

The Psychological Contract

Key concepts and terms

- Employability
- Social exchange theory
- The psychological contract

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- The psychological contract defined
- The significance of the psychological contract
- Changes to the psychological contract
- How psychological contracts develop
- The psychological contract and the employment relationship
- The core of the psychological contract
- The state of the psychological contract
- Developing a positive psychological contract

Introduction

The psychological contract underpins the employment relationship. This chapter defines the psychological contract, explains its significance and describes how it is changing.

The psychological contract defined

A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. As Guest (2007) noted, it is concerned with: ‘The perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship.’ A psychological contract is a system of beliefs that encompasses the actions employees believe are expected of them and what response they expect in return from their employer and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees.

The concept of the psychological contract is commonly traced back to the early work of Argyris (1957) and to social exchange theory (Blau, 1964). The latter explains social change and stability as a process of negotiated exchanges between parties. However, the key developments leading to its current use as an analytical framework were provided mainly by Schein (1965), who explained that: ‘The notion of a psychological contract implies that there is an unwritten set of expectations operating at all times between every member of an organization and the various managers and others in that organization.’ This definition was amplified by Rousseau and Wade-Benzoni (1994) as follows.

SOURCE REVIEW

Psychological contracts, Rousseau and Wade-Benzoni (1994)

Psychological contracts refer to beliefs that individuals hold regarding promises made, accepted and relied upon between themselves and another. (In the case of organizations, these parties include an employee, client, manager, and/or organization as a whole.) Because psychological contracts represent how people interpret promises and commitments, both parties in the same employment relationship (employer and employee) can have different views regarding specific terms.

Within organizations, as Katz and Kahn (1966) pointed out, every role is basically a set of behavioural expectations. These expectations are often implicit – they are not defined in the

employment contract. Basic models of motivation such as expectancy theory (Vroom, 1964) and operant conditioning (Skinner, 1974) maintain that employees behave in ways they expect will produce positive outcomes. But they do not necessarily know what to expect.

SOURCE REVIEW

Expectations in the psychological contract, Rousseau and Greller (1994)

The ideal contract in employment would detail expectations of both employee and employer. Typical contracts, however, are incomplete due to bounded rationality which limits individual information seeking, and to a changing organizational environment that makes it impossible to specify all conditions up front. Both employee and employer are left to fill up the blanks.

Employees may expect to be treated fairly as human beings, to be provided with work that uses their abilities, to be rewarded equitably in accordance with their contribution, to be able to display competence, to have opportunities for further growth, to know what is expected of them and to be given feedback (preferably positive) on how they are doing. Employers may expect employees to do their best on behalf of the organization – ‘to put themselves out for the company’ – to be fully committed to its values, to be compliant and loyal, and to enhance the image of the organization with its customers and suppliers. Sometimes these assumptions are justified – often they are not. Mutual misunderstandings can cause friction and stress and lead to recriminations and poor performance, or to a termination of the employment relationship.

To summarize in the words of Guest and Conway (1998), the psychological contract lacks many of the characteristics of the formal contract: ‘It is not generally written down, it is somewhat blurred at the edges, and it cannot be enforced in a court or tribunal.’

The psychological contract as defined by Guest *et al* (1996)

The psychological contract is concerned with assumptions, expectations, promises and mutual obligations. It creates attitudes and emotions which form and govern behaviour. A psychological contract is implicit. It is also dynamic – it develops over time as experience accumulates, employment conditions change and employees re-evaluate their expectations.

The psychological contract and the employment relationship

The psychological contract is best seen as a metaphor; a word or phrase borrowed from another context that helps us make sense of our experience. The psychological contract is a way of interpreting the state of the employment relationship.

As described by Guest *et al* (1996), the psychological contract may provide some indication of the answers to the two fundamental employment relationship questions that individuals pose: ‘What can I reasonably expect from the organization?’ and ‘What should I reasonably be expected to contribute in return?’ But it is unlikely that the psychological contract and therefore the employment relationship will ever be fully understood by either party.

The aspects of the employment relationship covered by the psychological contract will include from the employee’s point of view:

- how they are treated in terms of fairness, equity and consistency;
- security of employment;
- scope to demonstrate competence;
- career expectations and the opportunity to develop skills;
- involvement and influence;
- trust in the management of the organization to keep their promises.

From the employer’s point of view, the psychological contract covers such aspects of the employment relationship as competence, effort, compliance, commitment and loyalty.

What employees and employers want, Guest *et al* (1996)

While employees may want what they have always wanted – security, a career, fair rewards, interesting work and so on – employers no longer feel able or obliged to provide these. Instead, they have been demanding more of their employees in terms of greater input and tolerance of uncertainty and change, while providing less in return, in particular less security and more limited career prospects.

