



Psychological Contract and Organization: A Review Article

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Abstract: *The Psychological Contract emerged as a concept in the psychological literature almost fifty years ago, as a footnote in Understanding Organizational Behavior. The Psychological Contract refers to implicit ideas about the employee-organization relationship. The perceived violation of Psychological Contract of employees reflects unfulfilled promises from employer side. This perception of violation might lead to adverse effect on the organization. Psychological Contract in Indian perspective is relatively neglected research area. The literature reflects potential opportunity for future research on Psychological Contract in Indian perspective.*

Keywords: *Psychological Contract, Organization Behavior, Violation, Employees, Organization*

I. INTRODUCTION

As Argyris (1960) argues, the Psychological Contract emerged as a concept in the psychological literature almost fifty years ago, as a footnote in Understanding Organizational Behavior. The Psychological Contract refers to implicit ideas about the employee-organization relationship. Menninger's (1958) concept of the 'psychotherapy contract', that ascribes the intangible aspects of the contractual relationship that exist between psychoanalysts and patients, was thus translated to the work setting.

The concept of the Psychological Contract gained increasing popularity in the 1980s and 1990s. These years were characterized by many large-scale and small-scale organizational changes. Because of these changes, the 'traditional' employment relationship was put to a test. Serious behavioral and attitudinal reactions among employees could be observed. The Psychological Contract was used to describe, analyze, and explain the consequences of these changes. Publications by Denise Rousseau (e.g. 1989, 1990, and 1995) defined and limited the Psychological Contract to an employees' perception of the exchange of mutual promise-based obligations between the employee and the organization. Conway & Briner (2005) suggests, questionnaire surveys are the most commonly used method to examine the Psychological Contract. There are many different types of measurements of the Psychological Contract. In 1998 Rousseau and Tijoriwala stated: 'In the past 10 years, field research into the content and dynamics of Psychological Contracts in organizations has generated numerous published studies, with almost an equal number of somewhat distinct assessments' (p. 680). In the year 2005, no progress had been achieved in this respect, according to Conway and Briner: 'There are a variety of measures for assessing both breach and the contents of Psychological Contracts, showing there is no single, agreed upon measure of either of these constructs' (p. 94). [1]

This review article concentrates on the concept of Psychological Contract, its several aspects and its impact on Organization while responding to below mentioned questions.

1. What is Psychological Contract?
2. What is nature of Psychological Contracts?
3. What is Psychological contract Violation or Breach?
4. How fulfillment or violation of Psychological Contract affects Organizations?

II. PSYCHOLOGICAL CONTRACT

A. PSYCHOLOGICAL CONTRACT: A CONCEPTUAL DEFINITION

Advanced by Argyris in 1960, Psychological Contract is originally defined by Levinson as the unwritten and implicit contract or mutual expectation between employees and their employers. [2]

The Psychological Contract was refined by Schein in his seminal work on organizational psychology in the form it is used today by many human resource practitioners. He describes it as:



“The unwritten expectations operating at all times between every member of an organization and the various managers and others in that organization... Each employee has expectations about such things as salary or pay rate, working hours, benefits and privileges that go with a job... the organization also has more implicit, subtle expectations that the employee will enhance the image of the organization, will be loyal, will keep organizational secrets and will do his or her best.” [3]

The definition of the Psychological Contract provided earlier by Schein, while clear, implies that the Psychological Contract is what management as a group expects from all individual employees. This approach raises many complex questions, including the definition of who is a manager, and how to take best account of the different views of different managers. Very importantly if the Psychological Contract is made up of all managers’ views then how can a decision be made that the Psychological Contract has been fulfilled or broken? These and similar questions create a significant challenge about how we can measure and define the Psychological Contract that is prevalent in an organization. To address these and similar issues Denise Rousseau redefined the Psychological Contract as something which essentially exists in each individual’s head. Rousseau defined the Psychological Contract as:

“... individual beliefs, shaped by the organization, regarding terms of an exchange agreement between individuals and their organization.” [4]

B. NATURE OF PSYCHOLOGICAL CONTRACT:

Robinson and Morrison (1995) expresses that the manifestation of the contract is the subjective agreement on employees’ and employers’ mutual responsibilities and obligations. The construct of Psychological Contracts is rooted in clinical work that focused on how human needs could be better met in employment. Research has expanded to address how psychological constructions of the employment relationship connect with worker contributions to employers and organizational decisions.

