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## **Psychological contract': An Introduction**

In 1960 Argyris gave the concept of the 'psychological contract'. However, this concept got remarkable popularity amongst various researchers relating to organizational management. During the 1990's the global economy witnessed an economic recession that caused major restructuring, mergers and acquisition in various organizations. Such changes also led to a new approach towards the organizations, employers and the workers. The concept of the psychological contract assisted in explaining these changes and, the renewed focus amongst employees and employers (Van den Brande, 1999).

The early definitions of psychological contract created expectations from the both the individual and the organizations. In 1989 Rousseau stated that such expectations are hard to be explained and understood completely. Their expectations are diverse and conflicting held by many analysts (Anderson & Schalk, 1998). As such, Rousseau (1989) presented a narrower definition of the psychological contract with the individual as the core element.

'Psychological contracts are defined as the beliefs individuals hold regarding the terms and conditions of the exchange agreement between themselves and their organizations' (Rousseau, 1989).

Rousseau's definition suggests the workers' concepts regarding their expectations from the organization and their feelings towards it. As well, for the individual aspect, Rousseau gave stress to the strong characteristic of the psychological contract.

Psychological contract implies the methods in which the employment contract is explained, recognized and espoused by workforce and it acts as the interface between them and their employers in the organizations (Millward & Brewerton, 2000).

## **The psychological contract: A Literature Review**

There has been a phenomenal rise in the studies of psychological contract relating to organizations for the last few decades as a result of Rousseau's contributions to this concept (Rousseau, 1989; 1995; 2001). Nevertheless, this concept has a far more focused recognition as evident of social exchange theory. As regards organizational analysis, social exchange ideas are clearly evident in the studies of Argyris (1960), Levinson et al. (1962), and Schein (1965; 1978). As stated earlier, Argyris (1960) applied the term 'psychological work contract' to explain the perceptions and the core principles espoused by both the consenting parties regarding the human resources in an employment relationship.

The mainstream literature studies show that such a relationship are shaped and influenced by socioeconomic factors (Fox, 1974). Levinson et al. (1962) noted that the psychological contract as " a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other" (Levinson et al., 1962).

Moreover, in accordance with Schein (1978) the expectations between the organizations and the employees do not only relate to the amount of work to be performed by the employees but also the payments, privileges, duties

and rights of each party. He considers that labor disturbances, workers' discontentment and alienation do happen as a result of infringement of psychological contract that concerns with the issues like payment, work schedules, employment conditions employment which must be resolved through negotiations.

## **Recruitment & Retention**

A large body of research papers points out that the psychological contracts have played important roles as a motivator for employees in the organizations. The studies point out that when the workers think there are cases of infringements of promises or need of reciprocity between the companies and themselves, their contributions, motivations and commitments to the companies reduces and as such they are more probable to quit their jobs. An affirmative psychological contract, on the other hand, initiates dedication and commitment, employee retention within the organizations and compliance to the core philosophies of organizational behaviors that exceeds the formal job descriptions. In view of such significant studies, it is essential to get proper insights into the factors impacting the growth of the psychological contracts. This understanding is quite relevant from a scientific viewpoint. From a hands-on, managerial approach, it is vital for organizations to understand how to promote affirmative psychological contracts amongst its staff. This becomes all the more significant for the organizations when hiring new employees (Anderson & Thomas, 1996). The employees' motivation, dedication and their length of employment within the company would be impacted by their outlooks

concerning employment terms and conditions and their contentment (Morrison & Robinson). Consequently, the perception of new employees' outlooks regarding the terms and conditions of the organizations as well as the relationships are quite significant from the managerial outlook as this would help the organizations formulate new policies that are congenial to a good working environment and affirmative to recruitment and selection that affect workers' outlooks regarding their psychological contract. The importance of recruiting and selection as well socializing new workers in the organizations are important in the challenging modern environment, in particular for the retention of those workers with high competencies has become all more of strategic importance.

