer part of the equation

It is important to be aware of the shifts in the relationship between people and organisations. In the past, job security was part of the Psychological Contract and was reasonably easy for companies to deliver on, if the employee held up his or her end of the "deal" by being reliable, hard working, and demonstrating loyalty to the company. But this is no longer the case. Today, there must be a new deal.

And to make this issue an increasingly important one for today’s Managers, the next generation of workers are definitely not interested in security. You will not get loyalty from them, you will not be able to bribe them with bonuses for long, and you will not be able to hold them to an old-fashioned sense of employee obligation.

You can, however, retain them if you create a motivating environment with interesting work and a sense of community. You can treat them as human beings who need to be heard, want to learn and be developed, and are looking for a place where they can work with and for an inspiring leader.

And this takes the application of the "soft" skills of managing and motivating people. But even more importantly, it requires an understanding of how important these things are to employees.

Research Confirms New Employee Priorities

Research by the acirrt working paper, *Simply the Best Workplaces in Australia*^{*2}, identifies that there are 15 key drivers for excellent workplaces, from the employee point of view. The quality of working relationships, workplace leadership, having a say, clear values, being safe, are some to name a few.

Learning how to motivate and get commitment are now basic skills for all Managers. Managing expectations, identifying priorities, creating the time to follow through on employee requirements, and listening to employee opinions, are all part of communication, motivation and staff retention. And part of the Manager's role. This can not be relegated to the HR department.

The truth is that employees are becoming more and more the key business drivers. The concept of the Psychological Contract provides a useful framework for thinking about motivating employees and creating an interesting and stimulating environment for them.

The bottom line is that the Psychological Contract may be more influential than the formal contract in affecting how employees behave day to day. Many employees have substantial discretion as to how to do their jobs. It is more likely that they will use their discretion positively if they feel that they are being fairly treated.

Simply the Best Workplaces in Australia^{*2}
acirrt.com. Working paper 88 by Dr Darryl Hall and Vivienne Read. December 2003.

Today, effective maximisation of human capital is critical to business performance. And the two environments that make it even more critical are in a knowledge-based economy and when there is a shortage of skilled labour. In other words, today's business environment. Understanding the Psychological Contract, and being seen to manage employee expectations, is the first vital key to staff retention.

If you wish to learn more about the Psychological Contract, retaining and motivating staff, communication issues or to have management training in these areas designed for your management team, please contact us for a no-obligation meeting.

Please feel free to copy this information and pass it on to your colleagues and clients with our compliments.