C. PSYCHOLOGICAL CONTRACTS AND ORGANIZATIONS:

Rousseau (2004) argues that modern organizations can’t succeed unless the people they employ agree to contribute to their mission and survival. But flatter organizations, geographically dispersed work, and ever-increasing aspiration levels for service and innovation make it impossible for employers to motivate workers strictly through supervision or monetary incentives. Instead, workers and employers need to agree on the contributions that workers will make to the firm and vice versa. Understanding and effectively managing these Psychological Contracts can help organizations thrive. [5]

As Robinson, Kraatz and Rousseau argue, unlike the formal contract, the interpretation of the terms of the Psychological Contract between employee-employer may not be shared by both parties as it is highly perceptual. These differences in perceptions may result in one party believing that the other has violated the terms of the contract. Furthermore, employees’ perceptions of the obligations established at the time of employment may change as the years of employment increases. Employees’ tend to attribute increasing perceived obligation from their employer while their own perceived obligation decreases.

A thorough preliminary investigation of existing benchmarks and three studies of De Vos, Buyens & Schalk, 2001; De Vos & Buyens, 2002 support conceptualizing the Psychological Contract as a multi-dimensional construct. Five dimensions are distinguished for organization promises (see Table 1). [6]

TABLE-1
Organization Promises

1. Career development	Offering possibilities for development and/or promotion within the organization (such as possibilities for development, chances of promotion)
2. Job content	Offering challenging, interesting job content (such as work in which employees can use their capacities, challenging tasks)
3. Social environment	Offering a pleasant and cooperative working environment (such as good communication among co-workers, good cooperation within the group)
4. Financial compensation	Offering appropriate compensation (such as remuneration commensurate with the work, conditions of employment that have favorable tax consequences)
5. Work-private life balance	Offering respect and understanding for the personal situation of the employee (for example, flexibility in working hours, understanding of personal circumstances)

Source: Ven Cv. *The Psychological Contract; a big deal?.*; Behavioral Sciences Service Centre Ministry of Defense, The Hague, The Netherlands. Available from: cphw.vd.ven@mindef.nl



Besides organization promises five dimensions for employee promises can also be distinguished (see Table 2).

TABLE II
Employee Promises

1. Effort and performance	Willingness to make efforts to perform well for the organization (for example, making efforts for the benefit of the organization, doing good work both quantitatively and qualitatively, working well with co-workers)
2. Flexibility	Willingness to be flexible in carrying out the work that needs to be done (for example, working overtime, taking work home)
3. Loyalty	Willingness to continue working longer for the organization (for example, not accepting every job offer that comes along, working for the organization for at least several years)
4. Ethical conduct	Willingness to conduct oneself ethically towards the organization (for example, not making confidential information public, dealing honestly with resources and budgets)
5. Availability	Willingness to keep one's availability status at an acceptable level (for example, taking training courses that become available, keeping up with trade literature)

Source: Ven Cv. The Psychological Contract; a big deal?.; Behavioral Sciences Service Centre Ministry of Defense, The Hague, The Netherlands. Available from: cphw.vd.ven@mindef.nl

D. MAJOR TYPES OF PSYCHOLOGICAL CONTRACTS:

Rousseau (1995) distinguishes between transactional and relational contracts. Transactional contracts refer to collaborations of limited duration (2 to 3 years most) with well-specified performance terms. In contrast relational contracts are open-ended collaborations with only loosely specified performance terms. The ownership has significant implications for employee attitudes and workplace behavior. [4.2]

TABLE III
Types of Psychological Contract

Transactional	Relational
Little organizational loyalty	High organizational loyalty
Employees develop marketable skills	Employees develop company-specific skills
Unstable employment	Stable employment
Flexibility/ easy exit	Willing to commit to one company
Less willing to take additional responsibilities	High intent to stay with organization
Reward system focuses on short term	Members highly socialized

Source: Rousseau, DM. Psychological contracts in organizations: Understanding written and unwritten agreements. 1995. Newbury Park, CA: Sage.

Dr. Subhash Sharma (2006) proposes Theory T reflecting worldviews and relationship traditions. He argues that there are major three worldviews and the Total view of life is the combination of the three:

1. Transactional Approach
2. Transformational Approach
3. Transcendental Approach

In the pure materialistic tradition, economic efficiency has primacy over all the values. A society is considered developed if it can increase material prosperity, which represents Transactional Approach. Over the years this view has resulted in the erosion or subjugation of all other values. In modern society, greater number of people suffers from the diseases of the soul rather than the body. Due to the contribution from the research in Psychology, Organizational Behavior and Sociology, a new approach emerged called Transformational Approach. The root of this approach is also economist but at the best it provides concern for overall well being of the employees. The Transcendental Approach focuses on intellectual inquiry of the values and their operationalization through institutions. [7]

E. UNILATERAL V/S BILATERAL APPROACHES:

Rousseau (1990) argues that in the unilateral view, the Psychological Contract is an individual belief of the mutual expectations and obligations in the context of a relationship. This belief further shapes the relationship, and governs behavior.



