PSYCHOLOGICAL CONTRACT- A CONCEPTUAL FRAMEWORK

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ABSTRACT

In the recent business environment we experience immense changes affecting the current working of organizations in terms of nature of jobs, downsizing and drastic changes in the technology & market demands which have gone beyond the traditional structure of organizations. This has an adverse effect on the relationship of its workers and employees which becomes the reason for variations and misconceptualization of perceptions within the organizations. Therefore, this influences the need for psychological contracts.

Psychological contract is a newly arousing organizational term that interprets the fulfillment and non-fulfillment of organizational relationships in terms of mutual obligations, expectations and promises. This phenomenon being an established term in different parts of the world has only now taken its troll in India.

Lately, we see and hear of numerous issues of tangled employer and employee relationships across the country. Psychological contract has its tune to epitomize its existence explicitly and implicitly. This article discusses on the major conceptual parts of psychological contract which will include importance and significance of psychological contract, difference between psychological and employment contracts, types, causes and effects of breach and violation of the contract.

Key words: Breach, Employment contracts, Importance, Psychological Contract, Significance, Violation.

1. INTRODUCTION
Psychological contract had its existence since 1960’s but the importance and proactive need was felt only in late 1990’s due to economic downturn. The reason behind its necessity is a very fundamental phenomenon that is being studied by researches. This article will provide an outline of the meaning, nature and importance of psychological contract as well how the psychological contract differentiates itself with the legal employment contract, causes and effects of breach and violation of contract. Psychological contract is basically measured from an employee perspective though Guest (1998) points out that it is largely in the ‘eye of the beholder’. Perception of each party differs according to the individual’s belief and values and they are destined to assume a particular course of action as per their terms of understanding and interpretation. Therefore, employers have to know what employees expect from their work and vice-versa and this is where reciprocity and mutuality of either of the parties comes into existence.

The psychological contract offers a framework for monitoring employee attitudes and priorities on those dimensions that can be shown to influence performance (Chartered Institute of Personnel and Development (CIPD), 2010). The early approaches of Argyris (1960), Levinson (1962) and Schein (1965;1978) towards conceptualizing the psychological contract as a form of social exchange rested upon the need to understand the role of subjective and indeterminate interactions between two parties: employer and employee. To this end, the expectations of both parties and the level of mutuality and reciprocity needed to be considered jointly in order to explain the sources of agreement and disparity (Cullinane & Dundon, 2006).

2. NATURE OF PSYCHOLOGICAL CONTRACT
Psychological contracts are an individual’s beliefs regarding reciprocal obligations. Beliefs become contractual when the individual believes that he or she owes the employer certain contributions (e.g. hard work, loyalty, sacrifices) in return for certain inducements (e.g. high pay, job security) (Rousseau, 1990).

Rousseau (1995) therefore argues that the nature of psychological contract is subjective to perception which differs between individuals. Second, the psychological contract is dynamic, which means it changes over time during the relationship between the employer and employee. Third, the contract concerns mutual obligations, based on given promises, in which both parties invest in their relationship with the expectation of a positive outcome for them. (Anderson & Schalk, 1998).

Researchers have utilized the concept of the psychological contract in a variety of ways (Roehling, 1997) but it is important to recognize that there are significant aspects of all definitions of the psychological contract which include elements such as values, beliefs, expectations and aspirations of both the employee and employer (Middlemiss, 2011).

Despite the fact that the psychological contract is unique and idiosyncratic in nature, there are in general two kinds of psychological contract: transactional and relational contracts (explained in brief under types of psychological contract). These contracts have been argued to differ on four important dimensions with respect to the focus of the contract; tangibility, scope, stability and time frame (Rousseau and McLean-Parks, 1993; McNeil, 1985; Anderson & Schalk, 1998) to which two more dimensions were then added in the works of Sels, Janssens & Brande (2004) exchange symmetry and contract level.
3. IMPORTANCE OF PSYCHOLOGICAL CONTRACT

Anderson and Schalk, (1998) make it evident through their interaction with the employees that the psychological contract is an explanatory notion. It has an impressively high ‘face validity’ and everyone agrees that it exists as most employees are able to describe the content of their contract.

