

# Psychological contracts

[Law](#), [Contract Law](#)



## **Introduction**

Psychological contracts can be defined as the informal and unwritten agreement between organisations and employees (Conway et al, 2005). An improvement in the general level of education and literacy rates has resulted in a shift from informal to formal contracts (Cullinane & Dundon, 2006). The term psychological contract can be used to describe a combination of mutual beliefs and informal obligations that exist between an employee and an employer. It is quite different to written contracts that are more formal and acceptable in the court of law for the fact that they are printed on paper and can be reviewed by third parties. A growth in the volume of commercial activities made it difficult for early organisations to come up with tailor made contracts for each individual employee (Coyle? Shapiro & Shore, 2007). This led to the proliferation of trade unions which sought to protect the interests of employees. Meanwhile the concept of psychological contract owes its origin to the human resource management (HRM) field and it has become an important concept in the practice of human resource management. This is because although employees sign contracts today, both the employer and employees have expectations outside the formal contracts which govern their relationships. For instance, when an employee loses a close one, many employers will make an effort to attend the funeral or even offer a cheque to support the individual to meet the funeral costs especially for deceased immediate family members. This gesture is not included in the formal contracts. Although there has been a major shift from psychological to formal contracts, psychological contracts continue to exist in HRM today.

Psychological contracts change over time considering the fact that the needs and expectations of employees and their organisations also change over time (Conway et al, 2005). When an employee starts working after graduating from the university, his or her expectations are different. When the employee has worked for more than two years, their expectations become different and needs change. More elderly employees are concerned about retirement planning after their career. The younger employees who are still single would pay less attention to retirement issues and focus on themselves. Many young married women prefer jobs that will make it possible for them to take care of their kids. This is because they consider their career and family needs before accepting a job offer. In this respect, the psychological contract continues to evolve from one generation of employees to another, as each generation has a different priority (Wellin, 2007). In a like manner, organisational expectations from employees differ over time. When an organisation begins, it has different expectations from its employees. For the most part, many young organisations are eager about growth. They expect the employees to put in their very best to ensure that the organisation grows. However, as time goes by, the organisation's needs begin to change. After having achieved growth, the organisation becomes concerned about consolidating its market position. During these changing times, the organisation's expectations also evolve. Although psychological contracts are not legally binding, and are not included on paper, they continue to exist today and help to moderate the relationship between employers and employees (Truss et al, 2006). Psychological contracts are deeply rooted in organisational culture and beliefs (Cullinane & Dundon,

2006). Once an organisation develops its culture, employees quickly identify the informal expectations of the organisation. On the other hand, employee associations such as trade unions and other labour movements also pass on information on employee expectations. Sometimes, this is manifested through strike actions and other activities that allow employers to understand the expectations of their employees.

Changes in psychological contracts have continued to take place over the years. According to Rousseau (1995) three distinct eras can be identified in the evolution of psychological contracts. These three stages include the emerging phase, bureaucratic phase and the adhocracy phase (Rousseau, 1995). The emerging phase took place in the 18th Century in the beginning of the industrial revolution. It was characterised by a centralised workplace with powerful managers who exercised high levels of control over employees. Royal Doulton and Twinings are two UK organisations that have survived the era till this present day. The bureaucratic phase began in the 1930s in top companies such as Ford. During this period, companies took care of loyal servants and were returned with lifetime employment (Rousseau, 1995). The psychological contract included loyalty and life time employment. The adhocracy phase, which emerged in the 1990s was led by successful IT businesses such as Apple and the other famous dotcom ventures. The era witnessed the proliferation of global organisations that emphasised the importance of the use of knowledge. These companies operate many different psychological contracts for various groups of employees.

## Comparison of Classic & Modern Psychological Contracts

### Classic Psychological Contract Modern Psychological Contract

The organisation was perceived as 'father' to employee that was perceived as 'child' Organisation and employees are both considered as 'adults'

The organisation was the one that defined employees worth and value Employees have the capacity to define both their worth and their value

The employers retained loyal workers whom it considered as good New employees flow in and out of the organisation with new innovative ideas

Employees who obeyed all instructions were hired for life It is unlikely for the Y generation to work for one organisation for life

Employees grew mainly through promotion and upon recommendation from managers Employees can grow through personal development

Source: Niehoff, 2011

Considering the fact that the nature of psychological contracts is constantly changing, it is important for both employees and organisation to look for new ways of meeting the expectations of each other (Bunderson, 2000). The Y generation has its own set of expectations when it comes to psychological contracts. The new generation is more educated and spend much time online. For this reason, organisation must also take into account their needs and expectations in order to meet up with the psychological contract. One of the best ways through which companies can do this is by creating an online presence and promoting online interactions to promote the sharing of experiences amongst employees (Conway & Briner, 2005). Younger employees prefer to read information online rather than read books that can

take much of their time. As such, organisations need to take into account the needs of their employees irrespective of their generation so as to ensure that both sides fulfil their side of the psychological contract (Feldheim, 1999).

Cisco's new report dubbed Connected WorldTechnologyReport has demonstrated that the younger generation (18-29 age bracket) are more attached to their technology than previously thought (Niehoff, 2011). Many employers are sceptical about recruiting the younger generation because they are more attached to technology than every other thing (Niehoff, 2011). The study confirmed the often vague and baseless claims that associated the Y generation to mobile and cyber technology obsession. According to the study, one in three university students surveyed said Facebook and other technology they invested in were just as valuable as air, water and shelter. Over 26% of respondents said being able to work remotely from home should be a right, and not privilege. Up to 74% of the university students surveyed said they should be able to access their corporate network in the future from their home computers in the future (Niehoff, 2011). This demonstrates the level of attachment the younger generation places on technology and the virtual world. That notwithstanding, organisations should give the younger generation the opportunity to participate in building their businesses. The fact that they are young and energetic means that they have much to contribute to the growth of these organisations. Besides, online presence is necessary for promoting and marketing businesses these days. It is therefore left to employers to know when and how to hire young people in order to benefit from their capacity to contribute to their growth. In the 2010 survey, three out of five employees believed that the office was not

necessary since employees can connect virtually and get work done from home (Niehoff, 2011).

In conclusion, psychological contracts have been around for more than a number of centuries. And they are not expected to stop any time soon because organisations and employees will continue to develop non-verbal expectations from each other. Irrespective of the generation of employees that work in a company, management must continue to cater for the expectations of all its employees. This can take any form, such as promoting personal development of employees who have offered their services to the organisation over the years. When organisations hire employees, they outline the tasks which they expect these employees to perform. That notwithstanding, they expect the employees to do much more than what is written on paper. For instance, Apple does not expect its employees to go online and make comments that market Samsung smart phones. This is because they are competitors. Apple expects its employees to promote its services even in their social gatherings and amongst family members. However, this is not included in the formal employment contract.

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