The Bounded Rationality and Behavioral Influence on Career Decisions -A Study on Voluntary Retirees of PSU Banks

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DOI: 10.26573/2010.4.2.3
Volume 4, *Number* 2
May 2010, *pp*. 107-118

Opting for an early Voluntary Retirement Scheme (VRS) is regarded as one of the important career decisions for Public Sector Bank Employees. It is observed that in taking such a major decision, many employees do not act rationally thereby giving scope for regretting on their decisions later on. The bounded rationality approach tends to prohibit them from seeking more details of the VRS offer and verification of future prospects of engagement after early retirement. A number of factors lead them to defend their decision even against adversities and there is a tendency to stick to their initial reasoning. The realization of irrationality comes only after treading in an irreversible path.

The decision rationales of employees of Public Sector Banks who opted for VRS in 2000 are studied here in retrospect. The study analyzed major reasons of the employees for quitting the Bank Service under VRS. Study reveals that the younger employees who took VRS for the financial gains of the scheme reported more distress than those who had less number of years left for retirement. The theory of Simon's bounded rationality and the behavioral influences on decision process have found support in this study.

Keywords: Career Decisions, Bounded Rationality, Voluntary Retirement Scheme (VRS 2000), VRS Option, Banking Reforms in India

1. Introduction

Decision making is almost universally defined as choosing between alternatives [7]. The processes of decision making are largely techniques for narrowing choices [5]. While people need to take decisions on every organizational or personal activities, those decisions which will have long lasting effects are considered as significant. Among all the personal decisions, the career decision is considered to be one of the most significant decisions that give directions to the future life of a person. It is also important to note that the career decision does not end only in choosing and pursuing an initial job or occupation, but also persists in continuing the same at critical situations as well as deciding on changing the course in mid career stage. In this context, the decision to opt for early retirement assumes significance.

In the wake of the last two decades of financial reforms, the banking industry in India has undergone paradigm changes in all the spheres primarily through reactive

processes to cope up with the new challenges brought by the world order [18]. The introduction of Voluntary Retirement Scheme (VRS) in Public Sector Undertaking Banks (PSU Banks) in the year 2000 was one such strategic HR intervention in the Indian corporate scene, necessitated to survive and grow by reducing the manpower acquired by them over the years, perhaps not anticipating such an early downturn of machines replacing men [26]. The scheme which evoked good response from the employees resulted in the exodus of more than 100,000 employees in a single stroke from the banking field. Bank Managements represented by the Indian Banks Association (IBA) took the initiative to formulate and launch the scheme in the member banks.

Being a major HRD measure, many researchers evinced interest in studying the real impact of the scheme on the efficiency, productivity and profitability of the Banks and the resultant achievements in fulfillment of the objectives of the Banks which resorted to the measure. However, very few studies and research articles are on record on the flip side of the scheme where large number of employees put a self opted break to their career for more than two decades in a single organization. The life after VRS of a large section of employees, their perceptions about their own career decision and their re-entry to the social set up in their villages or home town are some areas less traversed and this article attempts to study the decision rationale of those who opted for VRS.

Objectives of the Study:

- To find out the major factors influencing the decision to opt for VRS among Bank employees.
- To study the effect of bounded rationality and behavioral influences on employees in making VRS decisions.
- To evaluate the post VRS satisfaction level and perceptions of employees on their decision.

Significance of the Study:

Opting for early retirement is considered as a very important midcareer decision. Sometimes the employees take this decision without proper thought and verification of the consequences. In such cases the employees are bounded by the rationality of getting immediate relief from the active stressful work life or any other work related problem. They try to justify known wrong decisions already taken because of social and behavioral pressures. The study can be an eye opener for those who face similar situations in work life.

