

The Psychological Contract

Are unmet expectations harming your employee relationships?

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Many perhaps overlook the exchange agreement between employee and employer but it is a crucial relationship warranting attention and consideration. In a business world heralded by insecurity and transforming at an exponential rate it is vital for employers to develop stable and effective relationships with their employees. The concept of the psychological contract pinpoints underlying processes regarding expectations within the employee-employer relationship. Covered in this paper is an introduction to the notion of the psychological contract including the types, the beneficial and detrimental consequences and its changing nature. Suggestions for how to best manage the psychological contract follow.



The Business World: An Unknowable Future.

In a business world heralded by ambiguity, adjustments and anxiety it has become more important than ever to ensure healthy and progressive relationships between employers and their employees. The increase in global competition intensifies economic fluctuations creating an aura of uncertainty for employers and their employees (Rousseau, 2011). The changing dynamic of organisations makes it more difficult to motivate and retain a dynamic and profitable workforce. In order to combat these difficult times, positive relationships between employers and employees are paramount. A solid working relationship can stamp out detrimental turnover costs, retain vibrant talent and encourage efficient, productive employees committed to the welfare of the business.

This relationship can be referred to and examined by use of the concept of the psychological contract. By understanding and exploring the psychological contract, employers, managers, those in person handling position will be able to incite a faithful, fruitful and fulfilled workforce.

Psychological Contract: The Foremost Fundamentals.

To start, examination of a textbook definition will help shed some initial light on the concept. The psychological contract can be defined as “an individual’s beliefs about the terms of the exchange agreement between employee and employer (Rousseau, 1989). It concerns the idea of an exchange between parties. Individuals enter employment with a set of beliefs, expectations and obligations, which they anticipate being met by their employer. In addition the employer holds a reciprocal set of beliefs expectations and obligations leaving a binding exchange in place. Additionally, it is important to note that the psychological contract does not involve items found in the

employment contract. Instead of objective and defined promises, it concerns more implicit, subjective and malleable ones.

Types of Psychological Contracts.

Clearly, not all psychological contracts are going to involve the same material, and can certainly hold chalk and cheese level differences between employees. However there are two distinct kinds of contract we can use to define the kind of employee-employer relationship. Relational type contracts concern a relationship built on the utmost trust, implicit emotional attachment, and embrace long-term employment. Relational contracts were prominent prior to recent market changes and instability in the business world. As a result of these changes there has been a dramatic increase in transactional type employment. This kind of contract concerns a more direct exchange of commitments and is more concerned with a tit for tat economical transaction.

Figure 1 below summarises the differences.

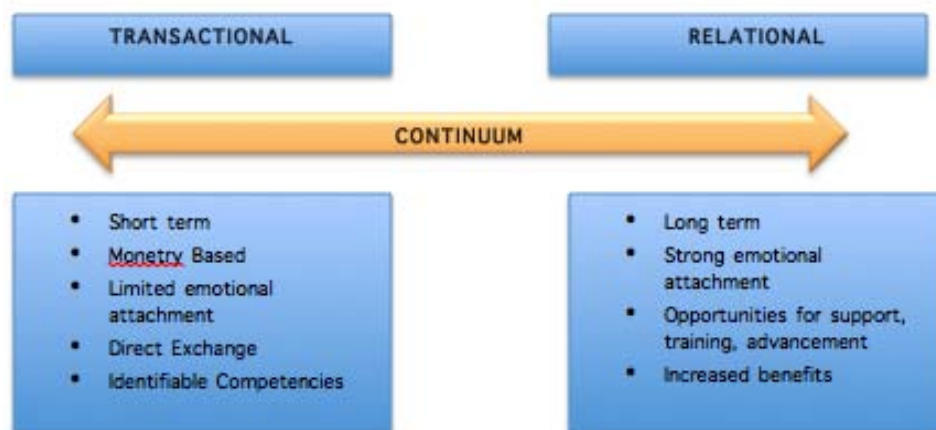


Figure 1: Figure summarising the differences between transactional and relational psychological contracts.

Employees don't simply fall into one category and instead this grouping process works on a continuum. Though there certainly are employees who acutely possess either kind of contract most others fall somewhere between the transactional and relational ends. By acknowledging the different kinds of contracts businesses are better able to understand their employees situation and offer the most suitable psychological contract content.

Contract Fulfillment: Something to aim for.

When these promises and expectations are met the psychological contract can be described as being fulfilled. Contract fulfillment is certainly something to aim for.

When expectations are met this can correspond to positive work outcomes like increased job satisfaction, organisational citizenship behavior and decreased turnover.

When an organization is meeting or exceeding employee expectations they are more likely to reciprocate with actions, which intend to benefit the organization as a whole (Turnley, Bolino, Lester & Bloodgood, 2003). It is important to manage the psychological contract to ensure its fulfillment, and this is better achieved when each party's contract is aligned and high in mutuality and reciprocity.

Three States of Psychological Contract Fulfillment (Rousseau, 2011).