When an individual perceives that contribution that he or she makes obligate the organization to reciprocity (or vice versa), a psychological contract emerges. A belief that reciprocity will occur can be a precursor to the development of a psychological contract (Rousseau, 1989)

When intimates start counting what each brings to the relationships, there arouses a reason to question the shape that relationship is in. Looking into the necessity of psychological contract in organizations and institutions, it motivates workers to fulfill commitments made to employers when workers are confident that employers will reciprocate and fulfill their end of the bargain. Employers in turn have their own psychological contracts with workers, depending upon their individual competence, trustworthiness and importance to the firm’s mission (Rousseau, 2004). Some employees might feel that the organization is failing to meet its obligations and view their expectations not being realized. This could affect employee's overall loyalty and performance (Rousseau, 1995; Beardwell et al., 2004; Sarantinos, 2007) for now is an era of employment relations than industrial relations (Guest, 1998).

Employees in general claimed that they felt less secure in their jobs compared to a few years ago. The reasons they gave were primarily associated with the declining levels of demand and the consequent reduction in production levels (Martin; Staines; & Plate, 1998). Psychological contract is a belief that the main expectation of employees in return for their input to the company was a level of employment stability both in terms of working environment and job security (Sarantinos, 2007). What is important in determining the continuation of the psychological contract is the extent to which the beliefs, values, expectations and aspirations are perceived to be met or violated and the extent of trust that exists within the relationship (Middlemiss, 2011).

4. DEFINITION

Despite the interest and wealth of literatures pertaining to the psychological contract, there remains no one or accepted universal definition (Anderson and Schalk, 1998). Psychological contract has been defined on the basis of unwritten reciprocal expectations, implicit contract, perceptions and beliefs.

‘A set of unwritten reciprocal expectations between an individual employee and the organization' (Schein, 1978).

‘An implicit contract between an individual and his organization which specifies what each expect to give and receive from each other in their relationship’ (Kotter, 1973).

‘The perceptions of both parties to the employment relationship, organization and individual, of the obligations implied in the relationship. Psychological contracting is the process whereby these perceptions are arrived at' (Herriot and Pemberton, 1995).

Rousseau’s development in the field of psychological contract plays a well defined role, the latest development made in 1995, in her book, defines psychological contract as, “individual’s beliefs, shaped by the organization, regarding terms of an exchange agreement between the individual and their organization”. Beliefs here are the promises, obligations and expectations of the parties to the contract (Conway, 2005). A clear explanation to the above terms;
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Belief | Definition | Examples |
--- | --- | --- |
**Promise** | 1. ‘a commitment to do (or not to do) something’ (Rousseau and Parks, 1993)  
2. ‘an assurance that one will or will not undertake a certain action, or behaviour’ (Concise Oxford Dictionary 1996) | “I will get the reward because that was the deal” |
**Obligation** | 1. ‘a feeling of inner compulsion from whatever source, to act in a certain way towards another, or towards the community; in a narrower sense a feeling arising from beliefs received, prompting to service in return; less definite than duty, and not involving, the ability to act in accordance with it’. (Drever, Dictionary of psychology, 1958)  
2. ‘the constraining power of a law, percept, duty, contract, etc.’ (Concise Oxford Dictionary, 1996) | “I should get the reward because I worked hard” |
**Expectation** | 1. ‘expectations take many forms from beliefs in the probability of future events to normative beliefs’. (Rousseau and Parks, 1993)  
2. ‘the attitude of waiting attentively for something usually to a certain extent, defined, however vaguely’ (Drever, Dictionary of psychology, 1958)  
3. ‘the act or instance of expecting of looking forward; the probability of an event’ (Concise Oxford Dictionary, 1996). | “I am likely to get the reward as that’s happened occasionally in the past” |

Source: (Understanding Psychological Contracts at Work: A Critical Evaluation of Theory and Research, Conway & Briner, 2005)

5. TYPES OF PSYCHOLOGICAL CONTRACT

5.1. Transactional

Transactional contracts are short term contracts that last only until the agreed period of contract. Under a transactional contract, an individual’s identity is said to be derived from their unique skills and competencies, those on which the exchange relationship itself is based. For transactional oriented employees, the organization is simply the place where individuals do their work and invest little emotional attachment or commitment to the organization. It is the place where they seek immediate rewards out of the employment situation, such as pay and credentials (Millward & Hopkins, 1998). Miles and Snow (1980) cited in their study that transactional contracts involve specific monetizable exchanges (e.g. pay for attendance) between parties over a specific time period as in the case of temporary employment or recruitment by ‘buy’-oriented firms (Rousseau, 1990).