2. Review of Related Literature

2.1 Decision Process and Rationality: The decisions which are of significance are generally classified into programmed and non-programmed decisions [11]. A decision is said to be programmed when adequate information about the decision situation is available with the decision maker. In certain situations due to the frequent occurrence of the situation, making a decision rule is easy. A new problem or decision making situation which involves the development and evolution of alternatives without the aid of a decision rule is generally called a non-programmed decision. Non- programmed decisions are characterized by a poorly defined structure

and lack of goal clarity. They are made in the absence of reliable and well defined sources of information and lack an explicit procedure of decision making which thus, is responsible for the poorly defined structure of non-programmed decisions. The study here considers the three classical decision taking models i.e. the economic rationality model, Simon's bounded rationality model and the Social model.

Luthans [7] explains rationality in decision making as a means only to an end. He opines that decision making that leads towards the desired end objectives should be considered as rational. Though he specifically refers to the organizational context, the process and results are equally applicable to personal decisions which affect individuals. While rational decision making process involves an analytical and logical selection from alternatives, many decisions are also taken on emotional or social pressures which fail to lead towards the objectives. Lack of availability of information, inability to process the information and the inability of the decision maker to predict the outcome of the decision are some of the constraints in taking decisions. Hence we cannot take for granted that all decisions taken by individuals including career decision are rational. We may get further insights if we go a little further in to the well known models of decision taking process.

2.2 The Economic Rationality Model: The economic rationality model has emerged out of the classical model of economics. Traditional economic theory postulates an 'economic man' who in the course of being 'economic' is also rational [8]. This model of behavioral decision making assumes that the decision maker is perfectly rational while making a decision. This model is based on certain assumptions. It assumes that the decision maker is rational in establishing a link between the means and preferences which guides him to choose the best alternative among the available alternatives. Further, the model assumes that there are any number of permutation and combinations possible to arrive at the best of the alternative. The model assumes that having taken a well considered decision the person is happy and has no regrets over his decision.

2.3 Simon's Bounded Rationality Model: As per Herbert Simon [9], the term 'bounded rationality' is used to designate rational choice that takes in to account the cognitive limitations of decision maker, limitation of both knowledge and computational capacity. Bounded rationality is a central theme in the behavioral approach to economics, which is deeply concerned with the ways in which actual decision making process influences the decisions that are reached. While choosing from the available alternatives, decision makers may end up accepting a solution that caters only the minimal requirements of the existing problem. Thus, decision makers attempt to be satisfied with a 'less-than-ideal' alternative, Once a minimally accepted alternative is arrived at, the search for an optimal alternative ends. In other words, the decision makers do not continue to explore the situation for better alternatives. They are contented with a simplified understanding and perception of the problem without actually realizing the real implications of the existing situation.

2.4 The Social Model: The Social Cognitive Theory [3] proposes that behavior change is influenced by the environment, personal factors, and aspects of the behavior itself. The social model of decision making is drawn from behavioral

psychology. In this model, human emotions and feelings are said to affect the decision making process of the decision makers. The theory proposes that human behavior is greatly influenced by unconscious desires. In addition, social influences also have an impact on the decision making process which drives the decision makers to make irrational decisions, E.g.; an employee who does not want to be disturbed from the family may deny excellent promotions to avoid transfers.

Once a decision is found to be wrong, the decision maker is influenced to psychologically support the decision taken by him and therefore begins to ignore all negative information associated with the situation. Social Forces such as peer pressure and the decision maker's tendency to unreasonably justify his actions so as to 'save face' in a group escalates his commitment towards the wrong decision. These forces encourage the decision maker to repeatedly conform to wrong decisions. Certain organizational factors like unfavorable organizational structure lack of communication among various groups in the organization, dysfunctional conflicts and resistance to change may escalate the decision maker's commitment towards wrong decisions. The behavioral influence thus plays a great role in tilting the decisions.

The above models differ markedly in the influencing factors responsible for the decisions. This study attempts to test the applicability of the above theoretical concepts to career decision. The decision variable chosen here is 'Acceptance of Voluntary Retirement by the employees of PSU Banks under (VRS).'