This unilateral view mainly refers to the employee perspective on employee and organizational expectations and obligations, limiting the Psychological Contract to an intra-individual perception.

Levinson, Schein, Solley, Munden, etc. scholars have argued that the bilateral view on Psychological Contracts considers the contract to be the whole of the employer as well as employee perceptions on exchanged obligations.

Freese and Schalk argue that for measurement of the Psychological Contract, a unilateral view is preferable because of the following reasons. First, a Psychological Contract is literally psychological. That is to say, it is by definition an individual perception. Furthermore, methodologically, a bilateral view of Psychological Contracts is problematic, because the side of the organization consists of many actors (top management, supervisors, HR officers, colleagues) who do not necessarily communicate a uniform set of expectations. It is rather a multiple collective of diverse and differing expectations held by a whole set of actors. Second, the definition of Psychological Contracts implies that the Psychological Contract influences behavior. It is hard to imagine, however, how employee behavior can be affected by the whole of employee and employer perceptions of obligations of each other, when the employee is not aware of differences in perception. In addition, it is not clear what happens when organizational contract makers contradict each other: what would the Psychological Contract include in that case? [8]

F. PSYCHOLOGICAL CONTRACT BREACH AND VIOLATION:

A dominant strand of the empirical research has examined the consequences of employees' perceptions of contract breach (i.e. failing to fulfill of one or more obligations by the employer). As such the empirical evidence suggests that perceived contract breach is associated with reduced affective commitment and loyalty (Coyle-Shapiro and Kessler, 2000; Lester et al., 2002; Turnley and Feldman, 1999), lower trust (Robinson, 1996), greater willingness to leave the organization (Robinson and Rousseau, 1994) and increased cynicism (Johnson and O'Leary- Kelly, 2003). Contract violation can result in changed employee's behavior, commitment, and obligation toward the organization (Robinson, Kraatz, & Rousseau, 1994; Kickul, 2001). [9]

Robinson and Morrison argue that Psychological Contract violation can follow after Psychological Contract breach. Violation refers to the emotional and affective state of the individual that arises from the perception of Psychological Contract breach. Psychological Contract violation can lead to anger and a changed view of the employee towards the organization.

Breach refers to the cognition of an individual that his or her organization has failed to meet the obligations contained within the Psychological Contract. It should be noted that it is the perception of broken promises rather than the actual breaking of promises that matters in Psychological Contract breach (Robinson, 1996). [10]

Morrison and Robinson (1997) noted that as part of the interpretation process, the employee assesses not only the outcome itself (the alleged breach), but also why the situation occurred. Wong and Weiner(1981) says that when faced with an unfavorable or unexpected outcome, people tend to search for explanations that will enable them to determine the reasons for that outcome. [11]

G. PSYCHOLOGICAL CONTRACT IN INDIAN CONTEXT: THE FUTURE RESEARCH SCOPE:

In India, recruiters need to go far beyond the discussions on compensation and focus on building relational aspects of job such as the job content avenues for career growth as well as creating a supportive work culture. Content of Psychological Contract is relatively neglected area of research in a fast growing Asian economy, India.[12]

The research indicates that employers pay attention to such aspects as welfare, safety and money but that both sectors neglect employee's social and psychological needs. White-collar workers employed in PSUs and private firms, even if they feel that their employers have not kept their side of the deal, are less likely to express their perceptions of violation due to their low mobility, low market mobility, and preference for stability. [13]

III. CONCLUSION

Psychological Contract and its various facets have captured attention from the researchers worldwide. The concept not only provides an account of perceived expectations both, from organization and employee perspective but also illuminates basic framework for employer-employee relationship affecting organization setting.



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AUTHOR'S PROFILE



Monali R. Jani received the Post Graduate Diploma in Management (Goldmedal) in 2011 from Tolani Institute of Management Studies, Adipur and currently pursuing PhD from RK University, Rajkot. She is also registered scholar under the SH Talavia Centre for Research in Human Nature at RK University. She worked with Adani Foundation, the CSR wing of Adani Group for about two years and now is associated with Noble Group of Institutions (An Integrated Campus), Junagadh since July 2013 as Assistant Professor. Her area of interest includes Organization Behavior, Human Resource Management and conducting research in the field of Human Nature.