

**INFLUENCE OF PSYCHOLOGICAL CONTRACT ON EMPLOYEE-EMPLOYER
RELATIONSHIP**

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ABSTRACT

The relationship between an employer and an employee is typically guided by formal agreements, be they individual letters of understanding, union-management contracts or the government legislation that sets the standards for fair and equitable work. But there is another contract that can be even more important called the psychological contract. The psychological contract may be best understood as the informal understanding of the relationship between an employer and employee. It is a belief that some form of promise has been made that both parties agree to abide by, such as mutual expectations of honesty, respect, fairness, loyalty and dedication. It is an unwritten and unlike the written contract, is continually changing. By nature it is generally unspoken and dependent on the interpretation of all parties. The present paper throws light on the concept of psychological contract and some of its models. It also explains the probable outcomes of psychological contract violation.

Keywords: Psychological Contract, Employee-Employer Relationship, Contract Violation.

INTRODUCTION

Employment flexibility has become a management mantra, and there is evidence that the various forms of employment flexibility have been increasingly applied in advanced industrial societies in recent years. Although employment flexibility takes many forms, one that appears to hold particular attractions for organizations is contract flexibility. This entails the use of fixed-term or temporary contract arrangements as a basis on which to employ a proportion of the workforce. There appear to be benefits through the ability to adjust the workforce size rapidly as demand for the firm's products or services shifts, there may be less need to invest in training and development of contract staff; and contract workers may not incur the range of substantial indirect staff costs. Von Hippel *et al.* (1997) summarised the benefits to organizations in the US in terms of cutting costs, increasing flexibility and avoiding restrictions. Matusik and Hill (1998) added the importance of contingent workers as a source of knowledge creation within companies.

The Psychological Contract is quite different to a physical contract or document - it represents the notion of 'relationship' or 'trust' or 'understanding' which can exist for one or a number of employees, instead of a tangible piece of paper or legal document which might be different from one employee to another. The Psychological Contract is an increasingly relevant aspect of workplace relationships and wider human behaviour.

Descriptions and definitions of the Psychological Contract first emerged in the 1960s, notably in the work of organizational and behavioural theorists Chris Argyris and Edgar Schein. Many other experts have contributed ideas to the subject since then, and continue to do so, either specifically focusing on the Psychological Contract, or approaching it from a particular perspective, of which there are many. The Psychological Contract is a deep and varied concept and is open to a wide range of interpretations and theoretical studies.

Primarily, the Psychological Contract refers to the relationship between an employer and its employees, and specifically concerns mutual expectations of inputs and outcomes. In management, economics and HR (human resources) the term 'the Psychological Contract' commonly and somewhat loosely refers to the actual - but unwritten - expectations of an employee or workforce towards the employer.

The Psychological Contract represents, in a basic sense, the obligations, rights, rewards, etc., that an employee believes he/she is 'owed' by his/her employer, in return for the employee's work and loyalty. This notion applies to a group of employees or a workforce, just as it may be seen applying to a single employee.

OBJECTIVES

- To understand the concept of psychological contract and its models.
- To explore the outcomes of violation of psychological contract.

LITERATURE REVIEW

The literature on the psychological contract has expanded considerably over the past 10 years, primarily under the influence of Rousseau (1989; 1995; 2001). However, the concept has a much longer and deeper pedigree, with its antecedents evident in earlier work on social exchange theory. Central to this theory is that, social relationships have always been comprized of unspecified obligations and the distribution of unequal power resources (Blau, 1964). In terms of organizational analysis, social exchange constructs are clearly evident in the work of Argyris (1960), Levinson *et al.* (1962), and Schein (1965; 1978). Argyris (1960) used the term 'psychological work contract' to describe an embeddedness of the power of perception and the values held by both parties (organization and individual) to the employment relationship. Significantly, this earlier literature illustrates the point that employment relationships are shaped as much by a social as well as an economic exchange (Fox, 1974). Developing this further, Levinson *et al.* (1962) saw 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". According to Schein (1978), these expectations between the organization and individual employee do not only cover how much work is to be performed for how much pay, but also a whole set of obligations, privileges and rights. Schein's insightful contribution alerts us to the idea that labour unrest, employee dissatisfaction and worker alienation comes from *violations* of the psychological contract that are dressed up as explicit issues such as pay, working hours and conditions of employment which form the basis of a negotiable rather than a psychological agenda.

A basic definition of the Psychological Contract appears in Michael Armstrong's excellent Handbook of Human Resource Management Practice (2006) as "The employment relationship consists of a unique combination of beliefs held by an individual and his employer about what they expect of one another".

Armstrong references Edgar Schein's (1965) definition of the Psychological Contract, as being an implication that, "There is an unwritten set of expectations operating at all times between every member of an organization and the various managers and others in that organization".

Armstrong highlights other references, within which these points are especially notable:

"Because psychological contracts represent how people interpret promises and commitments, both parties in the same employment relationship can have different views" (D M Rousseau and K A Wade-Benzoni, 1994).

"A dynamic and reciprocal deal - New expectations are added over time as perceptions about the employer's commitment evolve, concerned with the social and emotional aspects of the exchange" (P R Sparrow, 1999).

Notice how those three definitions of the Psychological Contract cited by Armstrong progressively increase in their subtlety and sophistication.

PSYCHOLOGICAL CONTRACT MODELS

Much of the theory surrounding Psychological Contracts is intangible and difficult to represent in absolute measurable terms. Diagrams can be helpful in understanding and explaining intangible concepts. Here are a couple of diagram interpretations offered as useful models in understanding Psychological Contracts.

