

# **PSYCHOLOGICAL CONTRACTS: ARE THEY STILL RELEVANT?**

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## **ABSTRACT**

*In dynamic business environments the concept of the psychological contract has altered radically. Empirical evidence from a case study conducted in one of Australia's largest banking organisations is used to illustrate how change can impact upon the psychological contract. Traditional loyalty to an organisation and continuance commitment are becoming less important as organisations pursue more transactional relationships with their employees and as employees are encouraged to pursue more self-interested 'protean' careers. The question could be asked whether, with such increased emphasis on self-serving personal and organisational strategies, the 'psychological contract' continues to provide a means of establishing effective relationships between organisations and their employees. The main conclusion is that the maintenance of such contracts still makes an important contribution to organisational relationships but that organisations need to seek ways of adjusting the terms of the psychological contract to meet the needs of an increasingly mobile and protean workforce.*

## **WHAT IS THE PSYCHOLOGICAL CONTRACT?**

Psychological contracts can be described as the set of expectations held by the individual employee which specifies what the individual and the organisation expect to give to and receive from each other in the course of their working relationship (Sims, 1994). As such, psychological contracts are an important component of the relationship between employees and their organisations. This employment relationship can be described as an exchange relationship (Mowday, Porter, and Steers, 1982), which runs the entire contract spectrum from strictly legal to purely psychological (Spindler, 1994). Whilst many aspects of this relationship may be covered by legislation, enterprise agreements or included in an employment contract signed by the employee detailing aspects such as hours, salary and benefit plans, there are always likely to be aspects of the employment relationship which are confined to the subconscious (Spindler, 1994). This 'hidden' aspect of the employment exchange (Eisenberger, Huntington, Hutchison, and Sowa, 1986; Greenberg, 1990) has come to be known as the psychological contract (Argyris, 1960; Schein, 1980; Rousseau, 1989).

Psychological contracts can be viewed as containing both transactional and relational aspects (MacNeil, 1985). Transactional contracts are described as those containing terms of exchange which have monetary value, are specific and of limited duration. These contracts can be characterised as 'a fair day's work for a fair day's pay' (Rousseau and Wade-Benzoni, 1994). In terms of the psychological contract, transactional components could be described as being synonymous with the 'effort bargain', namely the reciprocal process of exchanging reasonable effort for extrinsic and intrinsic rewards (Marks, Findlay, Hine, McKinlay, and Thompson, 1994). Relational contracts, by contrast, contain terms which may not be readily valued and which broadly concern the relationship between the individual employee and the organisation (Guzzo and Noonan, 1994). In terms of the psychological contract,

relational contract components encompass factors such as provision of commitment, company loyalty and trust in management on behalf of the employee in return for competent management, opportunity for input and sense of belonging.

The transactional and relational components of the psychological contract interact (Guzzo and Noonan, 1994). Changes in the transactional terms of the contract can influence the kinds of relational rewards expected or obligations perceived by the employee. For example, when an employee is given extra tasks or more stressful work without additional compensation or increased prospects of promotion this is likely to be regarded as a negative shift in the transactional component of the employee's psychological contract. There may be little he/she can do to address the imbalance in respect to transactional items. For example, should employees be tempted to decrease effort or performance level to reduce the imbalance, this may act to worsen the situation. It is likely, in such a situation, that employees will withdraw some or all of their contribution to the relational component of the psychological contract by reducing commitment, loyalty or trust in management. It is this interactivity between transactional and relational components of the psychological contract which has the potential to create problems for organisations in times of organisational change.

### **WHAT FUNCTIONS DOES THE PSYCHOLOGICAL CONTRACT FULFIL?**

Much has been written about the function of the psychological contract eg Robinson, Kraatz and Rousseau (1994), Rousseau and Wade-Benzoni (1994), Morrison (1994), Sparrow (1996a), Sparrow and Hiltrop (1997). Sparrow (1996a) claims that psychological contracts underpin the work relationship and provide a basis for capturing complex organisational phenomena by acting in a similar manner to hygiene factors. Good contracts may not always result in superior performance but poor contracts tend to act as demotivators and can be reflected in lower commitment and heightened absenteeism and turnover. Sparrow and Hiltrop (1997) suggest that psychological contracts help employees to predict the kind of rewards they will receive for investing time and effort in the organisation. Having created perceptions of expected rewards, psychological contracts give employees the feeling that they are able to influence their destiny in the organisation since they are party to the contract and because they can choose whether to carry out their obligations. These last two points are closely related. Predictability is important to motivation i.e. an employee needs to be able to predict that performance will result in desired outcomes (Vroom 1964). Predictability has also been suggested as a key factor in preventing stress (Sutton and Kahn 1986) and as an important factor in the development of trust (Morrison 1994).

Traditionally, in the banking industry, employees have been able to predict that remaining with an organisation (continuance commitment) would be rewarded with promotional opportunities and a steadily rising income stream. Such prediction is the result of an instrumental perspective which suggests that an employee would be likely to increase his/her expectations of their employer in proportion to time spent with a particular organisation. Robinson, Kraatz and Rousseau (1994) suggest that this occurs because of the employee's desire to maintain equity between contributions and rewards.

One problem with the ability of the psychological contract to project predictability into employee's perceptions of perceived rewards is that this need for predictability creates a

pull towards past expectations and a resultant resistance to change (Morrison, 1994). This resistance to change impacts upon the ability of the psychological contract to accurately capture organisational phenomena in times of organisational change.