The core of the psychological contract

A model of the psychological contract as formulated by Guest *et al* (1996) suggests that the core of the contract can be measured in terms of fairness of treatment, trust, and the extent to which the explicit deal or contract is perceived to be delivered. The full model is illustrated in Figure 16.1.

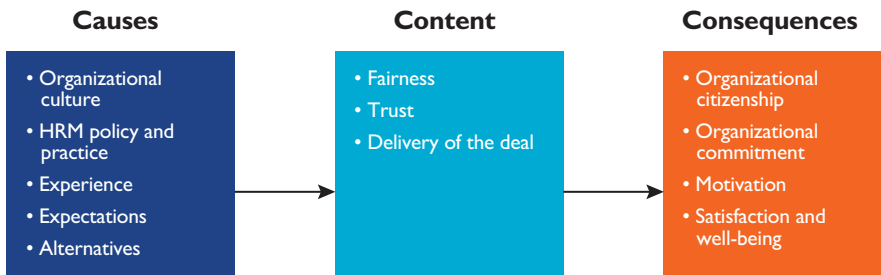


Figure 16.1 A model of the psychological contract

The significance of the psychological contract

As suggested by Spindler (1994): ‘A psychological contract creates emotions and attitudes which form and control behaviour’. Its significance was summarized by Sims (1994) as follows.

The significance of the psychological contract, Sims (1994)

A balanced psychological contract is necessary for a continuing, harmonious relationship between the employee and the organization. However, the violation of the psychological contract can signal to the participants that the parties no longer shared (or never shared) a common set of values or goals.

The concept highlights the fact that employee/employer expectations take the form of unarticulated assumptions. Disappointments on the part of management as well as employees may therefore be inevitable. These disappointments can, however, be alleviated if management appreciate that one of their key roles is to manage expectations, which means clarifying what they believe employees should achieve, the competences they should possess and the values they should uphold. And this is a matter not just of articulating and stipulating these requirements but of discussing and agreeing them with individuals and teams.

The psychological contract governs the continuing development of the employment relationship, which is constantly evolving over time. But how the contract is developing and the impact it makes may not be fully understood by any of the parties involved. Spindler (1994) comments that: 'In a psychological contract the rights and obligations of the parties have not been articulated much less agreed to. The parties do not express their expectations and, in fact, may be quite incapable of doing so.'

People who have no clear idea about what they expect may, if such unexpressed expectations have not been fulfilled, have no clear idea why they have been disappointed. But they will be aware that something does not feel right. And a company staffed by 'cheated' individuals who expect more than they get is heading for trouble.

Schein (1965) made the following points about the importance of the psychological contract.

Effectiveness and organizational commitment depend on the following, Schein (1965)

1. The degree to which people's expectations of what the organization will provide to them and what they owe the organization in return matches what the organization's expectations are of what it will give and get in return.
2. The nature of what is actually to be exchanged (assuming there is some agreement) – money in exchange for time at work; social need satisfaction and security in exchange for hard work and loyalty; opportunities for self-actualization and challenging work in exchange for high productivity, high quality work, and creative effort in the service of organizational goals; or various combinations of these and other things.

The research conducted by Guest and Conway (2002) led to the conclusion that:

The management of the psychological contract is a core task of management and acknowledged as such by many senior HR and employment relations managers, and shows that it has a positive association with a range of outcomes within the employment relationship and is a useful way of conceptualizing that relationship.

Changes to the psychological contract

The nature of the psychological contract is changing in many organizations in response to changes in their external and internal environments. The ways in which psychological contracts are changing as suggested by Hiltrop (1995) are shown in Table 16.1.

Table 16.1 Changes in the psychological contract

From	To
<ul style="list-style-type: none"> ● Imposed relationship (compliance, command and control) ● Permanent employment relationship 	<ul style="list-style-type: none"> ● Mutual relationship (commitment, participation and involvement) ● Variable employment relationship – people and skills only obtained and retained when required

Table 16.1 *continued*

From	To
<ul style="list-style-type: none"> ● Focus on promotion ● Finite duties ● Meeting job requirements ● Emphasis on job security and loyalty to the company ● Training provided by the organization 	<ul style="list-style-type: none"> ● Focus on lateral career development ● Multiple roles ● Add value ● Emphasis on employability and loyalty to own career skills ● Opportunities for self-managed learning

Hiltrop suggests that a new psychological contract is emerging – one that is more situational and short-term and which assumes that each party is much less dependent on the other for survival and growth. He believes that in its most naked form, the new contract could be defined as follows:

There is no job security. The employee will be employed as long as he or she adds value to the organization, and is personally responsible for finding new ways to add value. In return, the employee has the right to demand interesting and important work, has the freedom and resources to perform it well, receives pay that reflects his or her contribution, and gets the experience and training needed to be employable here or elsewhere.