Use of ‘transactional psychological contracts’ - where employees do not expect a long-lasting ‘relational’ process with their organization based on loyalty and job security, but rather perceive their employment as a transaction in which long hours are provided in exchange for high contingent pay and training – seemed to capture the mood of the day concerning labour market flexibility and economic restructuring of the employment relationship (Cullinane & Dundon, 2006). They undertake certain characteristics such as highly competitive wage rates and the absence of long-term commitments (Rousseau, 1990). Negotiation of transactional contracts is likely to be explicit and require formal agreement by both the parties. (Conway & Briner, 2005)
5.2. Relational/Traditional

Relational contracts are broader, more amorphous, open ended and subjectively understood by the parties to the exchange. They are concerned with the exchange of personal, socio-emotional, and value based, as well as economic resources (Conway & Briner, 2005) and they exist over a period of time. Williamson (1979) in his research work has mentioned that relationships and relational issues such as obligations play an increasingly important role in economics and organizational behavior (Rousseau, 1990).

Guest (2004) articulates the view that workplaces have become increasingly fragmented because of newer and more flexible forms of employment. At the same time, managers have become increasingly intolerant of time-consuming and sluggish processes of negotiation under conventional employment relations systems. Consequently, promises and deals which are made in good faith one day are quickly broken due to a range of market imperatives. With the decline in collective bargaining and the rise in so-called individualist values amongst the workforce, informal arrangements are becoming far more significant in the workplace. As a result, the ‘traditional’ employment relations literature is argued to be out of touch with the changing context of the world of work (Cullinane & Dundon, 2006).

Relational contract establishes and maintains a relationship involving both monetizable and non-monetizable exchanges (e.g. hard work, loyalty and security) (Rousseau, 1990). According to the works of Blau (1964), mentioned in Millward & Hopkins, (1998) a transactional obligation is linked with economic exchange, while relational obligations are linked with social exchange. Unlike economic exchange, social exchange “involves unspecified obligations, the fulfillment of which depends on trust because it cannot be enforced in the absence of a binding contract. Rousseau (1990); Rousseau and McLean Parks (1993) in their works have argued that transactional and relational contracts are best regarded as the extreme opposite of a single continuum underlying contractual arrangements. In other words, the more relational the contract becomes the less transactional and vice versa (Conway & Briner, 2005).

The traditional psychological contract is generally described as an offer of commitment by the employee in return for the employer providing job security - or in some cases the legendary ‘job for life’ (Cullinane & Dundon, 2006).

Rousseau (1995) has made the distinction between transactional and relational types of contracts as below-

<table>
<thead>
<tr>
<th>Transactional</th>
<th>Relational</th>
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</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Economic, Emotional</td>
</tr>
<tr>
<td>Partial</td>
<td>Inclusion</td>
</tr>
<tr>
<td>Closed ended specific</td>
<td>Time frame</td>
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<tr>
<td>Written</td>
<td>Formalization</td>
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<tr>
<td>Static</td>
<td>Stability</td>
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<tr>
<td>Narrow</td>
<td>Scope</td>
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<tr>
<td>Public, Observable</td>
<td>Tangibility</td>
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</tbody>
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A Continuum of Contract Terms

Source: (Psychological Contracts in Organizations: Understanding written and unwritten Agreements, Rousseau, 1995)

Focus concerns the aspects which are important for the person who works which are solely economic, extrinsic aspects (money) involved, or other (social-emotional) needs. Time frame refers to the length of the contract: a certain endpoint, or the length undetermined, Stability concerns the nature of the agreed tasks; in transactional contracts this is stable and
inflexible, in relational contracts it is more flexible and dynamic. Scope reflects the influence of work on the identity and self-esteem of the employee. Relational contracts are likely to involve more aspects which may be related to the private lives of employees, compared to the more limited transactional contract. With respect to tangibility in relational contracts, it is often less clear what demarcates the responsibilities of employees. They are more subjective, covertly understood but rarely explicitly agreed. (Anderson & Schalk, 1998).