## **CHANGE AND THE PSYCHOLOGICAL CONTRACT**

Organisational change may impact heavily upon employees' psychological contracts. When change occurs, social information processing theory suggests that employees will alter their perceptions of what they owe the employer and what they are owed in return (Salancik and Pfeffer, 1978; Robinson, Kraatz and Rousseau, 1994). As the human resource practices of an organisation respond to changing environmental conditions and as employees gain experience, they will reappraise their existing psychological contracts in order to reevaluate and renegotiate both their own and their employer's obligations (Rousseau and McLean Parks, 1993). This scanning process commonly results in a sense of employee outrage (Rousseau and Greller, 1994b) as a reaction to the fact that employees are being asked to bear risks which were previously carried by the organisation or to increase effort without reward systems compensating for such a situation. Employees' ability to predict the rewards likely to be received in return for time, effort, loyalty and commitment is decimated.

Commonly, employees are being told there is no job security and no chance of promotion and that no job is safe from being reorganised, reengineered, recombined, flattened or just eliminated (Navran, 1994). Reactions to such pronouncements may include distrust resulting from broken implied promises, vulnerability or sense of powerlessness in respect to seeking to redress the situation in addition to loss of morale and motivation. Such reactions can mean dire consequences for restructured/d downsized organisations which need the efforts and commitment of remaining employees in order to survive in a highly competitive environment.

To retain balance in the effort exchange, in organisations experiencing employment market slack, employees are unlikely to decrease effort in the post restructuring work environment because of the lack of alternative employment opportunities. Hence it is likely that relational aspects of employee input are likely to be affected. Commitment is likely to feature amongst these relational aspects. Commitment can be defined as 'the relative strength of an individual's identification with and involvement in a particular organisation characterised by strong acceptance or a belief in an organisation's goals and values; willingness to exert effort on behalf of the organisation; and a strong desire to maintain membership of the organisation (Mowday, Porter, and Steers 1982). The first characteristic of commitment i.e. 'belief in an organisation's goals and values' is often operationalised in terms of attachment or pride in the organisation (Cook and Wall, 1980) and is commonly referred to as affective commitment. The desire to maintain membership of the organisation can be operationalised in terms of past and future tenure intentions and is referred to as continuance commitment (Meyer and Allen 1984).

In finance sector organisations, characterised (at least until the early 1990s) by a history of stable and paternalistic human resource practices, organisational restructuring is likely to decrease affective commitment but continuance commitment may be maintained by a lack of alternatives to the employees' current jobs (Newell and Dopson

1996). Newell and Dopson refer to this situation as negative attachment. They suggest that in times of rationalisation, managers in particular are likely to move from affective to continuance commitment and possibly negative attachment.

External change factors such as changed attitudes to work may also be impacting upon the psychological contract. This, combined with the fact that firms are dealing with a more sophisticated and self-aware workforce (Bayliss, 1998) may bring new expectations to the employee's perception of what is owed by the organisation. Intrinsic rewards such as recognition, a sense of achievement, and relationships with colleagues are increasingly likely to feature as highly sought after work rewards. As the opportunity for organisations to offer traditional rewards such as long term career paths and job security dwindle, these intrinsic rewards may increasingly be both promised to employees at the recruitment and later stages of their employment and expected by employees, thus finding their way into the psychological contract.

### **EMPIRICAL EVIDENCE OF THE IMPACT OF CHANGE ON THE PSYCHOLOGICAL CONTRACT**

The banking industry was considered an ideal context in which to assess the impact of change on the psychological contract because, within this context, managerial staff in particular had for several decades leading up to the mid-1990s enjoyed stable employment and paternalistic human resource practices. In 1994-1995<sup>1</sup> a significant restructuring/downsizing initiative was implemented in one of Australia's major banking institutions which will be referred to as ONEBANK<sup>2</sup>. Consequently, a survey was conducted of all state managers of ONEBANK in order to assess the impact of change on the psychological contract. State managers were selected because the restructuring initiative had commenced within the state surveyed, to be extended to other states at a later stage.

Response rate for the survey was in excess of 78% providing 862 responses for subsequent analysis. Much of the quantitative data was subjected to factor and reliability analysis before being utilised in t-tests and hierarchical regression to test a number of hypotheses relating to elements of the psychological contract and other critical psychological states. The questionnaire also provided a considerable number of qualitative responses to open-ended questions which were subjected to thematic analysis and used to support the quantitative data analysis. Despite the time frame for the study, it is considered that the relationships between restructuring and the psychological contract which were identified in the study would be experienced within many similar organisations with a history of human resources practices similar to that of ONEBANK. What is also recognised however is that the immediate impact upon the psychological contract may have weakened in the post-restructuring environment as employees adjust their predictions of expected input and rewards in light of changes to human resource practices and labour market realities. Future research is needed to explore this probability.

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<sup>1</sup> The time frame between the conduct of the ONEBANK study and writing of the current paper results from the ONEBANK study being used as the basis for PhD studies which have only recently been completed

<sup>2</sup> ONEBANK is used as the name of the bank to protect the identity of the organisation involved.

