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PSYCHOLOGICAL CONTRACT: A REVIEW OF CONCEPT, FORMATION AND MUTUALITY DEBATE

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ABSTRACT

The psychological contract is a frequently deployed construct to examine the dynamics of the employee employer exchange relationship. While there is consensus that the contract comprises employee and employer beliefs regarding this relationship, the various belief types are not conceptually well-defined and understood. Over time, the contract has been conceptualised as comprising expectations, obligations, promises or some combination therein. While most contemporary researchers focus solely upon promises, the justifications for this position are unpersuasive. The paper particularly focused on conceptualizing psychological contract, its formation as well as debating on whether mutuality exists between employees and employers on psychological contract. The paper concluded on the proposition that psychological contract has a strong association with organizational outcomes; that when an employee perceives psychological contract as being faithfully honored by employer, she/he tends to reciprocate with positive outcomes, and when the opposite prevails, it is also followed by suiting negative behaviors.

KEYWORDS

Psychological contract, Mutuality, Organizational outcomes, Breach.

INTRODUCTION

the notion of a psychological contract implies that the individual has a variety of expectations of the organization and that the organization has a variety of expectations of him (Armstrong, 2009). These expectations not only cover how much work is to be performed for how much pay, but also involve the whole pattern of rights, privileges, and obligations between worker and organizations. Accordingly, expectations such as these are not written into formal agreement between employer and organizations, yet they operate powerfully as determinants of behavior (Denisi and Griffin, 2005).

Although not acquiring construct status until the early 1990s (Millward & Brewerton, 1999), the 'psychological work contract' can be traced back to as early as 1960 when Argyris (1960) in Anderson & Schalk, (1998) used the term to describe the relationship between the employees and foreman in a factory in which they were conducting research. They saw that employee /employer relationship as being dominated by an environment within which the employees would maintain high production with minimal grievances if the foreman respected the norms of their informal culture.

The psychological contract is a construct which examines the employee-employer exchange relationship. However, the beliefs variously posited as constituting the contract are not conceptually well-defined and understood. This has resulted in contemporary justifications for a focus upon particular belief types, specifically promises, over others being unpersuasive. This paper contributes to the debate regarding the constituent beliefs of the contract and clarifies a key theoretical tenet of this construct which is widely employed by both academics and practitioners.

Early authors conceptualise the psychological contract as comprising mutual expectations, often with a compelling and normative basis, which are largely implicit and unspoken (Argyris, 1960; Levinson, Price, Munden, Mandl and Solley, 1962). Employees' expectations are held consciously (relating to job performance and security) or unconsciously (relating to motivational drivers and psychological needs) and form through both intra- and extra-organisational factors (Levinson et al, 1962; Schein, 1970; Kotter, 1973). Rousseau (1989) reconceptualised the contract as being solely constituted by beliefs about perceived promises made within the current employment relationship. She argues that violated, or unfulfilled, promises produce more intense and emotional responses than unmet expectations (Rousseau, 1989). Rousseau (1995; 2001) also describes promises as either 'explicit' (conveyed via speech or writing) or 'implicit' (derived from observations and interpretations of actions). This distinction now forms the basis for describing contract-related promises (Conway and Briner, 2005; Sparrow and Cooper, 2003). Notwithstanding the ongoing interchangeable use of the terms expectations, obligations and promises, most contemporary researchers adhere to Rousseau's (1989) contract conceptualisation.

CONCEPT OF PSYCHOLOGICAL CONTRACT

Psychological Contract can be defined as "The unwritten understandings and informal obligations between an employer and its employees regarding their mutual expectations of how each will perform their respective roles". Within a typical business, the psychological contract might include such things as the levels of employee commitment, job satisfaction and the quality of working conditions.

In management, economics and HR (human resources) the term '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.

The psychological contract defines what the individual expects from the organization in order to achieve and maintain psychological wellbeing. Individuals are attracted to an organization because they believe the organization has the potential to contribute to their wellbeing. What that contribution will be, and how it will be delivered, is embedded in both the formal employment contract and the psychological work contract. If either contract is breached or violated, the individual will act to address the perceived injustice. The worker-employer psychological contract is a huge force in the work relationship dynamics.

