



Psychological contracting: is it still a valid concept?

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ABSTRACT

In dynamic change environments the concept of the psychological contracts is tested as organisations pursue more transactional relationships with their employees and as employees are encouraged to pursue protean careers. With such increased emphasis on self-serving personal and organisational strategies, one may question whether a ‘psychological contract’ continues to serve a useful purpose in establishing effective relationships between organisations and their employees. This paper reviews the literature in respect to the function of the psychological contract and the changes taking place within the content of such contracts. It is argued that the investigation and maintenance of such contracts still makes an important contribution to organisational relationships.

· This paper is based on part of the literature review undertaken for my PhD topic “Restructuring and the Psychological Contract in the Australian Banking Industry”

WHAT IS THE PSYCHOLOGICAL CONTRACT?

Psychological contracts can be described as the set of expectations held by the individual employee that 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 relationship between the employee and the organisation 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 can be described as those containing terms of exchange which are monetizable, 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' ie 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 easily monetizable 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 company loyalty and commitment on behalf of the employee in return for training and development, opportunity for advancement and job security offered by the employer.

The two components of the psychological contract are interactive (Guzzo and Noonan, 1994). The transactional terms of the contract can influence the kinds of relational rewards expected by the employee. For example, it could be hypothesised that when a negative shift occurs in the transactional component of an employee's psychological contract eg increased task range, increased stress, there is little he/she can do to address the imbalance in respect to transactional items. If such shifts have not been accompanied by increased pay or other rewards, employees may be tempted to decrease effort or performance level which may, in fact, act to worsen the situation. It is likely then, that in such a situation, employees may withdraw some or all of their contribution to the relational component of the psychological contract by reducing loyalty or by reducing commitment. 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?

Psychological contracts fulfil two important functions. Firstly, they project some degree of predictability into the employment relationship. Secondly, they provide a basis for capturing complex organisational phenomena and thus act as a focus for organisational policy and research (Sparrow and Cooper, 1998).

Psychological contracts project predictability into the employment relationship by providing a means by which employees create perceptions about the kinds of rewards they will receive in return for investing time and effort in the organisation (Sparrow and Hiltrop, 1997). It has been proposed that the need for predictability may underlie the development of psychological contracts (McFarlane Shore and Tetrick, 1994c).

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. Traditionally, employees have needed to be able to predict that continuance commitment will be rewarded with promotional opportunities and a steadily rising income stream. Such predictability is important to motivation because an employee needs to be able to predict that acceptable levels of performance will lead to desired outcomes (Vroom, 1964). Predictability, along with understanding and sense of control is also a key factor in preventing stress (Sutton and Kahn, 1986). Predictability is also considered important for the development of trust in the employment relationship (Morrison, 1994). Morrison claims that predictability, reliability, credibility, loyalty and trust all reinforce each other and are essential for a continued harmonious relationship between the employee and the organisation.

Psychological contracts can be said to act in a manner similar to hygiene factors. Good contracts may not always result in superior performance but poor contracts tend to act as demotivators and may be reflected in lower commitment and heightened absenteeism and turnover (Sparrow, 1996a).

This need for predictability however creates a pull towards past expectations and a resultant resistance to change (Morrison, 1994).

CHANGE AND THE PSYCHOLOGICAL CONTRACT

Organisational change may impact heavily upon employees' psychological contracts. When change occurs, social information processing theory (Salancik and Pfeffer, 1978) suggests that information obtained by employees through observing their own behaviour and that of their employer will alter the employee's perceptions of what they owe the employer and what they are owed in return (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 closely scan their existing psychological contracts in order to reevaluate and renegotiate (Rousseau and McLean Parks, 1993) both their own and their employer's obligations. 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 without reward systems compensating for such a situation. 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 that need the efforts and commitment of remaining employees in order to survive in a highly competitive environment.

External change factors such as the demise of the Protestant work ethic may also be impacting upon the psychological contract. The demise of the Protestant work ethic 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.

THE 'OLD' V THE 'NEW?' PSYCHOLOGICAL CONTRACT

Change impacts upon the terms of the psychological contract. Sorohan (1994) claims that the 'traditional' loyalty-security contract (Herriot, 1992) 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 restructured organisations. The terms of the new contract are still unclear but the following distinctions may be identified between the old and new psychological contract (Table 1). 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.

[Insert Table 1 Here]

Hiltrop (1996) describes this 'new' psychological contract as having a 'self reliance' orientation which is far removed from the 'organisation man' (Whyte 1956) concept of the 1960s wherein employees were expected to invest themselves completely in their

company while the company did whatever was necessary to make the employee succeed in their job and career

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. It would appear that 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. 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, p 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.

CONCLUSION

The terms of the psychological contract have no doubt altered, particularly in those organisations 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 and as a result employers will buy commitment to the current job, but not the long-term loyalty that they used to expect and no longer seek (Bayliss, 1998). In order to buy even 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) is likely to be interpreted as betrayal by employees. 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 which may be difficult to carry out. 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.

TABLE 1
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 |

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ⁱ Major references only – full references available from the author