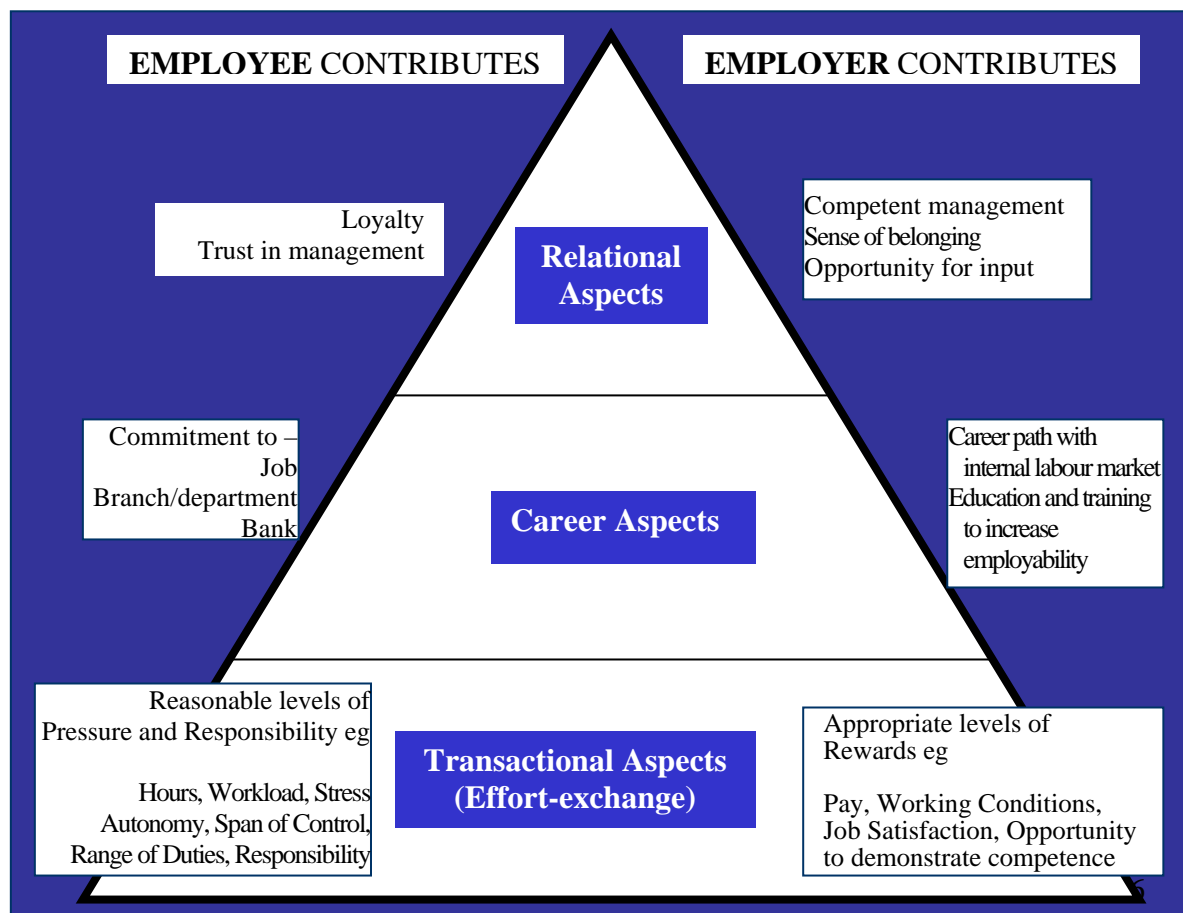
Decades of paternalistic human resource management practices at ONEBANK had resulted in the development of an ‘implied contract’ of reasonable effort, loyalty and commitment on behalf of the employee in return for a clearly identifiable career path and job security on behalf of the bank. Qualitative data collected during the study of ONEBANK confirmed that these terms of the implied contract had become deeply entrenched in the psychological contract of ONEBANK managers. For example, when asked about their satisfaction with career in the bank up until the time of restructuring, respondents provided a number of comments similar to those listed below:

- *A career path was always evident and achievable. I have achieved to date what I set as my goal.*
- *Recognition and advancement have proven attainable with effort.*
- *Salary and position responsibilities have made the job rewarding and allowed for a good quality lifestyle.*

Given the content of the qualitative data and the fact that the quantitative data revealed that 80% of respondents had expressed satisfaction with their career path up until the time of restructuring, an assumption was made that the psychological contracts of most ONEBANK employees had been relatively ‘in balance’ prior to restructuring ie that employees were reasonably satisfied that equity existed in respect to their perceptions of expected inputs and rewards.

A three-tier model of the psychological contract was developed based on an extensive literature review and the impact of restructuring on the psychological contract of ONEBANK managers was assessed. The 3-tier model of the psychological contract is depicted in Figure 1.

**Figure 1: 3-tier model of the psychological contract**



The model proposed that, at the most basic level, employees were assumed to contribute reasonable levels of pressure and responsibility eg reasonable hours, manageable workload, moderate levels of stress, appropriate autonomy, reasonable span of control, manageable range of duties and appropriate responsibility in return for appropriate levels of rewards eg appropriate level of pay, suitable working conditions, job satisfaction and the opportunity to demonstrate competence. This aspect of the psychological contract is referred to as the transactional component (Rousseau and Wade-Benzoni, 1994) as discussed previously in this paper.

The second tier of the psychological contract – career aspects – refers to the exchange of commitment (to the job, their branch/department, and to ONEBANK and its goals as a national organisation) on behalf of the employee in return for a career path within an internal labour market (as in the case of ONEBANK) and/or education and training to increase employability.

The third tier of the psychological contract model incorporated the relational aspects of the psychological contract as previously discussed. The model proposed that employees would, at the relational level, contribute loyalty and trust in management in return for competent management, the opportunity for input into decision-making and a work culture that provided a sense of belonging.

