



PSYCHOLOGICAL CONTRACT: WHY SHOULD EMPLOYERS CARE ABOUT IT IN THE 21ST CENTURY?

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Abstract

Globalization and rapid technological development have led many organizations to change the management style following mergers and acquisition, reshuffling and downsizing of the organizations. It has been suggested that these organizational changes alter the nature of the psychological contract often leading to violation of psychological contract which are associated with negative impacts on organizations and restricting to organizational growth. There is a crucial need for a proper understanding of the psychological contract and intense exploration in the organizations following the rapid changes in the business environment as the contents of the psychological contracts also changes over time from organization to organization. This paper attempts to cast light on the need for constant renegotiation of the psychological contract in the 21st century so that organizations should review the content of the psychological contract in organizations so as to harness its benefits in the contemporary business.

Key Words: Psychological Contract, Organizational Changes, Violation of Psychological Contract, Organizational Growth.

Introduction

In the new global economy due to increased globalization, rapid technological development, and asymmetric economic instability, organizations frequently change their strategies aiming at restructuring their organizations in order to survive in the strongly competitive environment. These changes usually involve the renegotiation and alteration of the employment agreement to fit the changing circumstances (Guzzo & Noonan, 1994; Lucero & Allen, 1994) which give a sense of insecurity in employees (Westwood, Sparrow & Leung, 2001). It has been argued that these changes alter the character of psychological contracts that often leads to contract violations (Morrison & Robinson, 1997), which are associated to negative impact on employee attitudes and behaviors like absenteeism, turnover, mistrust, anger, lower performance (Robinson et al., 1994; Zhao, H., Wayne, S.J., Glibkowsky & Bravo, 2007; Robinson & Rousseau, 1994; Robinson & Wolfe Morrison, 1995; Turnley & Feldman, 2000).

1. Psychological Contract

The psychological contract is defined as individuals' beliefs regarding expectations and obligations between the individuals and their organization (Rousseau, 1995: 9). The psychological contract consists of agreements between organization and its employees specifying their offerings, expectations, values, promises, and obligations between the two parties outside the written contract (Inocencia M. Martínez-León., 2012). It is obvious that employees will have expectations of what the employers will do for the employees and the employees also have a perception of what they are expected to do certain things in response. The concept does emphasize that there is a critical set of implicit understandings that inform the expectations, attitudes and behavior of employees and employers. Psychological contract is thus beyond the written contract of employment at the workplace.

2. Key Features of Psychological Contract

According Conway, Neil & Briner, Rob B. (2005) the key features of psychological contract are as follows:

- a. It is based on beliefs or perceptions.
- b. It is implicit rather than explicit. It is derived from the promises made or implied by the organization or the employee.
- c. It is based on perceived agreement rather than an actual agreement.
- d. It is based on an exchange and is therefore founded on the principle of reciprocity.
- e. It is ongoing and evolving. It is being re-written continually.

3. Types of Psychological Contract

Psychological contracts are classified as either relational (social and long-term) or transactional (economic and short-term), however, many psychological contracts actually contain elements of both something Rousseau refers to as a hybrid or "balanced contract" (Rousseau, 2004).

- (a) **Transactional Contract:** Transactional contract is based on exchanges pertaining to a short-term period and the employee is only obliged to perform a fixed set of duties, limited to doing only what they are paid to do. It involves financial rewards in exchange for fairly tightly defined sets of employee behaviors.
- (b) **Relational Contract:** Relational Contract is based on a longer term relationship and involves monetizable as well as non- monetizable exchanges. Broader opportunities are provided in exchange for a deeper and more extensive commitment to the job and the organization.



- (c) **Balanced Contract:** In the balanced contract, both parties are contributing to the other's needs and development. There are two types:
- (i) External Employability: The employee is being expected by the employer to develop marketable skills through career development and in return, the employer is obliged to enhancing the employee's employability outside the organization and within for long period of time.
 - (ii) Internal Employability: The employee is being expected by the employer to develop skills which are valued by the organization itself, and the employer is obliged to provide career development opportunities inside the organization.

