

Psychological Contract: An Overview

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ABSTRACT

The Psychological Contract is an unwritten set of commitments between the employer and employee. It plays a vital role in influencing job attitude and performance of the employee. This research paper aims to explain the formation of a psychological contract, its model and the consequence of the contract if violated or broken. The study aims at creating a deeper understanding on Psychological Contract and employee's behaviour if the breach of contract takes place.

Keywords: Psychological contract, Employee, Employer

I INTRODUCTION

When an employee is hired by the organisation, some commitments between the two take place. Such commitments are both expressed and implied. In the case of expressed commitment, the expectations are in oral or written form, whereas, in the case of implied commitment, the body language and actions speak more than their words. Such implied expectations between employer–employee relationships are called Psychological Contract.

Thus, Psychological Contract is an unwritten expectation between employer and employee which includes job satisfaction, employee obligations, and quality of working conditions. Psychological Contract was first appeared as the foot note in Understanding Organizational Behavior by Argyris in 1960. Then theory was pioneered by the organizational scholar Denise Rousseau in his contemporary research in 1989. Subsequently, Sims in 1995 described in his work that 'A psychological contract are the set of expectations held by the individual employee which specifies what the individual and the organization expect to give to and receive from each other in the course of their working relationship'.

II LITERATURE REVIEW

Lishin Moothery Joshy, and Srilatha S (2011), in their paper named 'Psychological contract violation and its impact on intention to quit: A study of employees of public sector and old generation private sector banks in India' explained that how the new generation banks and Foreign bank provides better opportunities rather than old private banks and public sector banks by providing better compensation in terms of cash as well as kind and it also provide better working environment. Therefore, if the Psychological contract is violated then probably the employees would like to switch to new generation banks and foreign banks. It was Descriptive research including Non-Probability and Convenience sampling techniques.

In Dec. 2014 Promila Agarwal, in her descriptive research on 'The Psychological Contract: A Review Model' described antecedents and outcomes of Psychological Contract. The article highlights recent debates, emerging factors, and increasing the relevance of the topic.

Kate J. McInnis, Dr. John Meyer in February 2012 worked on the topic Psychological contracts in the workplace: A mixed methods design project. They offered new insights in how best to measure and theorize psychological contracts through exploratory research and interview method.

P. Matthijs Bal, Dan S. Chiaburu and Paul G.W. Jansen (Jan 2009), in their paper named 'Psychological contract breach and work performance: Is social exchange a buffer or an intensifier?' Explained the interaction between psychological contract and social exchanges and also reveals important margin in the relations between contract breach and work performance.

'Psychological contract and small firms: A literature review' by Vlasios Sarantinos highlighted the important characteristics about the psychological contract such as its subjective nature, its definition as part of the employees and employers expectations. In addition, there are debates over the 'old' and 'new' types of an employment relationship. Though, the literature focuses on comparatively large firms with a set number of managers and workforce.

III OBJECTIVES & METHODOLOGY

(a) Objectives

- (i) To study the formation of a Psychological Contract and consequences if the contract is violated.
- (ii) To study to what extent does psychological contract exist between an employer and employee.

(b) Research Methodology

It is an exploratory research which provides insights into and understanding of an issue or situation. Diagrams and example are used to explain the concept evidently. Secondary data was reviewed initially through journals and internet search engine.

IV FORMATION OF PSYCHOLOGICAL CONTRACT

During the interview process, the formal, as well as informal talks between the employer and employee, helps in developing the prospective relationship, which ultimately provides an idea of employer's expectation and employee's efficiency to fulfil that expectation. So parallel to the official contract which comprises of all the responsibilities and duties of the employee in written form, an unwritten contract also emerges which speaks about the promises made by both the parties. Hence, a psychological contract is formed at the time of recruitment process.

Many researchers have taken place to explain the concept of Psychological Contract. It has been subdivided into many types. The two well-known typology in this reference is Denise Rousseau's typology (1990), in which he divided psychological contract into two parts, Transactional Contract and Rational Contract. Transactional Contracts are those contracts which are made when the employment relationship is of short-term nature i.e. for less than a year. Such contracts are specific from the point of view of expectation and mutual obligation. On contrary to this, rational contracts are made when the employment relationship is

long-term nature. Here, since the contract is of long-term nature, it is not possible to explicitly specify the mutual obligation or promises between the two parties. The most recent typology was developed by Shore & Barksdale (1998), in which they focused on two dimensions i.e. degree of balance and level of obligation. They stated that if the assumed obligation of the employee as well as the employer is at the same level, then there will be balance & harmony between the two and the proposed relationship will grow. In the second dimension, Shore & Barksdale defined the extent of commitment in which both the parties feel obligated to fulfil a particular contract term. Subsequently, four types of psychological contract emerged:

- (a) Mutual High Obligation: The psychological contract is balanced and both the parties are at the high level of obligation.
- (b) Mutual Low Obligation: The contract is balanced, but the level of obligation is low between the parties.
- (c) Employee over Obligation & Employee under Obligation: The contract is unbalanced and the obligation of the employee is low, so the expected return from such contract is poor.

