

The psychological contract



The psychological contract has been defined as the implicit relationship between an employee and their organization which outlines what each should expect to give and receive in the relationship (Gakovic & Tetrick, 2003; pg 236). Rousseau (2000; pg 9) has defined psychological contract as "the terms of an exchange agreement between individuals and their organizations". It can also be regarded as an individual's beliefs regarding the terms and conditions of a mutual exchange agreement between the person and the organisation (Saks, 2006; pg 613). Researchers have suggested that psychological contract can be shaped by personal/individual factors, past job experience and personality of employees. Saks (2006) suggests that early life experiences also shape an employee, influencing values about fairness, hard work and reciprocity.

The study looks into the concept of psychological contract and determines the importance of this in the management context. It analyses the consequences of breaching the psychological contract and the effect it can have on the organisation. The purpose of this essay is to discuss whether managing the psychological contract is a core task.

Discussion and Analysis

The concept of psychological contract is led by the norm of reciprocity which implies that an individual, who provides benefits to another, obligates him or her to discharge these obligations by furnishing benefits in return (Wright et al., 2005; pg 409). It refers to employee 'expectations' towards his job/organisation. Stemming from sociological and social exchange theories, the concept has recently extended to employee-employer relationships. In the psychological contract literature, employees exchange the treatment

they receive from their employer by adjusting their perceived obligations and fulfilment to the employer (Ingham, 2006; pg 22). Similarly, employer perceptions of employee fulfilment of psychological contract have been shown to influence employer obligations and increase the likelihood of the fulfilment of these obligations (Lewis and Taylor 2001; Coyle-Shapiro 2001).

Psychological contract is perceptual in nature and defined as a set of expectations held by the individual employee. There is a tendency to confuse psychological contract with other emotional attributes like job involvement and employee engagement (Rousseau, 2000; pg255). Psychological contract is different from organisation commitment or the feeling of desire, need or obligation to remain in an organisation. It also differs from job involvement. The feeling of fulfilment of expectations differentiates psychological contract from positive or negative evaluative judgments of the job, as in the job satisfaction construct, which is a result of fulfilment of psychological contract (May et al., 2004; pg 32).

Over the years several researches have been carried on psychological contract and a consensus has developed within the research community that the psychological contract is an important determinant of employees' behaviour and attitudes (Ashton & Morton, 2005; pg 30). The concept of psychological contract provides a popular framework for advancing understanding of employees' attitudes and behaviours in contemporary management research, mainly due to the much discussed changes in the employment relationship (Conway & Briner, 2002). Employee engagement is closely linked to psychological contract and employees are cognitively engaged when they are aware of their mission and role in their work

environment, have what they need at work and have opportunities to feel an impact and fulfilment in their work (Johnson J & O'Leary-Kelly, 2003).

Employees are emotionally engaged when they perceive that they are part of something significant with co-workers whom they trust, form meaningful connection with and experience empathy and concern for, and also have chances to improve and develop.

In an organization's psychological contract with a manager or the manager's psychological contract with the organization, either side can have a major effect on the benefits derived from their mutual relationship. Additionally, either side can also affect the ability of an organization to attract and retain high quality managers. Management of psychological contract is important because modern organizations cannot succeed unless their employees agree to contribute to their mission and survival. In order to do so, workers and employers need to agree on the contributions that workers are expected to make to the firm, and vice versa. Understanding and effectively managing psychological contract can help firms thrive.

Turnley et al., (2003) showed with his research that there has been a shift in workers' psychological contract in the last few years, moving from a relational contract, based on trust to the company to a transactional relationship of limited duration, focused on economic exchange and limited worker involvement in the organization. This has largely been led by the rapid industrialisation of most economies. Macro Economic developments like technological changes, downsizing and restructuring and other social and labour market changes have forced individuals to change organizations many times throughout their career (Agee, 2000; pg 12). The changing

organisational dynamics has meant that psychological contract is even more important proposition than it was some time ago.

Vos et al. (2003; pg 419) suggest that a vital component of psychological contract theory is the concept of breach, defined as " the cognition that one's organization has failed to meet one or more obligations within one's psychological contract in a manner commensurate with one's contributions". Researches done in the past have also shown that psychological contract and the breach of them can result in several consequences depending on the category of the employees. E. g. The most valuable employees, who possess the marketability to negotiate better 'deals' in other companies, are those most likely to leave (Ashton & Morton, 2005; pg 29). Study conducted by Chen & Fang (2003; pg 2) argue that besides the general organization-employee psychological contract, there also exists a separate psychological contract between an organization and its managers. Several researches suggest that psychological contract breach is associated with increased intentions to leave the organization. Indeed, quitting one's job is one of the most frequent responses to a situation in which employees perceive that their employer has wilfully violated the deal (Rousseau 2004).