5.3. Transitional Contract

Transitional contract, as the name suggests, is a passing phase of relationship between the two parties reflecting the absence of commitments regarding future employment (Aggarwal, & Bhargava, 2009). They are not a psychological contract form itself, but a cognitive statement, reflecting the consequences of organizational change and transitions that are at odds with a previously established employment arrangement (Rousseau, 2000).

5.4. Balanced Contract

A balanced contract contains both transactional and relational dimensions which are dynamic and open-ended employment arrangements conditioned on economic success of firm and worker opportunities to develop career advantages. Both worker and firm contribute highly to each other’s learning and development. Rewards to workers are based upon performance and contributions to firm’s comparative advantages, particularly in face of changing demands due to market pressures (Rousseau, 2000).

Balanced contracts combine commitments on the part of the employer to develop workers (both in the firm or elsewhere if need be), while anticipating that workers will be flexible and willing to adjust if economic conditions change and such contracts anticipate renegotiation over time as economic conditions and worker needs change. Balanced contracts entail shared risk between worker and employer. (Rousseau, 2004).

6. EMPLOYMENT CONTRACT AND PSYCHOLOGICAL CONTRACT

There are pronounced differences between psychological contracts and contracts of employment. The former clearly covers a wider range of things and is based on the importance of understanding and managing the beliefs and attitudes of the parties in an employment relationship while the latter tends to involve the more formal aspects of the contract and ultimately can be enforced through semi-legal (grievance or disciplinary procedures) or legal remedies (Middlemiss, 2011).

Employment contracts are a legal contract which is much varied from a psychological contract. A psychological contract creates an enduring mental model of the employment relationship. This mental model provides a stable understanding of what to expect in the future and guides efficient action without much need for practice (Rousseau, 2004).

Kim; Lee & Lee, (2007) in their work have brought in the term said by Henderson (1990) on legal contracts, that they are often ineffective as an enforcement mechanism because of the complexity and ambiguity of the working relationship, which could not be defined explicitly. They are created to benefit both parties; yet, its operation is largely based on each party’s perception of mutuality and reliance on reciprocity (Dabos & Rousseau, 2004).

Whereas, psychological contracts are highly subjective and often lack any formality or clarity and are not legally binding on the parties. Despite this they will often exert a strong influence on behaviour precisely because they are based on the beliefs of the parties and in particular the views of employees concerning the nature of the employment relationship they are working under (Middlemiss, 2011).
Levinson (1966), in his work as cited in Spriggs, 1996 mentions expectations in legal contracts are specified, explicit and defined, while expectations associated with the psychological contract are unspoken, implicit and imprecise. Even when a legal contract exists, it is a written obligation that can never be complete and must be supplemented by unwritten promises.

7. BREACH AND VIOLATION OF PSYCHOLOGICAL CONTRACT

Breach is a non-fulfillment of the promise, that is 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 ("The Psychological Contract," n.d., “Breach and Violation,” para. 1).

Morrison and Robinson (1997) in their article have mentioned that psychological contract breach is a subjective experience based not only (or necessarily) on the employer's actions or inactions but on an individual's perception of those actions or inactions within a particular social context. Thus, the experience of psychological contract breach should depend on social and psychological factors specific to the employment relationship in which it occurs.

Perceptions of breach arise from a complex and sometimes imperfect sense making process when perceived breach refers to 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 contribution (Robinson, 1996; Atkinson, 2006; Morrison & Robinson, 1997).

According to the norm of reciprocity Gouldner (1960), when employers do not fulfill their promises and obligations, the employee reciprocates by altering his or her contributions to the organization (e.g. by reducing their efforts and performance) (Bal; Chiaburu & Jansen, 2009).

In transactional contracts, breaches of obligation may create perceptions of inequity in economic exchange and lead to feelings of injustice and betrayal, the likely response being that the employee perceives his obligations are reduced or employer obligations are increased (Shore and Tetrick, 1994).

