

## **Employees' work outcomes associated with the psychological contract: a Critical Analysis**

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### **Abstract:**

Psychological contract refers to mutual unwritten expectations that exist between an employee and his/her employer regarding policies and practices in their organization. Psychological contract influences job attitudes and performances of the employees. This study aims at developing a deeper understanding about psychological contract and employment relationship. Workplace change is caused by the utilization of new technology, changing legislation, globalization and competitive markets. Employees are exposed to new management techniques as well as altered Human Resource policies and activities which consequently lead to an altered employment relationship. The psychological contract plays a major role in the relationship between an employee and employing organization. The aim of this study was to determine employees' work outcomes associated with the psychological contract.

**Key words:** Psychological contract, perceptions, expectations, employees' work outcomes.

### **Introduction**

Psychological contract, the unwritten agreement between an employer and employee, is changing in the post job security economic environment. With the popularity of contractual, short term employment within organizations, employees are now seeking to create a psychological contact which is more about self-actualization.

This change in the psychological contract has implications on organizations that seek to have a work force that is motivated and committed towards the organizations goals.

The most widely accepted definition is Rousseau's (1995: 9):

“The psychological contract is individual beliefs, shaped by the organization, regarding terms of an exchange arrangement between the individual and their organization.”

Rousseau's (1989) earlier definition is also instructive:

“The term psychological contract refers to an individual's belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations.”

Key features of the concept include the following:

- 1) The psychological contract is based on *beliefs* or *perceptions*. It follows that different individuals (even in the same organization) will have potentially different conceptions of what the psychological contract actually entails.
- 2) The psychological contract is *implicit* rather than explicit. It is thought to be inferred from the promises made or implied by the organization or the employee. Therefore the parties are thought to draw conclusions as to the existence and substance of various *promises* and *obligations* based on the observed behaviors of the other party.
- 3) The psychological contract is based on *perceived agreement* rather than an actual agreement. This suggests the possibility that employees and managers will often disagree as to the content of the psychological contract, and research suggests that this is indeed, often, the case.
- 4) The psychological contract is based on an *exchange* and is therefore founded on the principle of *reciprocity*. The implied promise to behave in a certain way at work, for example, is conditional on the other party providing something as ‘part of the deal’.
- 5) The psychological contract is *ongoing* and *evolving*. Unlike a written legal contract that might be set for a specific period, the terms of the psychological contract are (potentially) being continually ‘re-written’ as the parties interact and mutual expectations, obligations and promises are generated and implied.

### **What is The Psychological Contract?**

The psychological contract according to recent definitions is an individual's beliefs concerning the obligations that exist between the employee and the organization (Lester, Turnley et. al., 2002).

The contract is composed of an individual's perceptions about what they expect the organization to provide (competitive wages, advancement opportunities, job security) in return for what they provide the organization (a fair day's work, loyalty) (Lester, Turnley et. al., 2002). Unlike formal employee-employer contracts, the psychological contract is inherently perceptual and therefore employer and employee may have different interpretations of the implied obligations (Lester and Kickul, 2001).

### **Individual and the Contract**

As De Meuse, Bergmann et. al., (2001) noted, in today's fiercely competitive environment companies focus on corporate goals, profit margins, and stock market prices. The 1980s and 1990s saw a plethora of corporate downsizing, restructures and mergers (De Meuse, Bergmann et. al., 2001). Today this is seen as part of the natural course of doing business.

This has brought about a change in the employer-employee relationship. While in the past employment was a long term contract with an employee acquiring skills 'on the job' and rising through the ranks, today it is "dominated by short term contracts for highly skilled professionals and technical workers" (Smithson and Lewis, 2000, Lester and Kickul, 2001). Today staff are "hired on a need to have basis to perform specific high skill tasks" (Lester and Kickul, 2001) and are 'let go' when their specific skills are no longer required by the organization. As De Meuse, Bergmann et. al., (2001) states the "workplace of today is one of increased workload and stress and decreased job security and commitment".

With the lack of job security employees now focus on immediate job needs and career management through performing meaningful work, personal growth, development of transferable skills, and networking opportunities (De Meuse, Bergmann et. al., 2001, Lester and Kickul, 2001).