Ingham (2006; pg 20) believes that the most defining character of social exchange in contrast to economic exchange is that it entails unspecified obligations. While there is a general expectation of return, the nature of the return is not stipulated in advance as in a strictly economic exchange. What makes matters difficult in order to manage psychological contracts is that there is no clear understanding of what the commitments are or how they can be fulfilled. When an employee believes that the organization has not

kept its promises, then the employee perceives psychological contract breach which has a negative effect on a wide range of employee attitudes and behaviours, such as job satisfaction, organizational commitment, trust in the organization and employee motivation. All this can lead to lower productivity and result in the employee leaving the organisation. All this makes psychological contract a very important proposition to manage.

Pate et al. (2003) indicate that the advent of the psychological contract is positively related to low job satisfaction and high turnover rates. Hui et al. (2004) further investigated and found that the psychological contract is positively related to employees' exit and neglect and negatively related to employees' loyalty. Employees are considered a source of competitive advantage and ways in which people work make a crucial difference between successful and unsuccessful firms. Psychological contract is recognised as a process for developing and retaining ability. Cassar (2001) suggests that if employee engagement affects financial outcomes and the bottom line, disengaged employees uncouple themselves from work, withdraw cognitively and emotionally, display incomplete role performance, put in less effort and become automatic and passive. This is a costly proposition for organisations and it is imperative for them to understand what employees primarily want. The psychological states of employees are key factors in determining their behaviour and responses at work. It is at least in part through the management of these psychological states that organisational effectiveness can be achieved.

Management of psychological contract is an important management activity and it is important for both managers and organisation to believe in the

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concept of psychological contract at the beginning of the relationship.

Employees with a history of psychological contract breach are more likely to view their psychological contracts in economic terms (Deery et al., 2006, pg 167). Previous research on psychological contract breach has also shown how breach perceptions reduce employees' trust in the employer (Deery et al., 2006, pg 169). Contract breach perceptions undermine the social exchange basis of the relationship, eventually leading employees to watch over their investments and monitor closer the balance in the relationship (Turnley et al., 2003; pg 187). On the other hand, psychological contract fulfilment by the employer in turn presents a payback and provides value for the employee investments by bringing the exchange into a balanced state.

What makes challenging for the management to manage the psychological contract is the fact that psychological contract lies in the 'eye of beholder'. This means that even if the same deal (benefits, rewards) is offered to every employee, its psychological contract towards the organisation may vary. Also, psychological contract of employees evolves over a period of time as a result of experience and organisational policies.

The recommendations for those trying to manage the psychological contract are to assess the implicit expectations from the employee at the interview stage. Also, at the same time, brief employees on the internal work environment and the organisation as much as possible. Some organisations make interviewees interact with employees so that the interviewee can informally discuss issues around working conditions, implicit rewards and expectations. The objective is to let the interviewee find out as much about the business and working conditions as possible. The roots of psychological
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contract formation lie in the recruitment process. During recruitment, employers should only make promises to their prospective employees, which the new employees expect them to uphold. In case an employer fails to do so, the employees may believe that their psychological contract has been violated. One of the ways of fostering psychological contract at the recruitment stage is the use of a realistic job preview which tries to ensure that newcomers have accurate expectations about their new job and employer and thus avoid the experience of feeling short-changed thereafter.

Managing of psychological contract can partly be done through training and development. Training is important in the make-up of psychological contract, not only in terms of employer expectations who consider the development of highly trained workers with firm specific skills a major factor for securing competitive advantage, but also because it acts as inducement for employees to maintain their commitment to the organisation (Lester & Kickul, 2001; pg 10). The more employees perceive violation of organisational obligations with regard to providing skills and career development, the less satisfied they will be with their jobs.

Conclusions

The growing management interest in psychological contract can be attributed to the fact that the construct has the potential to predict employee outcomes, organisational success and financial performance (Pate et al., 2003; pg 558). Employee-employer relationships influence the economic as well as the behavioural outcomes of the organisation.

Psychological contract is a multi-dimensional construct and unlike other

constructs it is not only an affective but also a cognitive and physical state of involvement in one's job. It also focuses on the emerging issues in employment relationships. They are constructs that understand the concerns about employment relationships

The review of literature suggests that psychological contract is extremely important for organisations to manage as it has an impact on job satisfaction, organisational commitment, intention to quit and organisational citizenship behaviour. What makes psychological contract more important is that as a construct, it has the potential to integrate a number of key organisational concepts. However, at the same time, it's very difficult to manage something which is not clear. More so, because the psychological contract and the expectations might change in due course because of external and internal circumstances.

The study concludes that it is important to manage the psychological contract and human resource practices significantly impacts employee development as well as assessment of psychological contract fulfilment. When employees are recruited, when they go through performance appraisals, when they evaluate their benefits packages or receive recognition for their efforts, they interpret the experience and the interpretation will influence how they react to it. The failure of a company to comply with its obligations (as perceived by an employee) can erode the employment relationship.

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