4. Contents of Psychological Contract

Herriot, Manning and Kidd (1997) surveyed UK employees and asked about the expectations of employees from the organization and the expectations of organization from the employees. The outcomes of the study are as follows:

Expectations of Employees from the Organization	Expectations of Organization from their Employees
<ul style="list-style-type: none"> • Fair and equitable pay with respect to market and across the company. • Safe and friendly environment. • Fairness in the process of selection, appraisal and promotion • Providing adequate training. • Providing job security as much as is possible. 	<ul style="list-style-type: none"> • To work contracted hours. • To do a good job in terms of quantity and quality. • To be honest. • Dressing and behaving correctly. • Willing to go beyond job description when required.

The major challenges for the employers are the rapid changes of the organizational strategies that create difficulties to understand and identified the contents of the psychological contract of a particular organization in the 21st century as the content of the psychological contract also differs from organization to another organization as for store companies, accounting organizations and mining organizations (Schein, E. H., 1965; Barnes, L. R., & Aichinger, J., 2010; Wellin, M., 2007). And not just the contents of the psychological contracts are different from organization to organization, it also changes over time as the organization's needs and the employees' needs change over time (Schein, E., 1965). In India, the organizations are still guided by their old practices of employment relationship that represents transactional contents as the prime organizational obligations towards its employees but the employees showed preference towards relational contents (Aggarwal U., & Bhargava S., 2009) that will lead to violation of psychological contract. In other words, the employer and employee need constant renegotiation and mutual understandings from both sides in identifying the contents of contract.

5. Psychological Contract Fulfillment and its Benefits

Bies, R.J., & Tripp, T.M. (1995) argue that the state of the psychological contract in terms of fulfillment will result to positive employee attitudes, which in turn will have an impact on employees in fulfilling their promises. The psychological contract fulfillment by the employer is positively related to employee commitment and brings significant benefits to the organization in the form of efficiency (Coyle-Shapiro et al, 2000; Sturges, J. et al., 2005). Psychological contract influences job satisfaction and organizational commitment (Guest D., et al. 1996). It is obvious that when the employees are satisfied, committed and motivated, employees will keep their promises to the organization. The fulfillment of employers' promises influenced the fulfillment of the employees' promises to the organization and in turn increases organizational performances (Anastasia A. Katou, 2013).

6. The Consequences of Psychological Contracts Violations

After adopting organization changes in the business, sometimes the employees feel that the organization fails to meet the psychological contract and their expectations are not being realized. This is known as the psychological contract violation (Rousseau, 1995; Beardwell et al., 2004). Violation result from a variety of factors including perceived unfulfilled promises, expectations, and obligations as well as both parties having different expectations (Wolfe Morrison & Robinson, 1997). Furthermore, perceptions of contract violation are likely to have the same negative impact on employees who plan to have relational contracts as well as employees who plan to have transactional contracts with their employer (Robinson & Rousseau, 1994). Both breach and violation of psychological contracts have been associated with absenteeism, turnover, mistrust, anger, lower performance, emotional withdrawal, and in some cases, litigation, especially where the breach was perceived to be purposeful (Nicholson & Johns, 1985; Robinson et al., 1994; Robinson & Rousseau, 1994; Robinson & Wolfe Morrison, 1995; Turnley & Feldman, 2000; Rousseau, 2004). Psychological contract violation also lead to reduced job satisfaction, reduced organizational trust, reduced organizational commitment, reduced loyalty, reduced willingness to participate in organizational activities and decreased in-role performance (Coyle-Shapiro & Kessler, 2002; Robinson & Wolfe Morrison, 1995; Turnley & Feldman, 1999). Moreover, contract breach and violation may lead an individual to focus on his or her individual career rather than provide loyalty to the organization (Rousseau & Wade-Benzoni, 1995). When



employees believe and start to perceive that employers have fail to fulfill their given promises, they will in turn fail to fulfill their given promises as well.

Conclusion

There is a crucial need for proper understanding of psychological contract and deep exploration in the content of psychological contract within the organization following the rapid changes in the business environment. If due care is not given, the violations of psychological contract will result to undesired behavior of the employees such as the intention to quit, absenteeism, low work performances and less loyalty towards the organization. Organizations should therefore pay special attention to psychological contract to prevent its negative impacts and harness its benefits for the organizational growth and development. Therefore, the employer and employee require constant renegotiation and the contents of psychological contract should be rewritten from time to time through mutual understandings from both sides within the organization in the 21st century.

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