Psychological Contract - Venn diagram

Here is a Venn diagram representing quite a complex view of the Psychological Contract, significantly including external influences, which are often overlooked in attempting to appreciate and apply Psychological Contracts theory. Venn diagrams (devised in 1880 by British logician and philosopher John Venn, 1834-1923) are useful in representing all sorts of situations where two or more related areas interact or interrelate.

The Venn diagram below provides a simple interpretation of the factors and influences operating in Psychological Contracts.



- vc : visible contract - the usual written employment contractual obligations on both sides to work safely and appropriately in return for a rate of pay or salary, usually holidays also, plus other employee rights of notice and duty of care.
- pc : psychological contract - which is hidden, unspoken, unwritten, and takes account of the relationship references (r) between employee and market (which includes other external factors), also the employer's relationship with the market (also r), and the visible contract (vc). Note that only the visible contract (vc) element is written and transparent. All the other sections are subject to perceptions until/unless clarified

Psychological Contract 'iceberg' model

This Psychological Contracts 'iceberg' diagram is helpful to illustrate some of the crucial aspects and influences within Psychological Contracts theory. For team-builders and trainers, and leaders too, it is also potentially a useful tool for explaining and exploring the concept and its personal meaning for people.



Left side of iceberg = employee inputs (and employer needs).

Right side of iceberg = rewards given by employer (and employee needs).

Above the water level: factors mostly visible and agreed by both sides.

Work | Pay = visible written employment contract.

Black arrows = mostly visible and clear market influences on the work and pay.

Red arrows = iceberg rises with success and maturity, experience, etc., (bringing invisible perceived factors into the visible agreed contract).

Below the water level: factors mostly perceived differently by both sides, or hidden, and not agreed.

Left side of iceberg = examples of employee inputs, which equate to employer expectations - informal, perceived and unwritten.

Right side of iceberg = rewards examples and employee's expectations.

Blue arrows = influences on employee and employer affecting perceptions, mostly invisible or misunderstood by the other side. An iceberg is said to be 90% hidden beneath the water.

This metaphor fits the Psychological Contract very well, in which most of the Contract perceptions are unwritten and hidden, consistent with its definition.

This is especially so for junior workers in old-fashioned 'X-Theory' autocratic organizations, where mutual expectations typically have little visibility and clarity. Here we might imagine that the iceberg is may be 95% or 99% submerged.

By contrast the Psychological Contract between a more modern enlightened employer and its employees, especially senior mature experienced and successful staff, is likely to be much more clearly understood and visible, with deeper inputs and rewards, formally and mutually agreed. Here the iceberg might be only 60% or 70% submerged. These percentage figures are not scientific - they merely explain the way the model works.

The iceberg metaphor extends conveniently so that the 'sky' and the 'sea' represent external and market pressures acting on employee and employer, affecting the balance, and the rise or fall of the iceberg. As the iceberg rises with the success and experience of the employee, so does the contract value and written contractual expectations on both sides. Increasingly deeper inputs and rewards emerge from being hidden or confused perceptions below from the water-line, to become visible mutual contractual agreement above the water-line. The process can also operate in reverse, although in a healthy situation the natural wish of both sides is for the iceberg to rise.

PSYCHOLOGICAL CONTRACT VIOLATION AND ITS IMPACT

A violation occurs when one party in a relationship perceives another to have failed to fulfil promised obligation(s). Since contracts emerge under assumptions of good faith and fair dealing (MacNeil, 1985) and involve reliance by parties on the promises of the other, violations can lead to serious consequences for the parties involved. When a psychological contract is violated, the responses are likely to be more intense than in the case of 'unfulfilled expectations'. The intensity of the reaction is attributable not only to unmet expectations of specific rewards or benefits, but also to more general beliefs about respect for persons, codes of conduct, and other patterns of behavior associated with relationships (Rousseau, 1989). For example, a person may expect to be paid market wages in exchange for hard work and feel disappointed when not. A person promised market wages in exchange for hard work who does not receive them feels wronged. Broken promises produce anger and erode trust in the relationship and thus, are expected to have more significant repercussions than unmet expectations.

When employees perceive that the contract has been broken, there exist various outcomes:

- **Exit:** Often the last resort when dealing with contract violations. It entails voluntary termination of the violated relationship.
- **Voice:** Voicing any feelings to help reduce losses and restore trust.
- **Silence:** A form of non-response, which reflects a willingness to endure or accept unfavorable circumstances in the hope that they may improve.
- **Destruction/Neglect:** This can vary from neglect of one's duties to the undermining of the organization by performing counterproductive behaviours like vandalism, theft and work slowdowns.

Correspondingly, if an employer perceives that the employee has broken the psychological contract there are several outcomes:

- **Firing:** Often executed when the employee has behaved in ways that are entirely unacceptable to the organization's mission and strategies.
- **Voicing:** This can, depending on the seriousness of the registered violation, be done through a verbal reprimand and/or a written warning or suspension.
- **Silence:** For several reasons the organization may decide not to take any action, in the hope that things will improve.
- **Degrading/Setting up to fail.** The employee can either be assigned low-level jobs that damage his or her esteem in the eyes of fellow workers, or difficult tasks, which he or she will not be able to accomplish. In both cases the pay remains the same. However, the purpose of the action is to elicit the employee's voluntary exit.

CONCLUSION

The increasing competition and changing expectations among employees have prompted a growing disillusionment with the traditional psychological contract based on lifetime employment and steady promotion from within. Consequently, companies must develop new ways to increase the loyalty and commitment of employees.

Violation of the unwritten psychological contract can be even more destructive to the individual and the organization than breaking the formal agreement. It is therefore vital that both parties be intentional in their expectations of one another. Open discussion of expectations of each other is critical.

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