8. ANTECEDENTS OF BREACH

Conway (2005) has brought out the following reasons that cause breach; Firstly, inadequate provision of human resource management practices where employees are more likely to report psychological contract fulfillment if they notice that their organization adopts human resource management practices. From the employer’s perspective senior HR managers from different companies are more likely to report that their organization keeps its promises if the organization has also adopted human resource practices. Studies have also suggested that it is not only the provision of human resources management practices that cause psychological contract fulfillment, but it is also important that the human resource management organizations provide lives up to the management communication about what the human resources management practices are and should deliver.

Secondly, the cause of breach when employees feel unsupported by either their organization or their supervisors. It is where the employees believe that their organization is supportive- by doing such things as showing concern for their employees’ well-being and offering help to the employees when they need it- they are more likely to believe that the organization has fulfilled its promises.

The third type of cause of employee breach is events happening outside the organization or before the employee became a member of the organization. Robinson and Morrison, (2000) has found that employees are more likely to perceive breach by their current employer where,
first, they have experienced breach by former employers and, second, where employees perceive themselves to have many employment alternatives.

Finally, a breach can be caused when employees compare their deals unfavorably with other employees and perceive inequity (Conway & Briner, 2005).

Chartered Institute of Personnel Development (CIPD, 2010) brings out that breach of the psychological contract can seriously damage the employment relationship. It won’t always be possible to avoid breach of the psychological contract but employees are more likely to be forgiving where managers explain what has gone wrong and how they intend to deal with it. The contract may need to be renegotiated (Middlemiss, 2011).

9. CONSEQUENCES OF BREACH
If an employee believes that the employer has breached agreed terms under the contract, his reaction depending on the perceived seriousness of the breach will range from acceptance, mild complaint, withdrawal of effort or goodwill and the last resort, handing in his notice. Where employees hold strong beliefs in their entitlements under the psychological contract and they discover that what had been promised to them by their employer will not be forthcoming they can feel cheated or violated or that they have wasted their time working for them (Middlemiss, 2011).

10. VIOLATION OF CONTRACT
Violations of the psychological contract are defined as unmet obligations or promises and differ from unmet expectations. There is an implication in the general analysis of the changing psychological contract that contract violation is on the increase (Guest, 1998). Violation of a psychological contract subjects the relationship between employee and employer to a form of trauma where the factors that led to emergence of a relationship, such as trust and good faith, are undermined (Rousseau, 1989).

Rousseau (1995) in his book has discussed three forms of violations i) Inadvertent violation occurs when both the parties are willing and able to keep the bargain but different interpretations made on good faith lead one party to act in a different manner at odds with the understanding and interests of the other. ii) Disruption to the contract occurs when circumstances make it impossible for one or both parties to fulfill their end of the contract, despite the fact they are willing to do so. iii) Reneging or breach of contract occurs when one party otherwise capable of performing the contract, refuses to do so.

Contract violation is more than the failure of the organization to meet expectations; responses are more intense because respect and codes of conduct are called into question because essentially a “promise” has been broken and it is more personalized (Rousseau, 1989). Psychological contract violation according to Dean et al., (1998) & Pate et al., (2000) as cited by Pate; Martin & McGoldrick, (2003) may lead individuals to become more cynical. Employee cynicism has been defined as a negative attitude and involves a belief that their organization lacks integrity, negative emotions towards the organization and a tendency for employees towards critical behaviour of their organization. The targets of such cynicism are usually senior executives, the organization in general and corporate policies.

11. CONCLUSION
In conclusion, psychological contract shapes the behaviour of the parties and also aids the management to effectively manage their employees. Being so, psychological contract turns out to be advantageous for both the employers and the employees. For a psychological contract to be fulfilled, and ascertaining vibrant and effective employees, the communication of expectations between either of the parties plays an important role.
Psychological Contract- A Conceptual Framework

Tracing the sustainability and consistency of preserving a contract implies on acting in good faith, respecting and sharing equal concern for each other’s interests. This lies as an obvious requirement in a relationship. Saying thus, blind faith won’t do as there has to be a proper and sufficient understanding of the nature of the business, its strategy, market conditions and financial indicators.

Employer and employee will have to create good intentions, confidence and feelings of attachment in the minds of each other which will in return strengthen their bond and also influence on how they intend to behave and reciprocate their mutuality towards each other.

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