Psychological Contract

Definition / Literature

Today's definition of the Psychological contract is the perception of the two parties, employees and employer, and what their mutual obligations are to each other (Herriot, 2001). The concept is playing a central role in leadership and motivation theory.

However it can be tracked back to Kotter (1973) who defined the psychological contract as an implicit contract between an individual and his organization which specifies what each expects to give and receive from each other in their relationship.

The term psychological contract refers to an individual's belief regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations. The contract is based on a highly subjective basis, and parties do not necessarily need to agree (Rousseau, 1989).

Schmidt and Bell (2005) related the concept of a psychological contract to an attachment style of human relationship development which is leading to a higher job satisfaction and therefore better organisational commitment. According to Bartholomew and Horowitz (1991), „attached“ people generally feel more comfortable in relationships and percieve others as more trustworthy. The relationships of securely attached also tend to be more happy, friendly and open as Hazan & Shaver (1987) found out.

According to Sparrow & Cooper (2003), psychological Contracts are subjective, unique and idiosyncratic. This means they refer to individual expectations, perceptions and beliefs. Each party or individual selects, perceives and interprets these elements in their own way. An assesment can be made through questioning one party in the employment relationship.

Organizational commitment

The study of the psychological contract is linked with the study of organisational commitment. Organisational commitment is defining the employee’s relationship within the organisation. According to Meyer & Allen (1997) there is the organizational perspective, which interprets for example higher turnover, lower hours of absence and higher productivity
as a good employee commitment. From a member or an individual perspective however, lower turnover expectations are indicators of an organisational commitment.

In commitment research, there are two common perspectives: the behavioral perspective and the attitudinal perspective. The behavioral approach has focused mainly on identifying conditions under which a behavior, once exhibited tends to be repeated, as well as on the effects of such behavior on attitude change (Meyer & Allen, 1991). The attitudinal approach, on the other hand, has focused largely on identification of the antecedent conditions that contribute to the development of commitment and at the behavioral outcomes of commitment (Meyer & Allen, 1991).

**Formation of psychological contracts**

In order to understand how to manage, maintain and revise psychological contracts we need to investigate how they are formed in the first place.

Looking at the definition of Rousseau „set of beliefs and promises held by an individual employee about the terms of the exchange between the employee and his or her organization“ we see that it is more about a psychological rather than a legal construct. It’s describing the belief about a deal and not the formal, written part. The formal part however is contributing the legal terms and is influencing the psychological part in the way of its perception. Looking at the circumstances we can interpret obligations as implied promises. Rousseau points out a clear distinction between psychological and legal contracts, the expectations held by the individual that may or may not be shared by others on one side and commonly understood and shared expectations on the other side.

As individuals build their employment relationship mainly based on the perception of promises which have been made in the past it is important to understand that a promise only results in apart of a psychological contract if the receiver believes, accepts and relies on it. A common interpretation and the trust both parties are acting in good faith is also a prerequisite.

I agree with Rousseau on the formation of psychological contracts but i think it is important to add factors to avoid misunderstandings in the formation process and on how to manage psychological contracts from a management perspective.

To find out when a contract has to be made or hast o be adjusted, it is important to distinguish between new employees and veterans in the company.
For new entrants it is important to communicate the following elements:

- Perception according to the new work (Organisation side and employee side)
- Features of working in the new team
- Organisation should inform about existing relationships in this team
- New entrant should be informed about existing problems / difficulties with clients
- Information about expected work outcome, culture and collaboration within the company

Existing employees however have to be evaluated on a regular basis for changing responsibilities, promotions etc.

**Managing change in psychological contracts**

As organisations change constantly and psychological contracts rely on an individual perception it is very likely that assumptions in the contract go unchallenged. If predicted outcomes no longer occur, the cognitive consistency of the individual is challenged. As individuals try to avoid the distress of the tension between expectation and experience, they are very likely to change behaviour or cognition. This is leading to an adjustment process in the psychological contract. Rousseau refers to three different processes:

1. **Drift**: occurs when beliefs about whether the terms of the psychological contract still being performed start to diverge, or when terms of the contract take on a new meaning, or new terms are acquired without the other party understanding this.

2. **Accommodation**: occurs when there are acknowledged changes in the terms of work, but the same schema remain. The terms of the contract are modified, clarified, substituted or expanded.

3. **Transformation**: occurs more occasionally but also reflects a more fundamental change in the relationship between parties creating a shift in meaning or interpretation of contract items. At this point the old psychological contract ends – perhaps by breach or violation – or simply because the employee or employer feels that the terms of the deal have been completed – and a new psychological contract is created.

To make people change their psychological contract they have to be encouraged to perceive new information as if they were newcomers instead of veterans.

As example for an extreme way of changing psychological contracts, i like to refer to an recent change in the company of my father. The introduction of a new time model, which was not accepted by the employees in the first place, had to be introduced by firing everyone and rehiring them on the next day. The employees, some of them working for the company more than 15 years, were forced not only to adjust to the new model, they also needed to create a new psychological contract which led to a completely new (and better) organisation-employee relationship. The consequence however, for employees not willing to adapt, was searching for a new job.
Violation of psychological contracts

As the concept of psychological contracts is very emotive in its nature, there are arguments that the contents of the contract only become clear when it’s violated. Rousseau pointed out that workers respond in different ways to either breaks (occasions in which organizations break the promises or don’t fulfill the contract) or violations (strong affective response to extreme breaches leading to anger or betrayal).

Turnley and Feldman identified four responses in relation to violation of contract. They differ across two dimensions of being active or passive and constructive and destructive:

1. **Exit**: Voluntary termination of the relationship, e.g. attempts to remedy the psychological contract have failed, or other potential jobs are available.

2. **Voice**: Actions taken to remedy violation, such as reducing losses or restoring trust through talking, threats and changes to behaviour. Exit may follow soon after a voice channel is deemed to have failed.

3. **Loyalty/silence**: Non-response, serving to perpetuate the existing relationship. Willingness to endure or accept unfavourable circumstances because no voice channels are open or there is no alternative employment. Might reflect pessimism (no alternative) or loyalty/hope (waiting for conditions to improve).

**Neglect**: Complex response. Might reflect passive negligence or active destruction. Likely when there is a history of conflict, mistrust and violation, no voice channels, or the majority of other employees demonstrate neglect and destruction.
References