The study proceeded in three phases. In phase one, the job and career outcomes of restructuring were investigated. The measures employed to assess the job and career outcomes of restructuring were based on an extensive review of the restructuring literature and included the following – span of control, base salary, level of responsibility, range of duties, level of autonomy, overall workload, physical work conditions, hours worked, stress levels, job satisfaction, opportunity to demonstrate competence and career satisfaction.

In phase two the impact of restructuring (as expressed in terms of job and career outcomes) on the psychological contract was assessed. In phase three the impact of restructuring and changes in the psychological contract on other critical psychological states of employees was assessed.

The two critical psychological states utilised for the final phase of the study were pessimism and powerlessness based on the work of Navran (1994) and Clark and Koonce (1995).

Also included in the research study were a number of ‘situational’ factors. Based on the work of a number of authors such as Turnley and Feldman (1998) and Floodgate (1994) it was proposed that ONEBANK employees’ adjustment to their psychological contract following restructuring would be influenced by factors such as commitment to the restructuring process and satisfaction with the restructuring process together with whether or not the respondents had expressed interest in retrenchment.

A number of demographic variables were also included in the analysis because it was considered that older, more senior managers may have invested more human capital into

their career at ONEBANK and may therefore have reacted differently from younger employees. Other demographic variables included tenure, experience outside ONEBANK, location (not all areas of the bank were affected to the same extent), grade and gender.

### Results of the ONEBANK study

Two questions were posed in Phase 1 of the research i.e.

- (a) *What were the job outcomes of restructuring at ONEBANK?*
- (b) *What was the impact of job outcomes of restructuring on the effort exchange relationship?*

Analysis of the ONEBANK data revealed that the impact of restructuring had created a negative shift in the job outcomes component of the effort exchange (the transactional aspect of the psychological contract) (Table 1). All job input variables with the exception of autonomy and span of control had increased significantly. Autonomy levels recorded no significant change and span of control revealed a significant decrease.

**Table 1: Job outcomes of restructuring – input variables**

<b>Job input variables</b>				
	<b>Mean*</b>	<b>Inc/Dec</b>	<b>Sig</b>	<b>Support in Literature</b>
<b>Job pressure variables</b>	<b>1.22</b>	<b>Inc</b>	<b>&lt;.001</b>	<b>Scase &amp; Goffee (1989)</b>
Overall workload	1.19	Inc	<.001	Schor (1992); Mone (1994); Cappelli (1997)
Level of stress	1.21	Inc	<.001	Ashford (1988); Brockner (1988); Mone (1994); Clark and Koonce (1995)
Number of hours worked	1.26	Inc	<.001	Mone (1994)
Range of duties	1.49	Inc	<.001	Dopson and Stewart (1990); Mishra and Spreitzer (1998)
Amount of effort made	1.54	Inc	<.001	Parks and Kidder (1994)
<b>Job responsibility variables</b>	<b>1.78</b>	<b>Inc</b>	<b>&lt;.001</b>	<b>Tombaugh and White (1990); Wheatley (1992)</b>
Level of responsibility	1.52	Inc	<.001	Dopson and Stewart (1990)
Level of autonomy	2.02	Dec	N/s	Mishra and Spreitzer (1998)
Number of staff reporting directly to managers	2.09	Dec	.004	Mishra and Spreitzer (1998)
<b>Overall job obligations</b>	<b>1.54</b>	<b>Inc</b>	<b>&lt;.001</b>	

\*All variables were measured on a three-point scale – 1 = Increase; 2 = No change; 3 = Decrease

Job reward variables revealed mixed results (Table 2). Whilst base salary and physical working conditions revealed significant improvement, job satisfaction and opportunity to demonstrate competence recorded significant decreases.



**Table 2: Job outcomes of restructuring – reward variables**

Job reward variables				
	Mean*	Inc/ Dec	Sig	Support in Literature
Amount of base salary received	1.64	Inc	<.001	
Physical work conditions	1.86	Inc	<.001	Mumford (1995)
Level of job satisfaction	2.48	Dec	<.001	
Opportunity to demonstrate competence	2.31	Dec	<.001	McFarlane Shore (1994); Spindler (1994)

\*All variables were measured on a three-point scale – 1 = Increase; 2 = No change; 3 = Decrease

Overall job obligations (as represented by pressure and responsibility variables) had increased to a greater extent than job rewards (Table 3) causing a negative shift in the effort exchange (the transactional component of the psychological contract).

**Table 3: Paired sample t-tests job obligations and rewards**

Obligation/Reward	Mean <sup>(a)</sup>	t-value	Df
Overall job obligations	1.54	4.814*	780
Reward: Base salary received	1.64		
Overall job obligations	1.54	12.563*	780
Reward: Physical work conditions	1.86		
Overall job obligations	1.54	33.811*	780
Reward: Job satisfaction	2.48		
Overall job obligations	1.54	27.776*	777
Reward: Opportunity to demonstrate competence	2.34		

\* p ≤ .001

<sup>(a)</sup> all variables were measured on a 3-point scale (1 = increase, 2 = no change, 3 = decrease)

The two questions posed at Phase 2 were as follows:

- (a) *Did restructuring affect levels of career satisfaction amongst ONEBANK employees?*
- (b) *Did restructuring affect levels of commitment amongst ONEBANK employees?*
- (c) *Were content variables (job and career outcomes) a significant predictor of post restructuring commitment levels for ONEBANK employees?*

The data analysis revealed that satisfaction with future career prospects was much lower than past career satisfaction i.e. there had been a negative shift in perception of a career path within an internal labour market as an employer contribution to the psychological contract at the career level (Table 4).