2.5 Retirement and Voluntary Retirement: Retirement is giving up one's regular work especially because of age. It is leaving active productive activity or withdrawing from employment. In the context of industrial relations it implies termination of employer-employee relationship at the conclusion of pre-agreed terms/ conditions on attaining the age of superannuation [13]. Daniel Feldman [6] defines retirement as "the exit from an organizational position or career path of considerable duration, taken by individual after middle age, and with the intention of reduced psychological commitment to work thereafter".

When an employee seeks to retire before the age of superannuation, the retirement is termed as voluntary retirement. Provisions for voluntary retirements are envisaged in the service regulations of many organizations including that of PSU banks. In the event of early retirement, the employee is eligible to receive retirement benefits proportionate to the service rendered. However, Voluntary Retirement Scheme is a special offer made to employees to go on early retirement where in addition to the usual proportionate retirement benefits, some added monetary incentive is offered. VRS is voluntary on both sides-the employer and the employees and is generally introduced when there is redundancy in the organization. Identification of redundant employees has to be with reference to an objective criterion such as age and/or category of employment and not person based. Sunit Arora [23] says, "The VRS is strictly voluntary you can neither compel your workers nor selectively apply it to certain individuals."

2.6 Early Retirement Decisions: International literature on early-retirement decisions concentrates on retirement attitudes and intentions as well as determinants of retirement behavior. Henkens et al. [14] studied the determinants of retirement

behavior, analyzed whether retirement intentions are a proximate determinant of retirement behavior, and examined how a discrepancy between the two can be explained. Data have been analyzed from a survey conducted among Dutch civil servants who were less than 1 year from the moment of eligibility for early retirement. The researchers concluded that the opportunity structure and the evaluation of the perceived consequences of early retirement are important in the early-retirement decision-making process. They also concluded that intentions with respect to early retirement only partly take into account the social consequences of retirement and the perceived social support of the partner.

In order to ascertain the usefulness of the behavioral intention model in predicting early retirement decisions, and further, to compare the attitudinal and normative components of the model with the traditional predictors favoring early retirement (poor health, adequate income), Hwalek and Firestone[10] interviewed male industrial workers from six major plants in a Midwestern city of U.S.A.. The results suggested that, given the importance of the family and other social support networks for the industrial worker, retirement planning sessions should incorporate social issues such as human relations and interpersonal communications along with the economic issues. The VRS offered by the PSU Banks in India was unique as the instant financial rewards were very attractive on one hand but the non availability of equal or better job opportunities in the market was not ignorable on the other. The need for a VRS in Banks arose as a sequel of the strategic Banking reforms taken up by the Indian Government.

2.7 Banking Sector Reforms and Introduction of VRS in Banks: Most large banks in India were nationalized by 1980 and thereafter were subject to a high degree of control until reform began in 1991. In addition to controlling interest rates and entry into the banking sector, the regulations also channeled lending into priority sectors. Banks were required to fund the public sector and lend to priority sectors like agriculture and small scale industries at uneconomical rates and less secure terms on Government guidelines. As a result, bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered. Therefore, a high power Committee on the Financial System called as Narasimham Committee I, [18] was set up in August 1991 to recommend measures for reforming the financial sector. Many of the recommendations made by the committee, which addressed organizational issues, accounting practices and operating procedures, were implemented by the Government of India.

The recommendations of these committees formed the basis of the liberalization of the financial sector [4]. The process of reforms in the financial sector was pre-designed with a long-term vision [17]. The recommendations of the Narasimham Committee I in1991 pointed out to the need for manpower planning to achieve this objective, both in terms of reducing existing staff and curtailing new recruitment [1]. The VRS introduced in 2000 was a measure taken under the above recommendations.

2.8 Salient Features of the PSU Bank Voluntary Retirement Scheme (VRS-2000): All permanent employees with 15 years of service or 40 years of age as on 30th November, 2000 were eligible to apply for VRS. The amount of Ex-gratia was

fixed at 60 days' (2 months') salary (Basic Pay plus dearness relief) for each completed year of service or salary for the number of months of service left, whichever was less. Other Benefits available were: Gratuity as per Gratuity Act/Service Gratuity, as the case may be, Pension (for those who had opted for pension) as per Pension Regulations 1995/Bank's contribution towards PF and Leave encashment as per rules.