Moreover, in this socioeconomic context the workers in the organizations have become an essential resource for many companies. The modern technological advancements and its increasing significance have forced a number of companies to retain and recruit human resources with strong competencies. Recruiting and retaining such qualified workforce necessitates a positive psychological contract which has become a key issue for HR professionals (Butler & Waldroop, 1999; Herriot et al, 1998; Makin, Cooper & Cox, 1996; Millward & Brewerton, 2000). Moreover, it is noted that the traditional view of the psychological contract has changed within the contemporary organizations. The companies are no longer motivated to offer permanent jobs, job security as well as promotions in lieu of their loyalty and competence. Now, the new deal between employers and employees may be explained in terms of flexibility, payment-for-performance and job

competencies for the workers (Cappelli, 1997; Sparrow, 1998; Sparrow & Cooper, 1998). As well, there has been widespread utilization of contingent workforce in the modern organizations. Such organizations are retaining those workforces whose skills and competencies are strongly related to organizational philosophy and goals and are well-suited for the growth of the organization's core competencies. These organizations, in addition establish a short-term relationship with non-core workers (Herriot et al., 1998).

Consequently, a lot of analysts maintain that psychological contracts have a vital role in helping to explain and value the modern human resource relationships within the organizations and the analyses of psychological contracts might be the most critical factor for any organization (See Anderson & Schalk, 1998; Cooper, 1999; Millward & Brewerton, 2000; Rousseau, 1995; Schalk & Freese, 1997; Turnley & Feldman, 1998).

Overall, psychological contracts are considered as a major aspect of employment relationships that causes motivations and strong contributions of the employees and have core values in contemporary organizations (Kallenberg & Reve, 1996; March & Simon, 1958).

Thus, in order to have a better insight on workers' background, it is essential to understand the outlooks of new job seekers concerning the terms and conditions of their prospective employment relationship with the company. This may prove to be quite useful in getting important insights in the growth and execution of strong human resource policies by the contemporary organizations.

## **Psychological Contract: Some major directions**

There are two major directions that can be noticed in the research studies concerning psychological contracts. A number of analysts have studied the contents of the psychological contract and have dealt with the various shifts from old to new psychological contracts, primarily as a result of economic conditions. However, not all research endorses the supposed changes in contracts, a large body of research studies offer validations for the shifting aspects of psychological contracts amongst various groups of workers (See Dopson & Neuman, 1998; Freese & Schalk, 1997; 1999; Herriot, Pemberton & Hawtin, 1996; Herriot, Manning & Kidd, 1997; Martin, Staines & Pate, 1998; Sparrow, 1996).

In contrast, a lot of analysts have deliberated upon the assessment of the scale of psychological contract fulfillment and expressed negatively regarding the contract breach. Within this outline, the factors affecting the outlook of contract breach have attracted substantial focus and this has caused the growth of a conceptual model of contract breach (See for example Ho, 1999; Lewis-McLear & Taylor, 1998; Morrison & Robinson, 1997; Robinson & Rousseau, 1994; Robinson et al., 1994; Schalk & Freese, 1997; Shore & Tetrick, 1994; Turnley & Feldman, 1998; 2000).

Contrary to the past studies, there is a lack of data concerning the factors that affect the growth and contents of the psychological contracts. These studies point out that theoretical works carried out by analysts have their backgrounds lying at the organizational and the individual levels (See for example Herriot & Pemberton, 1996; Rousseau, 1995). However, empirical

studies clearly dealing with the past history of the psychological contract is limited. It is however, presumed that the procedures of psychological contracts begin at the recruitment stage (Rousseau, 1990). Moreover, in the employment relationship, various organizational and human resource managers would affect the workers' psychological contracts (Rousseau & Wade-Benzoni, 1994). Furthermore, Human resource management plays a major role in this respect. Also, organizational factor, individual features does have a major influence on workers' perceptions of their psychological contract (e. g. Herriot et al., 1998; Rousseau, 1990; Sparrow, 1996).

## **Conclusions**

It is significant for contemporary organizations to make sure the workers have clear understandings of the job requirements and the business's outlook. A good selection and recruitment criteria can assist in identifying weak fields of organizational management and reorganizations could be helpful in ensuring competent selection of the workforce.

Overall, psychological contracts are considered as a major aspect of employment relationships that causes motivations and strong contributions of the employees and have core values in contemporary organizations (Kallenberg & Reve, 1996; March & Simon, 1958).

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