**Table 4: Paired sample t-tests pre and post restructuring career satisfaction**

Career satisfaction	Mean <sup>(a)</sup>	t-value	Df
Satisfaction with career at ONEBANK prior to restructuring	2.51	-27.785*	780*
Satisfaction with career at ONEBANK following restructuring	3.69		

\* p ≤ .001

<sup>(a)</sup> measured on a 5-point scale (1 – very satisfied; 5 = very dissatisfied)

At this second level i.e. career level of the psychological contract, commitment levels were also shown to have fallen following restructuring. All three types of commitment included in the study ie commitment to the job, commitment to branch/department and commitment to ONEBANK and its goals as a national organisation had decreased following restructuring (Table 5).

**Table 5: Paired sample t-tests – pre and post restructuring levels of commitment**

Type of commitment	Mean	t-value	Df
Level of commitment to job prior to restructuring	1.52	10.246*	779
Level of commitment to job following restructuring	1.92		
Level of commitment to branch/department prior to restructuring	1.61	5.061*	779
Level of commitment to branch/department following restructuring	1.79		
Level of commitment to ONEBANK and its goals as a national organisation prior to restructuring	1.93	11.356*	779
Level of commitment to ONEBANK and its goals as a national organisation following restructuring	2.39		

\*  $p \leq .001$

(a) measured on a 5-point scale (1 – very high; 5 = very low)

In the next step in the analysis, the hypothesis that changes in commitment had resulted from a negative shift in job and career variables was tested through regression analysis. The results of the regression analysis showed that job and career outcomes of restructuring made a small but significant contribution (8.6%) to the variance in commitment. Because the contribution made by job and career outcomes was not as high as had been anticipated, it was decided to add employer contributions (competent management, opportunity for input, sense of belonging) at the relational level to the regression equation to see if this increased the strength of the relationship. Demographic (length of tenure, location, grade, age and gender) and situational factors (commitment to the restructuring process, satisfaction with the restructuring process and expressed interest in retrenchment) were also added to the regression analysis at this stage. The contribution of the various groups of variables to variance in overall commitment is shown in Table 6.

**Table 6: Results of regression analysis – overall commitment**

Model	R <sup>2</sup>	R <sup>2</sup> Change	F-value
Model 1 – Job outcomes	.086		5.747*
Model 2 – Job and career outcomes	.092	.086	5.697*
Model 3 – Job, career and relational outcomes	.240	.148	14.377*
Model 4 – Job, career, relational outcomes and demographic factors	.270	.030	11.100*
Model 5 – Job, career, relational outcomes and demographic and situational factors	.321	.051	11.646*

\*  $p < .001$

The results demonstrated the strength of the relational aspects of ONEBANK managers' psychological contracts (14.8% of the variance in commitment could be associated with relational outcomes alone) and negated the validity of the three-level model of the psychological contract originally proposed. In the case of ONEBANK, a two-stage model was demonstrated to be more appropriate ie changes to commitment did not

result principally from changes in job and career aspects but were more significantly impacted upon by changes to relational items within the psychological contract. This finding supports the work previously done by Guzzo and Noonan (1994) who claimed that fulfilment of the psychological contract in both *transactional* and *relational* terms influenced employee commitment. Demographic factors were shown to make a small but significant contribution to variance in commitment, as did the situational factors.

The research questions addressed at Phase 3 were as follows:

- (a) *Did significant differences exist in perceptions of **organisational** input into the relational level of the psychological contract i.e. management competence, opportunity for input and sense of belonging between those employees who had/had not been through the restructuring process?*
- (b) *Did significant differences exist in **employee** input into the relational level of the psychological contract i.e. loyalty and trust in management between those employees who had/had not been through the restructuring process?*
- (c) *Were job, career and relational outcomes (content factors) significant predictors of levels of loyalty and trust in management following restructuring?*
- (d) *Did demographic and situational variables improve the ability of the model to predict levels of loyalty and trust in management following restructuring?*

Independent samples t-tests showed that there were significant differences in perceptions of management competence and opportunity for input between those who had/had not been through the restructuring process (Tables 7 and 8). Those who had been through restructuring rated management competence significantly lower than those who had not been through restructuring. However, both groups perceived management competence as low. Perceptions of opportunity for input were also significant lower for those who had been through restructuring with both groups perceiving that they had little opportunity for input. No significant difference was found in perception of sense of belonging between the two groups.

**Table 7: Independent sample t-tests – Perceptions of management competence – those who had/had not been through restructuring**

Respondent group	Mean <sup>(a)</sup>	t-value	df
Respondents who had been through the restructuring process – perceptions of management competence	3.45	-1.972*	860
Respondents who had not been through the restructuring process – perceptions of management competence	3.20		

\*  $p \leq .05$

<sup>(a)</sup> measured on a 5-point scale (1 = very high; 5 = very low)

**Table 8: Independent sample t-tests – Perceptions of opportunity for input – those who had/had not been through restructuring**

Respondent group	Mean <sup>(a)</sup>	t-value	df
Respondents who had been through the restructuring process – perceptions of opportunity for input	4.12	-1.928*	860
Respondents who had not been through the restructuring process – perceptions of opportunity for input	3.89		

\*  $p \leq .05$

<sup>(a)</sup> measured on a 5-point scale (1 = very high; 5 = very low)

Independent samples t-tests were also conducted on employee input into the psychological contract at the relational level. A significant difference was found in levels of trust in management between the two groups (Table 9) with those who had been through the restructuring process expressing significantly lower trust in management than those who had not. The levels of trust in management for both groups was low. However no significant difference was detected in loyalty to ONEBANK. It should be noted however that loyalty levels for both groups were relatively low.