- **Mutuality:** The extent to which the employee and employer hold similar beliefs regarding the content of their psychological contract. In other words, if contract terms are salient, openly discussed and agreed by both parties this constitutes a high level of mutuality. Following on, if there exist high levels of mutuality this tends to correspond to contract fulfillment.
- **Alignment:** The degree to which an individual's psychological contract involves balanced reciprocity between employee and employer obligations. If

the contract itself is fair and balanced, where neither side is particularly undercut by demanding obligations then this corresponds to an aligned contract. It is common for most individuals to seek out balanced relationships when it comes to their employment relationship (Blau, 1964).

- **Reciprocity:** The extent to which both parties report the obligations enacted as equal. In short, is the opposing party meeting the same level of expectations? If reciprocity exists then it increases the levels of contract fulfillment and corresponding performance (Dabos & Rousseau, 2004).

Communication of contract content is key. If both parties know what the other expects from them obligations and promises can be easily recalled and performed. It is important that there is consistency and structure with HR and management frameworks in order for constructive communication to flow.

Breach and Violation: The Danger Zones.

The **breach** of a psychological contract is certainly something to avoid at all costs. It occurs when one or both parties fail to meet the obligations of the other. Reactions to a broken contract can be severe and ultimately cause detrimental workplace outcomes. Breaches can lead to **violation**, the emotional response. These often encompass negative emotional states like anger, disappointment or betrayal and can lead to worsened job performance, withdrawal and leaving the organization.

Unfortunately, breaches are a regular and normal occurrence at workplaces. In a study by Robinson and Rousseau (1994) 55% of newly hired individuals thought the employer had violated their psychological contract within the first two years.

Similarly, small daily broken promises are a common occurrence in workplaces (Conway & Briner, 2002). Examples of simple day-to-day breaches can be an

employee wasting company time by surfing the internet or an organization failing to visibly acknowledge an employees' good work. It may seem that contract breaches are simply unavoidable, and perhaps they are. However research goes a long way toward reducing the number of contract breaches and reducing the subsequent violation responses.

Initial Work-place Entry.

When employees first enter a new place of work, it is a time of information seeking, where they attempt to discover its norms and functioning in order to slot appropriately in. Employees rely on work colleagues, supervisors, managers, and induction practices like orientation and mentors to inform their expectations and beliefs regarding the newly established psychological contract. It has been found that individuals who are exposed to organizational run socialisation techniques are less likely to experience contract breach compared with those who seek information from peers (Hermida, Luchman, Brooks-Shesla & Tetrick, 2009 as cited in Rousseau, 2011). Similarly psychological contract breach was found to be significantly more likely when employees had not experienced a formal process of socialisation, nor had much contact with the organization prior to being hired (Robinson & Wolfe Morrison, 1994). Thorough organization informed socialisation practices are essential for true communication of the company's position, expectations and potential returns. Peers may paint a subjective and unrepresentative picture, leading to unmatched content in the psychological contract and to its eventual breach.

The Context.

The situation in which the contract breach takes place can have a significant impact on the perceived seriousness. At a time when businesses are forced to make difficult employee decisions like pay reductions and job losses, this will no doubt influence

one's psychological contract. Procedural justice is an important concept to consider when bleak decisions are necessary. An employee is far less likely to interpret a breach adversely if their company has just reason to (Rousseau, 1995). Consider a lower level worker had his pay cut because of a harsh financial season while senior managers did not suffer the same consequences. This employee is far more likely to interpret this breach as a violation and emotions of betrayal and anger would be roused. The idea of intentionality is present here too. If an employee believes a breach was avoidable or due to the organisation's lack of consideration then the breach will be interpreted as a violation and will no doubt result in feelings of resentment and betrayal.

Forever Changing: Adaption and Transformation.

Finally it is necessary to cover the changing nature of the psychological contract. Change can be initiated from either the employer or employee. An employee's family situation may change requiring more lenience from their employer with regards to hour flexibility. Meanwhile the organization may want to initiate a restructuring of the company, which may lead to some unwanted changes. Either of these examples requires a reassessment and potential reform of the psychological contract. Usually the process of **accommodation** takes place where new demands are simply incorporated into the current psychological contract (Rousseau 2011). However, if changes presented are of a more radical nature the process of **transformation** can take place. This refers to the conscious cognitive effort to shift the way one thinks about their employment relationship (Rousseau, 1995). Consider a standout lower level employee who held a fairly transactional relationship and were picked out for a management position. They would probably choose to change the way they

considered their employer: as an organization who considers them a valuable employee and as a result become more open to new up-skilling opportunities and prompted to instigate a deeper emotional attachment.

Impact of Organisational Change

In the ever-malleable world of businesses, organisational changes are increasingly necessary and can have some important influences on the psychological contract. In a recent study by Chaudry, Coyle-Shapiro and Wayne (2011), relational psychological contracts were revised in response to the restructuring of an organisation. If employees perceived unjust intent from organisations this correlated in downwards revision of the contract. In other words they felt as though a breach was present. However the action of pre-warning of change corresponded to an up-wards revision of the psychological contract. The notion of foreseeability is perceived in a positive light where employees perceive their welfare is considered and respected by the employer. It is valuable for businesses to tread carefully when change is necessary for a business. Thorough communication of reasoning, and advanced warning is essential to ensure the employee-employer relationship is not rocked.