State of the psychological contract 2004

The 2004 Workplace Employee Relations Survey (published in 2005) surveyed 21,624 employees in workplaces employing more than 10 people about their level of job satisfaction. The results are shown in Table 16.2.

Table 16.2 Job satisfaction (WERS, 2004)

	Very satisfied %	Satisfied %	Neither %	Dissatisfied %	Very dissatisfied %
Sense of achievement	18	52	19	8	3
Scope for using initiative	20	52	19	8	3

Table 16.2 *continued*

	Very satisfied %	Satisfied %	Neither %	Dissatisfied %	Very dissatisfied %
Influence over job	12	15	28	11	3
Training	11	40	26	16	7
Pay	4	31	26	28	13
Job security	13	50	22	11	5
Work itself	17	55	19	7	3
Involvement in decision making	8	30	39	17	6

The only area in which there was more dissatisfaction than satisfaction was pay. A higher proportion than might have been expected (72 per cent) was satisfied or very satisfied with the work itself and equally high percentages were satisfied with regard to having a sense of achievement and scope for using initiative.

How psychological contracts develop

Psychological contracts are not developed by means of a single transaction; they evolve over time and can be multi-faceted. There are many contract makers who exert influence over the whole duration of an employee's involvement with an organization. Spindler (1994) comments that:

Every day we create relationships by means other than formal contracts... As individuals form relationships they necessarily bring their accumulated experience and developed personalities with them. In ways unknown to them what they expect from the relationship reflects the sum total of their conscious and unconscious learning to date.

The problem with psychological contracts is that employees are often unclear about what they want from the organization or what they can contribute to it. Some employees are equally unclear about what they expect from their employees.

Because of these factors, and because a psychological contract is essentially implicit, it is likely to develop in an unplanned way with unforeseen consequences. Anything that management

does or is perceived as doing that affects the interests of employees will modify the psychological contract. Similarly the actual or perceived behaviour of employees, individually or collectively, will affect an employer's concept of the contract.

Developing and maintaining a positive psychological contract

As Guest *et al* (1996) point out:

A positive psychological contract is worth taking seriously because it is strongly linked to higher commitment to the organization, higher employee satisfaction and better employment relations. Again this reinforces the benefits of pursuing a set of progressive HRM practices.

They also emphasize the importance of a high-involvement climate and suggest in particular that HRM practices such as the provision of opportunities for learning, training and development, focus on job security, promotion and careers, minimizing status differentials, fair reward systems and comprehensive communication and involvement processes will all contribute to a positive psychological contract. The steps required to develop a positive psychological contract are shown below.

Steps required to develop a positive psychological contract

- Define expectations during recruitment and induction programmes.
- Communicate and agree expectations as part of the continuing dialogue that is implicit in good performance management practices.
- Adopt a policy of transparency on company policies and procedures and on management's proposals and decisions as they affect people.
- Generally treat people as stakeholders, relying on consensus and cooperation rather than control and coercion.

On the basis of their research, Guest and Conway (2002) emphasize the importance of communication in shaping the psychological contract, especially at the recruitment and induction stage when promises and commitments can be made by employers on such matters as interesting work, learning and development opportunities, not to make unreasonable demands on employees, feedback on performance, fair treatment, work/life balance, a reasonable degree of

security and a safe working environment. They concluded that following the recruitment and induction stage, communication is most effective if it is personal and job-related. Top-down communication is less important. They also stressed that a positive psychological contract can only be achieved if management keeps its word – if it does not breach the contract.

The psychological contract – key learning points

The psychological contract defined

A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. It is a system of beliefs that encompasses the actions employees believe are expected of them and what response they expect in return from their employer, and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees.

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The core of the psychological contract

The core of the psychological contract can be measured in terms of fairness of treatment, trust, and the extent to which the explicit deal or contract is perceived to be delivered.

The significance of the psychological contract

A psychological contract creates emotions and attitudes that form and control behaviour (Spindler, 1994).

Changes to the psychological contract

The nature of the psychological contract is changing in many organizations in response to changes in their external and internal environments. For example, there is more focus on mutuality, a variable employment relationship and employability.

The state of the psychological contract

A national survey (WERS) in 2004 found that the only area in which there was more dissatisfaction than satisfaction was pay. A higher proportion than might have been expected (72 per cent) was satisfied or very satisfied with the work itself and equally

The psychological contract – key learning points

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Questions

1. You have been asked to write a short piece for your CIPD branch magazine on the psychological contract and its significance. Prepare an outline of the article.
2. You have been asked by your managing director to let her have a brief report on what your company can do to develop a more positive psychological contract. Prepare the report.
3. How do psychological contracts develop?

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