This change in the employment environment has changed the nature of the psychological contract. In the past the psychological contract was more geared towards a relational exchange, which was based on aspects such as trust, respect and loyalty between the employer and the employee. Today with the insecure work environment transactional exchange are more prevalent.

De Meuse, Bergmann et. al. (2001) define a transactional exchange as an "explicitly and/or implicitly promise to provide specific, monetary remuneration for certain services performed by the employee ". This change to transactional contracts was predicted by Rousseau and Parks research (1993, as cited in Fedor and Farmer, 1999), which indicated that when a violation of the contract occurs it becomes more transactional and self-interested.

Trust between the two parties is crucial to building a relational psychological contract. The lack of job security would make it difficult to build this trust. Thus as De Meuse, Bergmann et. al (2001 ) suggests the loss of job security has made the employee focus on developing transferable skills and contacts, resulting in a transactional contract being formed.

### **Why is the Psychological Contract Important to the Organization?**

As new markets, competitors, and technologies begin to emerge, organizations increasingly have a "need for skilled employees at every level of the organization" (Lester and Kickul, 2001). "Employees today are often selected and recruited into an organization because their particular skills and expertise can assist the organization in achieving high standards of performance, especially in the short term"(Lester and Kickul, 2001).

With competition increasing and advanced technology becoming more pervasive organizations need to keep performing at its best at all times. To achieve this organizations must have a workforce that is committed and motivated to giving their very best towards the organizations objectives.

Research (Bunderson 2001, Lester and Kickul, 2001) shows that a perceived breach in the psychological contract often results in the employee deliberately reducing their effort towards work and customers. Conversely studies done by Shore and Barksdale (1998, as cited in Lester and Kickul, 2001) showed that employees whose psychological contract is satisfied have a high level of commitment and organizational support.

As Lester and Kickul (2001) stated "the current economic and employment landscape place pressure on how organizations structure, motivate, and retain their employee workforce". By understanding the elements of psychological contracts and recognizing that it is a continually changing and evolving contract, organizations are better placed to create the kind of contract with their employees which would lead to a highly committed and motivated workforce.

### **Why is the concept of the psychological contract so popular now?**

This interpretation of the different forms of the psychological contract suggests some of the reasons for the contemporary popularity of the concept.

While the terms of formal legal employment contracts have undoubtedly changed in most western economies in recent decades as deregulation of labour markets and working conditions, decentralisation of bargaining and de-unionisation have accelerated, many of the changes have occurred behind or beyond the formal employment contract. It is often observed that contemporary work arrangements offer employees a very different 'deal' than traditional work arrangements. Under the traditional deal, employees received a degree of job security, training, development, seniority and guaranteed pay increases, reasonably extensive benefits and career pathways, in exchange for working designated hours according to defined job descriptions. The 'new deal at work' (Cappelli 1999) by contrast, is based on the need to work more intensively across a broader range of tasks, using a greater variety of skills that employees need to have already acquired, and assuming greater accountability for outcomes and high performance in exchange for contingent pay without job security. The different forms of the psychological contract provide a means of interpreting the magnitude of these profound changes at work.

From a different perspective the psychological contract signals a new ground of contestation at work and over work. The fundamental contradiction of contemporary work is the incompatibility of flexibility and commitment (Bratton 2007: 43). Employers, facing intensified competition, have increasingly called for increased productivity and performance from employees. Under the influence of ideas associated with strategic HRM they have sought to achieve this through increasing employee commitment to the job and the organisation as a way of driving and sustaining greater work intensity and high performance. However at the same time they have sought to drive down costs through, amongst other things, greater labour flexibility that has tended to result in harsher working conditions for most employees. The lens of the psychological contract magnifies the ways in which employers are demanding more for less in the contemporary workplace.

## **The Managerial Impact**

According to Maslow's hierarchy the highest need for humans is self-actualisation. Lester and Kickul (2001) states that today employees are becoming "increasingly aware of the none monetary rewards that companies are willing to provide" in exchange for their skills. This suggests that employees are now at a point in time where they are able to seek out self-actualisation.