All the Public Sector Banks except Corporation Bank introduced VRS between November 2000 and March 2001 for their staff. As per IBA, the main objective of VRS was to right size the workforce, increase operational efficiency and control costs for competitive edge. The number and details of employees who opted for VRS as per IBA are as under.

Details of Bank Employees who Opted for VRS

Banks	**No. of employees as on 30/03/2000**	**No. of employees opted for VRS**			
		Officers	**Clerks**	**Sub Staff**	**Total**
SBI	2,37,504	19285	12948	3137	35380
SBI Associates	81566	3041	4984	1739	9764
PSU Banks	559978	43841	32013	8606	79940
Total	878478	61977	49645	13482	125084

Source: (IBA as quoted in www.economictimes.com)

2.9 Factors Influencing Acceptance of VRS: Among the variables which influence the decision of early retirement, the financial status of the workers is a primary factor. Researches on early retirements suggest that decisions are greatly influenced by their expectations of future streams of income. Employees do not want to withdraw from workforce if they expect that their life in retirement will require them to dramatically cut back on their standard of living [20]. Informal studies revealed that job hazards like frequent relocations on transfer, demographic factors like age, gender, educational qualifications, inability to cope up with changing job demands and the financial attraction of the scheme offered were some of the major factors which influenced the VRS decisions of the employees. A study by Madhok and Zaveri [2] revealed that Employees who opted for VRS have stated that among other reasons, fear of accountability and disciplinary action and lack of transparency in rewarding and punishments were also some major responsible factors.

2.10 Psychological Impact of VRS: VRS being a downsizing process has its psychological effect on both employees who have quit on VRS and those who have survived. A research paper by Mishra and Spreitzer [22] synthesized previous research on survivor responses to downsizing and identified four general archetypes of survivor responses- cynical, fearful, obliging and hopeful. Swaminathan and Sathyakumar [24] investigated the psychological factors operating upon the employees who seek voluntary retirement. They studied the life satisfaction, organizational commitment, risk taking behavior and adjustment inventory of VRS opted employees. They found significant differences between those who opted- and not opted for VRS, especially in those psychological variables studied. Some studies

[25] indicate that people who carry high self efficacy have high propensity of leaving the organization. The VRS has been introduced as a golden handshake .But, whether it was really a golden handshake or a golden trap was a matter of debate and study. The success of VRS implementation depends on the perceptions of the persons opting for the VRS [21].

The experience of job loss has been described by Jacobson [12] as an objective feeling, involving inter-role transition, active threat, and social visibility. Literature on job loss consistently points to the negative personal effects of downsizing. In an exhaustive survey conducted by Kozlowski et al., [15] the following life domains were found to be affected by job loss: financial position (income loss), well-being (for example, cognitive functioning, psychosomatic symptoms), attitudes (for example, life dissatisfaction), and family relationships (such as familial conflicts, increased divorce rate). As per the study conducted by Latack, Kinicki, and Prussia [16], the impact of job loss is detrimental to individuals by all criteria.

3. Research Methodology

The approach adopted here is descriptive and explorative based on a preliminary discussion and pilot survey of the employees of Bank who had opted for VRS, and it was found that there are quite a number of VRS beneficiaries who repented on their decision for opting to retire. Therefore, the problem arose to probe in to the factors that influenced their VRS decision and their satisfaction level on their decision in retrospect after seven years of the event. A survey was conducted of 310 VRS beneficiaries of Dakshina Kannada and Udupi Districts of Karnataka State in India, by using stratified random sampling technique. A semi structured questionnaire with questions on the reasons for their VRS option, perception on their wisdom on VRS decision, post VRS perception on expectation and achievements along with relevant demographic details was used as research tool. Likert scales were used to collect qualitative data and convert them into ordinal data. Data collection was through mail survey, personal interviews and telephonic interviews.