From the employer's view, employees do not have lifetime jobs, guaranteed advancement or raises, or assurance that their work roles will be fixed. However, the most admired employers believe that openness, integrity, providing opportunities, and supporting the growth and development of their employees are top priorities. They perceive this as the unwritten contract they have with their people. On the other hand, employees believe that employers must be honest, open, and fair and also willing to give workers a large say in their jobs. As Allen (1995) claimed, supported by Brown (1996), an assessment of how personally beneficial or detrimental the work environment is to their wellbeing, and whether the organization cares about their wellbeing, is continually being made by employees. This assessment will influence the extent to which employees have themselves engaged in the workplace (Kahn, 1990).

THE PSYCHOLOGICAL CONTRACT: FORMATION

The concept of the Psychological Contract within business, work and employment is extremely flexible and very difficult (if not practically impossible) to measure in usual ways, as we might for example benchmark salaries and pay against market rates, or responsibilities with qualifications, etc.

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.

How psychological work contracts form is answered simply by Andersson (1996), who suggested that a contract emerges when an employee perceives that the organization is obligated to reciprocate in some manner in response to contributions he or she has made. The process of psychological contract formation, appraisal, and assessment is iterative and provides both the structure of the contract and its content. Within that structure, and based on the content, the contract establishes the mechanisms (constructive, interpretive, and corrective) through which individuals seek meaning from the work they pursue, and from the organizational climate and environment within which that work is performed.

As Sonnenberg (1997) proposed, expectations or hopes of personal development, reward, adjustment and regulation are generally present in the work one is engaged in. Individuals enter an organization with a set of beliefs, values, and needs, and with the expectation that these will be met, upheld, and respected, and their wellbeing ensured, preserved, and protected. This is the socialization process referred to as 'sense making' by de Vos, Buyens, and Schalk (2003).

The core of the psychological contract concerns the exchange of promises and commitments (Guest & Conway, 2001). Within this context, the content of the contract is about cognitions, perceptions, expectations, beliefs, promises, and obligations. That is, it is concerned with non-tangible psychological issues (Makin, Cooper, & Cox, 1996). These cognitions, perceptions, and expectations, and so forth, form part of the psychological and implicit employment contract coexisting with the explicit, formally documented and legally binding contract of employment.

Coyle-Shapiro and Conway (2005) suggested that, within the context of social exchange, the psychological contract is one way of operationalizing the employee employer exchange. Understanding employee expectations relating to that social exchange may help identify the factors that shape employee perceptions of the psychological contract. One of those factors is reciprocity which provides a basis for a global evaluation of the employment relationship by the employee (Coyle-Shapiro & Conway, 2005). The evaluation of the employment relationship by the individual is in itself likely to influence the content of the psychological contract.

Although no totally encompassing definition of psychological contract content prevails, some appreciation of potential content may be acquired through the research efforts of the many researchers who have developed measures on ad hoc basis to meet their particular requirements. What hampers consensus on content are the many factors at individual, organizational, and societal levels that influence contract formation, and hence the resulting content. These influences must be taken into consideration when developing measures of the psychological contract for it is these influences that hinder the development of a generic measure.

The concept of a 'contract' naturally conjures up the expectation that two parties are involved and hence mutuality concerning understanding and appreciation of contract obligations results. However, as psychological contracts exist in individuals' minds alone, the question arises as to how mutuality, through the involvement of the other party to the contract occurs. Again the major problem associated with psychological contract remains that it is an idiosyncratic construct; of which what employee one considers as psychological contract fulfillment may not be so deemed by employee two. The concept of mutuality is explored next.

MUTUALITY DEBATE

Mutuality in contracting refers to the perceptions shared between the two parties to a contract, of the obligations and expectations each party holds, under the terms and conditions of that contract. Contracts are generally formed between two parties, thus providing mutuality with respect to the management, acceptance and interpretation of the contract. In normal legal contracts each party has its perceptions concerning contract obligations and it is these shared perceptions that provide mutuality. However, psychological contracts are formed by only one party, the employee, who provides that mutuality by adopting a two-party (employee and organization) perspective. This concept of mutuality permeates (Goddard, 1984) even though psychological contracts are typically viewed solely from the employee perspective.