Stalker (2000) suggested that companies which are successful are the ones that manage to balance the unwritten needs of their employees with the needs of the company. Companies then need to invest time, effort and where needed money to make certain that this balance is achieved. As stated by Lester, Turnley et. al. (2002) the manager acts on behalf of the organization thus inheriting the responsibility of achieving this balance with their employees.

## **How do psychological contracts relate to other concepts?**

Psychological contracts seem very closely related to a number of other concepts often referred to by organisational psychologists, and organisational development and HRM practitioners, including:

*Organisational Commitment.* Organisational commitment can be defined as 'the degree to which an employee identifies with a particular organisation and its goals, and wishes to maintain membership in the organisation' (Robbins et al 2008: 80). The existence of a strong, relational psychological contract would seem to be very similar to a high level of organisational commitment. Studies have indicated a strong correlation between the breach of a psychological contract and lower organisational commitment (eg: Lester et al 2002).

*Employee Engagement.* Employee engagement is now one of the most widely recognised constructs amongst organisational development and HR professionals. It refers to 'an individual's involvement with, satisfaction with, and enthusiasm for the work they do' (Robbins et al 2008: 81). The relationship between engagement and the psychological contract is unclear. While it might be hypothesised that engagement might require a strong relational contract, it might also be possible that employees draw a distinction between their commitment to their work, and their evaluation of their *employer's behaviour*.

*Perceived Organisational Support.* While this concept is much less prominent in organisational psychology (but see: Rhoades and Eisenberger 2002), it is particularly close to the employee's orientation to their psychological contract, measuring 'the degree to which employees believe the organisation values their contribution and cares about their well-being' (Robbins et al 2008: 80).

*Organisational Justice.* Organisational justice, the degree to which processes and outcomes at work are regarded as fair by employees, appears to be very similar to the idea of an intact psychological contract. Research has indicated that various measures of either procedural or distributive justice correlate with various behavioural and attitudinal outcomes in much the same way that measures of the psychological contract do (Conway and Briner 2005: 76). This might suggest that the concept of the psychological contract is redundant given that the concept of organisational justice is virtually a proxy.

### **Managing the Changing Psychological Contract**

Since the psychological contract is dynamic and evolving, organizations need to invest effort into understanding the changes and at various times and when needed renegotiate the contract (Lester and Kickul, 2001). Lester and Kickul (2001) shows that a "pro active approach to the psychological contract is likely to reduce an employees intention to leave" since their needs are more likely to be met by the organization.

Communication is a key element in this and the failure to communicate is seen to be one of the main causes of perceived breaches of the psychological contract (Lester and Kickul, 2001). Lester and Kickul (2001) suggests that open book management techniques when taken liberally can form a framework for providing effective communication between the organization and the employee.

For a successful organization, managing the psychological contract needs to begin even before the hiring of an employee. Niehoff and Paul (2001) states that an organizations publications, the interview process, contract negotiation and the orientation process all contribute towards the formation of the employee's psychological contract with the organization.

An organizations publications and literature creates the first impression of the values espoused by the employer. The interview process then establishes an image of the organization for

potential employees (Niehoff, Paul, 2001) promoting expectations ranging from the tangibles such as pay and benefits, to the intangibles such as "treatment of employees or degree of empowerment" (Niehoff, Paul, 2001).

As suggested by Niehoff and Paul (2001) by providing Realistic Job Previews, such as that done by Cisco Systems (Lester and Kickul, 2001), candidates can be given a clear and realistic view of the actual expectations of the duties, work hours, and performance levels (Niehoff and Paul, 2001). The negotiation process after an offer is made to a candidate, provides a further opportunity to clarify the specific details of the expectations of both parties (Niehoff, Paul, 2001). Finally the orientation program (either formal or informal) gives an opportunity to re-enforce the psychological contract that has been formed.

By having all of these in line with each other and in line with the companies expectations allows the company to form a contract that is more likely to be clearly understood by both parties and has a less chance of being breached.

## **Conclusion**

Demands of the modern economic environment has resulted in both the company and the employee having a changed psychological contract. Today the contract formed is more transactional and about self-actualization. Organizations and their managers need to be aware of this change, and today more than ever invest time and effort in forming and managing the right kind of psychological contract with their employees and prospective employees.

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