**Table 9: Independent sample t-tests – Perceptions of trust in management – those who had/had not been through restructuring**

Respondent group	Mean <sup>(a)</sup>	t-value	df
Respondents who had been through the restructuring process – perceptions of trust in management	15.42	-2.645*	854
Respondents who had not been through the restructuring process – perceptions of trust in management	14.50		

\*  $p \leq .01$

<sup>(a)</sup> summated scale (6 = very high; 20 = very low)

When regression analysis was used to assess the contributions of the five sets of factors (content factors i.e. job, career, relational; demographic and situational) to the variance in loyalty (Table 10) and trust in management (Table 11), content factors were shown to be significant predictors of both dependent variables. The importance of relational outcomes was again evident. Relational outcomes contributed 28.4% to the variance in loyalty and 44.9% to the variance in trust in management.

**Table 10: Regression analysis – Loyalty**

Model	R <sup>2</sup>	R <sup>2</sup> Change	F-value
Model 1 – Job outcomes	.117		8.075*
Model 2 – Job and career outcomes	.122	.005	7.809*
Model 3 – Job, career and relational outcomes	.406	.284	31.050*
Model 4 – Job, career, relational outcomes and demographic factors	.427	.021	22.350*
Model 5 – Job, career, relational outcomes and demographic and situational factors	.539	.112	28.776*

\*  $p < .001$

**Table 11: Regression analysis – Trust in Management**

Model	R <sup>2</sup>	R <sup>2</sup> Change	F-value
Model 1 – Job outcomes	.124		8.581*
Model 2 – Job and career outcomes	.142	.018	9.266*
Model 3 – Job, career and relational outcomes	.591	.449	65.433*
Model 4 – Job, career, relational outcomes and demographic factors	.604	.013	43.631*
Model 5 – Job, career, relational outcomes and demographic and situational factors	.676	.072	51.328*

\*  $p < .001$

In Phase 4, the analysis was extended to the two critical psychological states pessimism and powerlessness. The questions posed at this stage of the analysis were as follows:

- (a) *Were there any significant differences in levels of pessimism and powerlessness between those who had/had not been through the restructuring process?*
- (b) *Were content factors significant predictors of pessimism and powerlessness?*
- (c) *Did demographic and situational variables significantly increase the predictive power of the model?*

Independent samples t-tests revealed significant differences in both pessimism (Table 12) and powerlessness (Table 13) between those who had/had not been through the restructuring process. Those who had undergone restructuring were shown to be significantly more pessimistic and to have a significantly stronger sense of powerlessness than those who had not been through the restructuring process.

**Table 12: Independent samples t-test - Employee pessimism – those who had/had not been through restructuring**

Respondent group	Mean <sup>(a)</sup>	t-value	df
Respondents who had been through the restructuring process – pessimism	35.12	-2.625*	860
Respondents who had not been through the restructuring process – pessimism	33.40		

\*p ≤ .01

<sup>(a)</sup> summated scale (15 = very low; 45 = very high)

**Table 13: Independent samples t-test – Sense of Powerlessness – those who had/had not been through restructuring**

Respondent group	Mean <sup>(a)</sup>	t-value	df
Respondents who had been through the restructuring process – sense of powerlessness	11.04	1.868*	860
Respondents who had not been through the restructuring process – sense of powerlessness	11.73		

p ≤ .10

<sup>(a)</sup> summated scale (19 = very low; 4 = very high)

Levels of pessimism for both groups were high. Levels of sense of powerlessness were also cause for concern.

Regression analysis revealed that content factors (job, career and relational variables) contributed significantly to the variance in both pessimism (34.2%) (Table 14) and powerlessness (28.7%) (Table 15). Relational factors were once again shown to make the most significant contribution to the dependent variable i.e. approximately two-thirds of the total contribution of content factors to the variation in both pessimism and powerlessness.

**Table 14: Regression analysis – Pessimism**

Model	R <sup>2</sup>	R <sup>2</sup> Change	F-value
Model 1 – Job outcomes	.090	.090	14.584*
Model 2 – Job and career outcomes	.125	.036	29.972*
Model 3 – Job, career and relational outcomes	.342	.217	80.654*
Model 4 – Job, career, relational outcomes and demographic factors	.386	.043	6.408*
Model 5 – Job, career, relational outcomes and demographic and situational factors	.430	.044	11.190*

\* p&lt; .001

**Table 15: Regression analysis – Powerlessness**

Model	R <sup>2</sup>	R <sup>2</sup> Change	F-value
Model 1 – Job outcomes	.071	.071	11.248*
Model 2 – Job and career outcomes	.094	.024	19.200*
Model 3 – Job, career and relational outcomes	.287	.193	66.256*
Model 4 – Job, career, relational outcomes and demographic factors	.332	.044	6.006*
Model 5 – Job, career, relational outcomes and demographic and situational factors	.390	.058	13.733*

\* p&lt; .001

Overall, the data analysis revealed that, in the case of ONEBANK managers, job and career outcomes of restructuring made a significant contribution to variance in commitment, loyalty and trust in management and to the critical psychological states pessimism and powerlessness. However the relational outcomes ie opportunity for input, perceptions of management competence and sense of belonging made a much greater contribution to the variance in the dependent variables than job and career outcomes combined. Situational factors also made an important contribution to the variance in each of the dependent variables while demographic factors did not contribute as strongly to the variance as could be expected from the ONEBANK qualitative data.