Confirming this, Rousseau (1995) stated that the most general description relates to the belief in obligations that exist between two or more parties, with this belief largely being created through communications underpinning organizational human resource practices. Anderson and Schalk (1998) also argued that mutual obligations are the central issue in the relationship between employer and employee.

Although these mutual obligations may be to some extent recorded in the formal employment contract, Anderson and Schalk contended that they are mostly implicit, are covertly held, and only discussed infrequently. Formal contracts are 'normally' entered into between two or more parties with each party holding a written 'copy' of the contract that clearly spells out the terms and conditions. Before contracts are signed, and from that point becoming legally binding, any ambiguities or misunderstandings are resolved by the parties to that contract. However, the same process does not occur with psychological contracts.

Psychological contracts, by definition, are held in the minds of the holders and are not formally negotiated. Therefore, the extent to which the terms and conditions are shared between the parties involved is difficult, if not impossible to assess. This situation raises the perplexing question as to how the mutuality inherent in a formal written contract can also be inherent in a psychological contract. For example, an organization's perspective on the content of an employee's psychological contract be assessed? Can a psychological work contract, held in the mind of an employee, become 'known' to the organization?

Two issues arise in considering the possibility that 'organizations' may develop specific views of the content of the psychological contract. Firstly, identifying the 'organization' is a complex undertaking (example Marks, 2001; Morrison & Robinson, 1997; Rousseau & Tijoriwala, 1998). Secondly, it follows that determining the organization's perspective would inherit similar complexity, for as Arnold (1996) correctly pointed out, the question then arises as to exactly who constitutes the 'organization' as the other party to the psychological work contract. Yan, Zhu, and Hall (2002) also faced this dilemma and cautioned that care needs to be exercised in defining what 'organization' stands for.

Our proposition is that more will be understood about the consequences of violation of the contract if the contract itself is understood from an employee perspective. Central to this discussion is acceptance that for any contract to exist there must be at least two parties to it and, whilst mutuality does permeate, it is the employee alone who provides this mutuality. The employee adopts two perspectives; what they expect of the organization (inducements) and what they believe the organization expects of them (contributions) (Turnley, Bolino, Lester, & Bloodgood, 2003). These are the two views that influence an employee's behavior to both be committed and exhibit organizational citizenship behavior (behaviors outside formal job requirements but helpful to the organization) or remain uncommitted and engage in counter productive work behaviors. Both have its consequences on organization's functioning.

It is this perspective, that is, the employees' perceptions of the mutual obligations that exist between themselves and the organization that confirms that mutuality in the psychological contract is provided by the employee alone. Additionally, as Morrison and Robinson (1997) stated, by definition, psychological contracts are in the minds of employees. They are also unwritten (Van Buren, 2000), and as suggested by Rousseau and Tijoriwala (1998) a psychological contract by definition is an individual perception.

CONCLUSION

Psychological Contract was in this paper perceived and defined as the set of expectations held by an employee concerning what he or she will contribute to the organization (referred to as contributions) and what the organization will provide to the employee in return (referred to as inducements). The contribution from the individual comprises many things like efforts, ability, loyalty, skills, time, competencies etc. and on the inducement list are pay, job security, benefits, career opportunities, status, advancement etc. a fulfillment of these conditions has the tendency of boosting employment relationship to the extent that both parties will be happy with each other.

However, an unfulfilled psychological contract is a slow killer of organizational processes. On the part of the employee, it has the tendencies of causing job dissatisfaction; acted out in absenteeism, lack of commitment and lateness to work. On the other hand a perceived fulfilled psychological contract breeds a

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smooth working relationship between employees and employers; holding other factors constant. Psychological contract is either of a transactional nature (involving shorter time horizon and stressing financial inducement) or relational (stresses non financial issues); each of these is sine qua non in the pursuit of healthy employer/employee relationship.

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