V PSYCHOLOGICAL CONTRACT MODELS

Psychological Contract is a theoretical concept so explaining such concept in quantitative term is quite difficult. To elucidate this concept, a diagrammatic representation is done. The two recognized models are discussed below:

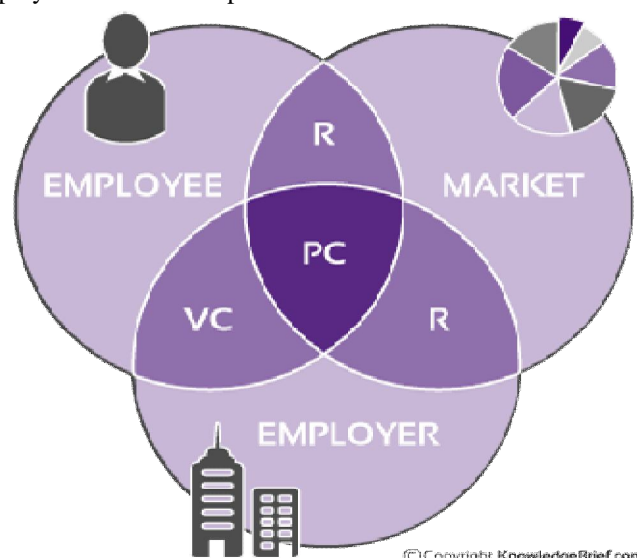


Fig. 1 Psychological Contract through Venn diagram

Source: KnowledgeBrief.com

In fig.1, VC is the visible contract, which known to both employee and employer. Such contract includes salary, roles and responsibility, employee rights, obligations to both the parties etc. Whereas, PC is the Psychological Contract which is a hidden set of obligation between the parties. In the above diagram, it can be clearly seen that employer has a

relationship with the market which also include all the external factors denoted by the relationship reference (R), and he is also related with the visible contract. Similarly, an employee is also connected with the market and the visible contract. The point at which all the three sections meet is the psychological contract.



Fig. 2 Iceberg Model of Psychological Contract

Source: recreateconsulting.co.uk

Iceberg Model (fig. 2) is one of the basic model and the most simplified way to explain Psychological contract. The Iceberg above the water level is the visible contract which is known to both the parties' i.e. the work, role and responsibility employee has to do and with reference to the salary, commission etc which has to be paid by the employer. The Iceberg below the water level is Psychological Contract which is hidden, unspoken and unexplained. The left-hand side of the iceberg shows the examples of what employee provide to the organisation or it can be said what the employer expects from the employee. Similarly, the right-hand side of the iceberg shows the examples of what employer provide to the employee or it can be said the other way round that what employee expects from the employer. The Psychological Contract is affected by different factors like perceptions, body language, background etc. It should be noted that the iceberg mounts with the flavour of success and experience

and consequently converting the invisible factors into the visible contract.

VI BREACH OF PSYCHOLOGICAL CONTRACT & CONSEQUENCES

(a) Breach of Psychological Contract

As discussed above psychological contract is an employee's anticipation towards organisation's obligation. If such obligations are not accomplished by the organisation or the employer then breach of psychological contract takes place. An example of the breach of contract can be highlighted here, In a well-known pharma company, a fresher was hired as a management trainee and it was promised that after one year of training he will be promoted as an Executive. He works hard and remains loyal to the organisation the whole year. To his surprise after a year of hard work the manager asked for resignation rather than awarding promotion. He lost his equanimity, became upset and lost faith on the

organisation as a result of his breached psychological contract.

(b) Consequences of Breach of Contract

Breach of Psychological contract leads to anger, dissatisfaction, betrayal, sadness, loss of trust and respect, reduces commitment which leads to suffering in the relationship. It also leads to lower job satisfaction, less willing to do hard work, to share ideas and anti-social behaviour.

VII CONCLUSION

In today's market scenario, Psychological Contract plays a vital role. Every organisation is focused on earning more and defeating their respective competitor, which consequently increases the pressure on the employee of the organisation. It is the responsibility of the organisation to provide a healthy working environment, competitive salary, and perks so that employees give their best to the organisation and do not leave the organisation.

On Contrary, Employee is also focused to his personal goal satisfaction first and after that organisational goal is considered. In this competitive environment, an employee also seeks for better package and perks from the firm. So, to accomplish goals of both the parties it is necessary to maintain a balance and carry out the obligations honestly.

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