The model clearly indicated that in organisations which have been characterised by stable, paternalistic human resource practices, restructuring could act to destroy the relational aspects of employees' psychological contract. The data indicates that, it is not so much the change in employees' jobs or career prospects which destroy commitment, loyalty and trust in management but rather the opportunity employees have had for input into the process, their perceptions of management competence and their sense of belonging to the organisation together with their commitment to and satisfaction with the change process.

Given the demonstrated reductions in commitment, loyalty and trust in management and the high levels of pessimism and powerlessness it is apparent that the creation of a new, 'post restructuring' psychological contract in restructured organisations such as ONEBANK poses a difficult problem for senior management.

## THE ‘OLD’ V THE ‘NEW?’ PSYCHOLOGICAL CONTRACT

As demonstrated in the previous section, change impacts upon the terms of the psychological contract. Sorohan (1994) claims that the ‘traditional’ loyalty-security contract (Herriot, 1992) as evidenced at ONEBANK prior to restructuring, rested upon a premise that has been revealed as unworkable. A number of authors (DeMeuse and Tornow (1990), Burack (1993), Burack and Singh, (1995) support this view and refer to the dramatic revision which is occurring in psychological contract provisions.

The traditional psychological contract based on a dependent relationship characterised by employees exchanging cooperation, conformity and performance for tenure and economic security virtually assured employee loyalty (Singh, 1998). Such loyalty may be more difficult to establish and maintain under the terms of psychological contracts which have emerged in rapidly changing organisations. The terms of the new contract are still unclear but Kissler has identified a number of distinctions between the old and new psychological contract (Table 16). The key differences between the ‘traditional’ and the ‘new’ psychological contract relate to the decreased expectation of paternalistic human resource practices, the replacement of the concept of organisational worth with ‘self worth’, the substitution of personal accomplishment for promotion as the route to growth and the decreased importance of tenure.

**Table 16: Kissler’s (1994) Distinction between Old v New Characteristics of Psychological contracts**

Old Contract	New Contract
Organisation is ‘parent’ to employee ‘child’	Organisation and employee enter into ‘adult’ contracts focused on mutually beneficial work
Employees identity and worth are defined by the organisation	Employee’s identity and worth are defined by the employee
Those who stay are good and loyal; others are bad and disloyal	The regular flow of people in and out is healthy and should be celebrated
Employees who do what they are told will work until retirement	Long-term employment is unlikely; expect and prepare for multiple relationships
The primary route for growth is through promotion	The primary route for growth is a sense of personal accomplishment

Hiltrop (1996) describes this ‘new’ psychological contract as having a ‘self reliance’ orientation which is far removed from the concept of devotion to an organisation encapsulated in Whyte’s 1956 publication ‘The Organisation Man’. Whyte hypothesised that employees should invest themselves completely in their company while the company did whatever was necessary to make the employee succeed in his/her job and career. Under the terms of the new contract, employees use their skills and education and future job opportunities to be more self reliant in their attitudes to work.

The role of the organisation in the new psychological contract is subject to debate. Hall and Moss (1998) ask the question – if the new ‘protean’ career contract is with the self rather than with an organisation, what role will the organisation play? Hall and Moss define the protean career as being independent and directed by the needs and values of the individual, with success described as internal (psychological). Given this definition, the importance of the psychological contract in providing a schema for employees to develop a set of expectations concerning mutual obligations between themselves and the organisation, may be questioned.

The organisation might be seen as having an obligation to provide the opportunity for continuous learning to assist in employability whilst the employee is obliged to provide satisfactory levels of performance. Both sets of obligations could find their way into the *employment* contract, so what role does the *psychological* contract play in such a scenario? Many organisations however may be reluctant to include as part of their employment contracts the provision of continuous learning opportunities for employees when the development of protean careers would suggest a decrease in continuance commitment. Organisations may question the financial incentive gained by developing their employees’ careers and what little research has been done suggests that organisations do not see career development as an important part of their business strategy (Smith, 1997). This may be partly because, as argued by political economists, sustained development of the human resource management role becomes near impossible while there are ‘financial systems that fail to reward companies making hard-to-measure investments in their workforce, and macroeconomic policies that penalise companies that try to provide long-term commitments to their employees’ (Levine, 1995: 2 in Sparrow and Cooper, 1998). The question then becomes what can organisations offer employees which will become important and valued expectations on behalf of the employee – important enough to ensure commitment to the current job, loyalty to the organisation and satisfactory levels of performance. Perhaps the intrinsic rewards referred to earlier have an important role to play here.

How important will relational aspects be to the new psychological contract? If employees are anticipated to become more loyal to themselves within the new protean career and organisations withdraw from long term commitment to employees, how important is the psychological relationship between employee and organisation? It could be suggested that, as relationships between organisation and employees become more transactional, organisations will need to develop relationships at the relational level to prevent employees becoming free agents in constant search of the highest bidder for their services.

