

What is psychological contract?



BACKGROUND TO THE PSYCHOLOGICAL CONTRACT:

The term psychological contract is more of a kind of contradiction. If we have a contract with somebody, it refers to a legal binding of us with the other person involving an exchange of service or money.

Examples of contract are: –

1. Contract to buy a home.
2. Buying a ticket to fly on an airline etc.

But this contract is entirely different from psychological contract which is related more to our mind and is therefore tangible it is like a picture in our heads about some experience or a forthcoming event. It is one's feelings about other person.

Psychological contract refers to the mutual expectations of two persons in a relationship and the way these expectations change and affect the behavior of both of them towards each other.

DEFINITION OF PSYCHOLOGICAL CONTRACT:

The term is usually used these days to describe the expectations an employee has of the organization and the expectations the organization has of the employee. This idea can be applied to relationship like what a wife expects from her husband or what a husband expects from his wife. The psychological contract was refined by Schein. He describes it as:

The unwritten expectations operating at all times between every member of an organization and the various managers and others in that organization Each employee has expectations about such things as salary, working

hours, benefits and privileges..... even the organization also has more implicit, subtle expectations that the employee will enhance the image of the organization, will be loyal, will keep organizational secrets and will do his or her best.

WHY PSYCHOLOGICAL CONTRACT IS REQUIRED:

- The traditional collective model is less relevant in many workplaces.
- Need a model that can accommodate the rise in individualism and flexibility.
- Need a model that can address core issues in the employment relationship of exchange, trust and control.
- So, psychological contract can meet these requirements.

SOME REASONS FOR THE CHANGE IN EMPLOYMENT RELATIONS:

- Workplaces getting smaller these days.
- Flexibility and fragmentation of workforce.
- Persuasiveness and urgency of the change.
- Feminization of the workforce and growing interest in issues such as work life balance.
- The influence of the American culture and individualism at work.

TYPES OF PSYCHOLOGICAL CONTRACT:

TRANSATIONAL

- Specific obligations (ex: financial)
- Short time frames.
- Time based.
- Immediate reward.
- Monetary benefits.

- Identity linked to skills and competencies.
- Little emotional attachment invested.

RELATIONAL

- Longer time frames
- Diffuse obligations
- Ongoing
- Non monetary benefits
- Identity linked with organization
- Socio-emotional based
- Mutual loyalty
- Career rewards/development

Fulfilling psychological contracts is associated with increased trust and cooperation.

Violating psychological contracts is associated with increased frustration, increased anger, and the increase in intentions to quit.

When violated, contracts become more transactional and less relational.

CHANGE AND THE PSYCHOLOGICAL CONTRACT:

The psychological contract changes with time:

- What a person needs at an age of 25 from the employer is entirely different from what he expects at an age of 40.
- Similarly an organization expects different when it is going through a phase of rapid growth than when it is experiencing an economic decline.

- So we can say that psychological contract is dynamic in nature and thus must be constantly renegotiated.

EMPLOYEES NEEDS FROM EMPLOYMENT COULD BE VIEWED AS FALLING IN THREE STAGES:

1. Early period of work life: – During their 20, s many individual try out or explore alternative jobs and career options.
2. Development: – This occurs once the person after exploring alternatives, and they decide to develop and increase their skill and expertise in the area chosen by them, and try to excel in those areas.
3. Maturity: – During this period they normally look for stability so as to fulfill the needs and responsibilities of their families. The goal is essentially one of sustaining the chosen direction.

HOW PSYCHOLOGICAL CONTRACT HAS CHANGED WITH TIME:

OLD BUREAUCRATIC PSYCHOLOGICAL CONTRACT:

- Organization is “ parent” to employee “ child”.
- Those who stay are good and loyal, others are disloyal.
- Employees who do as they are asked to do will work in the organization until they retire.
- Promotion is the primary route for growth.

NEW ADHOCRACY PSYCHOLOGICAL CONTRACT:

- Organization and employee is both “ adult”.
- Regular flow of people in and out of the organization is healthy.
- Long term employment is unlikely expect and prepare for multiple employments.
- Growth is through personal accomplishment.

HOW SOME BUSINESS ORGANIZATIONS DESCRIBE THEIR PSYCHOLOGICAL CONTRACT:

EXAMPLE NO. 1

The first example is of a successful sandwich company named PRET A MANGER

What PRET A MANGER expects from employee:

- Reasonably hard working.
- Good sense of responsibility towards the company.
- Time conscious. (come to office on time)

What an employee expect from PRET A MANGER.

- Get paid on time.
- Provide monetary and non monetary benefits.
- Invest in employer training and development.
- Provide promotions to the deserving candidates.

EXAMPLE NO. 2

A very different psychological contract is provided by ERNST & YOUNG, one of the Big Four accounting organizations.

ERNST & YOUNG'S implied psychological contract....

What ERNST & YOUNG expects from its employees:

- Do the right thing and succeed for clients.
- Build relationship, teamwork and the courage to lead.
- Take charge and personal responsibility of their career.

What employees can expect from ERNST & YOUNG

- Recognize and reward the individual's contribution.
- An enjoyable place to do work.

- Care, listen and respond to people's ideas and concern.
- Continuous learning opportunities, access to knowledge and support for career growth.

BENEFITS OF PSYCHOLOGICAL CONTRACT:

(1)JOB SATISFACTION

Degree of enjoyment employees derive from doing their jobs.

(2)HIGH MORALE

An overall positive employee attitude toward the workplace.

(3)LOW TURNOVER

A low percentage of employees leave the organization benefitting the employer.

(4)INCREASE IN PRODUCTIVITY OF THE FIRM:

The satisfied employees will definitely help in the increase of productivity of the firm....

CONCLUSION:

The psychological contracts need to be considered critically in the light of the realities of workplace change in the recent past. The concept of the psychological contract does remind us that the perceived terms and conditions under which people work in the organizations are considerably more complex and extensive than suggested by the formal contract of employment, and that their breach have serious and significant consequences for both individual and the organization.