Solutions and Suggestions.

Throughout the above discussion of the psychological contract, one key solution is the matter of communication. By making the psychological contract salient, opening up possibilities for negotiation and fostering thorough understanding of each party's expectations will help ensure a satisfied, vibrant and effective workforce. The solutions proposed target three areas of the employment process: initial experiences, ongoing employee management and strategies for implementing organisation change.

1. Initial Experiences.

Initial entry into an organisation is a crucial moment for the psychological contract's development. Initial experiences help shape the expectations and beliefs regarding the rest of the employment relationship. Therefore, relevant, accurate and key information needs to be effectively portrayed to each party about what they require and expect from the other.

- **Recruitment and selection processes.** If the wrong person is hired for the job then psychological contract breach is likely and quitting or termination is probable. It is important for businesses to ensure the individual is aware of the job requirements and the business's outlook. Re-evaluating selection and recruitment processes can help pinpoint weak areas and following reformation can help ensure efficient selection of employees.
- **Organisational socialisation.** The research points out that formal and thorough socialisation practices are best for relaying crucial information about the organizations goals, beliefs and expectations. By adopting or adapting a current formal induction process will help ensure new employees receive accurate information in order to shape better aligned and more mutual psychological contracts.
- **Initial managerial meeting.** In addition to employees initial induction an initial one-on-one meeting with a manager would better mold a frank and well-matched contract. This would be a more informal opportunity to ask employees questions about what their expectations from the organization are. For example questions like the following may be appropriate: Where they would like to see themselves in five years? What motivates them? What is their family situation like? This meeting is suggested to be a less formal and more conversational. This allows managers to really get a grip on the

fundamental motivations and expectations from each individual employee. This meeting would also give employees opportunity to ask questions and negotiate the terms of their new relationship. Finally such a meeting would allow direct and overt exchange agreements to be made if the organization deemed this appropriate.

2. Ongoing Employee Management.

The psychological contract is subject to change from subsequent events and new information. Thus it is important that it is effectively managed. Proposed are follow up meetings with management and opportunities to raise issues if necessary.

- **Ongoing manager meetings.** In addition to the initial manager meeting, follow up meetings would allow the psychological contract to be openly discussed and re-evaluated if necessary. If external events have influenced the current relationship then terms of the contract can be discussed and negotiated. For example, if an employee is about to start a family they may wish to withdraw from a more relational and career-orientated path to a more transactional but flexible contract. Even if contracts are being fulfilled these meetings can foster engagement with an organisation and ensure employees that their welfare is of concern. It is important to note that these meetings are intended to be separate from formal performance appraisals and are a more relaxed discursive nature.
- **Opportunity to raise concerns.** It is important for organisations to offer a managerial presence among staff and in particular take an approachable stance. If employees feel their employers aren't meeting obligations the motivation to resolve breaches will be increased if higher-ranking staff are present and accessible. This ensures negative-impacting breaches are resolved

sooner before severe violation occurs and corresponding negative work outcomes surface.

3. Dealing with Organizational Change.

In today's fluctuating economy, businesses are being forced more than ever to reshuffle and reorganise their companies to stay afloat and ahead of the competition.

As a result employees are presented with changing work-place circumstances.

Whether this simply means hour-reduction, office relocation or redundancies, change can often have a negative impact on the psychological contract, with breaches hitting left, right and centre. Immense organizational changes may result in transformational contract changes and these need to be carefully settled. Presented here, are several tips for minimising employee relationship damage when surmountable changes are necessary.

- **Communicate changes in advance.** The degree of foreseeability is important to consider when organizations set out to make changes. The more advanced warning employees receive regarding the workplace alterations the more likely this will avoid contract violation. Pre-warning indicates intentions to support employee welfare and thus it is likely that a positive relationship can remain intact.
- **Communicate how the change will impact employees.** In addition to advanced warning it is necessary to communicate specifically how the changes will affect employees. Even if the impact is not finalised, keeping employees in the loop will ensure they feel cared for in unstable times.
- **Justify changes to employees.** Intentionality can be a dangerous perception to play with. If employees perceive will-full intent in their employer's actions, then serious breach and violation are likely. Ensure that comprehensive

justification is given when changes are necessary; as a result employees are likely to be more accepting and responsive in their attitudes to the adjustments.

Conclusion.

Considering and communicating employee-employer expectations are vital requirements for achieving fulfilled psychological contracts and corresponding vibrant and effective employees. If not only for reducing turnover and inciting valuable staff member, considering the psychological contract will likely have positive influence on staff mentalities, welfare and overall happiness. And after all working towards improving anyone's happiness could never be considered a bad day's work.

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