## **IMPLICATIONS FOR RESEARCH AND PROFESSIONAL PRACTICE**

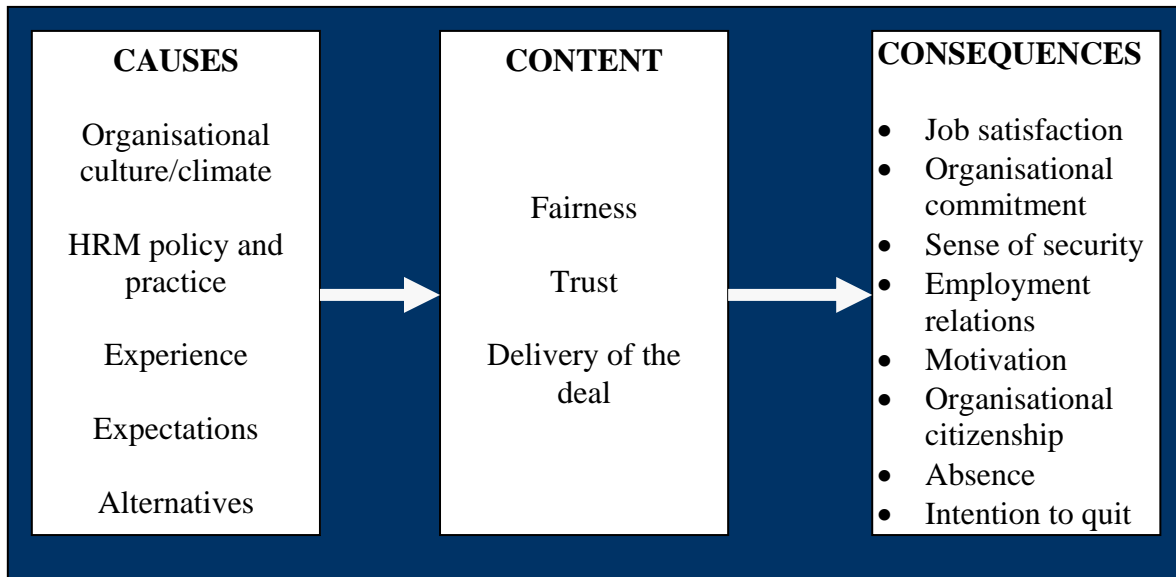
There would appear to be an urgent need for research to assess the change that has taken place in employees’ expectations of what they will receive from their organisations and what they in turn need to contribute in order to receive the rewards they seek. Such research would need to investigate the existence of any links between the development and maintenance of an employee’s psychological contract and employee motivation and job satisfaction. This relationship would appear to be under researched with the main emphasis to date being on the relationship between transactional and relational aspects of the contract. Guest has pioneered work in the area of relationships between the



psychological contract and motivation, job satisfaction etc in his proposed model which investigates causes, content and consequences of psychological contracts (Figure 2).

This model would appear to offer some vestige of hope to professional practitioners in the area of human resource management in attempting to identify the rewards most likely to be expected from their employees or groups of employees within their organisations.

**Figure 2: Guest's model of the psychological contract**



(Guest, D E, 1998, *Is the psychological contract worth taking seriously* *Journal of Organisational Behaviour*, Vol 19, pp 649-664)

The ONEBANK study would appear to support the need for empirical research similar to that conducted by Guest and Conway (1997) undertaken to test the model outlined above. It was evident in the ONEBANK study that organisational culture/climate and HRM policy and practice were strong elements in the development of a strongly relational psychological contract. The importance to the model tested in the ONEBANK study of relational outcomes and situational factors was obvious as was the importance of trust. While the ONEBANK study showed how a negative shift in the psychological contract impacted upon organisational commitment, loyalty and trust in management, Guest's model includes a number of other 'outcomes' which need to be included in future research.

## CONCLUSION

The terms of the psychological contract have no doubt altered, particularly in those organisations such as ONEBANK which previously demonstrated paternalistic and stable human resource environments. Perhaps the greatest change has been in the relative importance of the relational and transactional aspects of the psychological contract. Relational aspects have decreased in importance. For organisations such as ONEBANK this is a dramatic change for employees. As a result employers emphasise

commitment to the current job, but are placing much less emphasis on long-term loyalty that they once expected but no longer seek (Bayliss, 1998). In order to buy commitment to the current job, employers will face the challenge of generating a new psychological contract that puts less emphasis on security and more on other sources of fulfilment (Bower, 1996). Removal of the traditional loyalty-security contract without different supports for new approved behaviour (Herriot, 1992) can be interpreted as betrayal by some employees. This was clearly demonstrated in the ONEBANK data where trust in management was shattered by the restructuring process. Pascale (1995) suggests that only around 10% of the workforce have the entrepreneurial traits and initiative deemed necessary for the new free agent relationships characterised by the employability-based psychological contract. In order to meet increasing demands for flexibility, organisations may shy away from establishing relationships with employees based on job security and steadily rising income streams. However they still need the commitment and loyalty of employees to ensure satisfactory levels of productivity.

The question is what can organisations offer in order to ‘purchase’ loyalty and commitment. Consideration of such purchase options may not be of such importance when employees perceive that no better contract could be established elsewhere. However, in a slack labour market, such decisions will become imperative. Training and continuous development is a high cost option in times of low continuance commitment and a highly mobile workforce. A lower cost alternative may be to increase the potential for intrinsic rewards such as sense of achievement, recognition, sense of responsibility and relationship with colleagues.

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