4. Data Analysis

The respondents of the survey included 161 officers (52%), 115 clerks (37%), and 34 (11%) subordinate staff members. Figure 1 provides distribution of respondents among various categories and by gender.

Factors Responsible for VRS Option

On the basis of a pilot survey of 30 respondents and literature survey, 12 common reasons were identified and posed in a questionnaire on a Likert scale. To rank the importance and relevance of these reasons, the responses are quantified by assigning scores of 5,4,3,2 and1 for the responses ‘strongly agree’, ‘agree’, ‘not sure’, ‘disagree’ and ‘strongly disagree’. The highest and the least scores would ideally be 1550 and 310 in the scorecard. Table 1 depicts the scores given by the respondents for various identified factors ranked in a descending order.

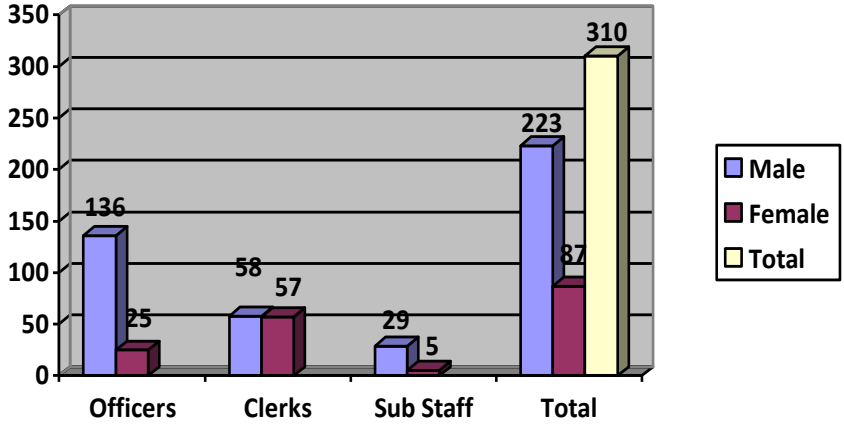

Figure 1 *Category and Gender of Survey Participants*

The result suggests that the financial attraction of the scheme was the most relevant factor which attracted the employees towards VRS option. The banks' policy and practice of transferring employees regularly and frequently also had high influence in employees desire to retire early. Health factors including stress of financial accountability were the other major factors. However, contrary to the views expressed by authors in a few articles, the changes in the Banking environment, weakening trade unions, difficulty to cope with automation or impersonal policy on promotion had very less effect on their decision to quit. It is also evidenced that there was no direct or indirect pressure by superiors thereby making the exercise purely voluntary.

Table 1 *Ranking of the Reasons for Opting for VRS*

Factors (Reasons)	Score A
1. The financial attraction of the VRS scheme	1260
2. Frequent transfers	1127
3. Family responsibilities	1105
4. Concern for self health	1013
5. Fear of accountability	955
6. Difficulty to adapt to office automation	940
7. Fear of Banks turning to be loss making	829
8. Weakening trade unions	812
9. Drive to start own business / profession	703
10. Non recognition of good work	648
11. Direct or indirect pressure from superiors	569

Perception on VRS Decision:

To a specific question on whether the respondents considered their VRS option as a wise decision (after 7 years with retrospect), 41per cent agreed, 25 per cent were not sure and 34 percent disagreed. The younger employees who opted for VRS regretted

more on their decision and the dissatisfaction was more evident among officer employees compared to the workmen employees (Table 2). Further, 95 percent informed that they did not get any Pre VRS counseling.

Table 2 *Perception on the VRS decision as Wise (Rational)*

	Strongly Agree	**Agree**	**Not Sure**	**Disagree**	**Strongly Disagree**
Officers	30	38	26	26	41
Clerks	27	18	42	7	21
Sub Staff	8	7	10	4	5
Total	**65**	**63**	**78**	**37**	**67**

Hypotheses Testing:

Hypothesis 1: In order to verify whether younger employees who opted for VRS were more dissatisfied compared to their senior colleagues who had less number of years to go for retirement, a hypothesis was formed and tested. The chi square result supported the hypothesis beyond doubt at 0.001 confidence level.

Table 3 *H1: The Satisfaction Levels over the VRS Decision in Age Groups*

Age group	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly Disagree**	**Total**
45-50	5	10	12	22	31	**80**
51-55	15	14	13	32	45	**119**
56-60	35	25	20	17	14	**111**
Total	**55**	**49**	**45**	**71**	**90**	**310**
					Chi square	47.00693

(The critical value at 0.001 is 26.12)

The calculated value is far higher than the critical value. Therefore the null hypothesis that '*There is no relation between age groups and satisfaction level on VRS decision' is* rejected and the research hypothesis is strongly supported.

Hypothesis 2: Another related hypothesis is that the perception on level of fulfillment of objective in opting for VRS is low for younger employees compared to the seniors who were near to their retirement. This hypothesis also was strongly supported in the study.

Table 4 *H1: The Level of Fulfillment of Objectives for VRS Option among Age Groups.*

Age Group\Level of fulfillment of objectives	**>75%**	**51%-75%**	**26%50%**	**>25%**	**Total**
45-50	6	12	32	30	80
51-55	17	14	40	45	119
56-60	36	41	19	15	111
Total	**59**	**67**	**91**	**90**	**310**
				Chi Square	60.3223

Critical value for 6 d.f. at 0.001 level of significance is 22.46 and hence the null hypothesis that there is no relation between age and fulfillment of personal objectives stands rejected and the research hypothesis is strongly supported.

Hypothesis 3: The younger employees who opted for VRS have made proper enquiries about the flip side of VRS compared to older employees.

Table 5

Age/ Probing	Great extent	Some extent	A little extent	Not at all	Total
45-50	0	12	22	40	74
51-55	1	14	40	63	119
56-60	0	15	38	56	111
Total	**1**	**41**	**100**	**159**	**304**
				Chi Square	2.862

Chi square critical value at 0.5 level of significance is 12.59. Hence the null hypothesis is accepted and the above hypothesis is not supported. It is established that all employees who accepted VRS did not make enquiries irrespective of their age.

5. Findings and Conclusions

1. The employees were attracted by the financial attraction of the scheme. The reasons like job dissatisfaction and drive to start own venture etc were found to be of not much relevance. Having been attracted by the immediate monetary gains, the VRS opted employees supported their VRS decision by indenting some of the occupational hazards of the Bank Service like job stress, frequent transfers etc as major reasons.
2. The VRS offer was perceived as quite beneficial by the employees who were near to their retirement. They considered their decision as justified (wise) and were satisfied even after eight years. But the younger employees who were less than 50 years of age and who had longer service left before them in the Bank were highly dissatisfied about their VRS decision and regretted it as an unwise act.
3. These employees (less than 50years age) displayed the Simons bounded rationality while taking the VRS decision. They had not made enquiries on the flip side of the VRS before jumping in to the decision. The gap between expectations and achievements of their objectives of VRS option was significantly higher compared to senior age group. They feel that their decisions were not rational and well considered. They did not express happiness or satisfaction over their decision. The theory of bounded rationality in decision taking is well evidenced in their case.
4. Among the employees, the officers regretted more on their decisions compared to clerical and subordinate staff. This can be attributed to the general belief that the officers are more career-oriented and ambitious. To conclude, the study evidenced that bounded rationality prevails in deciding on options where attraction of immediate gains masks the warnings of long term suffering. The

case of middle aged Bank employees who accepted VRS without proper planning and enquiry supports the theory. It is desirable that employees are made aware of this so that they can take well informed and rational decisions. It was evident that there was no counseling or guidance available for eligible employees at the time of offer. Therefore, there is a felt need for proper counseling and guidance to employees who propose to accept VRS, whenever such mass schemes of early separations are on offer. Future research on how the proceeds of VRS are deployed and the present social and economic status of VRS beneficiaries can throw more light on the impact of the scheme on the employees who chose to retire under VRS.

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