What is the psychological contract and does it matter?

Neil Conway
Birkbeck
University of London

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What is the PC?

The psychological contract is individual beliefs, shaped by the organization, regarding terms of an exchange between individuals and their organization. (Rousseau, 1995)

1. Importance of the psychological contract

• Re-emerged in 1980s/90s as a framework for understanding how organizational changes may affect employee behaviour
• Breakdown of the traditional ‘deal’
  – A career in return for loyalty replaced by financial rewards in exchange for performance
• Individualisation of the employment relationship
• Search for new ways of managing employment relations to meet the interests and concerns of both employees and the organisation
• Organizational change and violation
• PC as a major framework for understanding employee work behaviour, willingness to work hard, attitudes, and wellbeing
2. Defining the psychological contract

Definitional issues

Definition

The psychological contract is individual beliefs, shaped by the organization, regarding terms of an exchange between individuals and their organization. (Rousseau, 1995)

Beliefs? Recent emphasis on promises (implicit and explicit)
Exchange? What employee gives and gets in return
Organization? Management, HR policies and practices, culture

Example of an explicit promise

Carry on exceeding your performance targets and you will get promoted in the next three years
Example of an implicit promise

I've noticed that when I work late my boss is always really nice to me the next day while appearing disappointed by my co-workers.

Note: Nothing is explicit here. There has been no verbal or written statements. The employee's belief arises from their observation of patterns of behaviour in the workplace.

The exchange

**Inducements**
- Pay
- Training
- Respect
- Promotion
- Etc

**Contributions**
- Effort
- Skills
- Flexibility
- Creativity
- Etc

Can be very general:

Or much more specific:

Promotion

Training

Effort

Skills
Employment versus psychological contracts

**Employment contracts**
- Written
- Explicit
- Legally binding
- Doesn’t tell us much about what people actually do at work
- May exert only a small influence on behaviour

**Psychological contracts**
- Unwritten
- Implicit
- No legal status
- Tells us most things about what people actually do at work
- Exerts a large influence on behaviour, feelings and attitudes

Examples of employee beliefs

Conditional promises in the minds of employees (if I do X then I get Y)

"If I work hard I’ll get promoted by the organization."

"If I perform well on this assignment I’ll get a better assignment from the organization next time."

"If I am caught stealing then the organization will fire me."
Features of psychological contracts

• **All** relationships involving exchanges of some kind involve psychological contracts
• Workers reporting to same boss have different psychological contracts
• An employee and their direct line manager may have different views of their shared psychological contract
• The psychological contract an employee has with their line manager may differ to that with other managers
• A psychological contract may encompass thousands of items

3. History of the term

1960s
- Argyris – unspoken agreement between foreman and employees
- Levinson – fulfilling reciprocal obligations 
  promotes mental health and productivity

1970-80s
- Little conceptual development/research interest (except Schein and Kotter)

1989-
- Rousseau’s seminal reconceptualisation. Over a hundred (mainly empirical) research articles.
“Since the foremen realize the employees in this system will tend to produce optimally under passive leadership, and since the employees agree, a relationship may be hypothesized to evolve between the employees and the foreman which might be called the “psychological work contract”. The employee will maintain high production, low grievances, etc, if the foremen guarantee and respect the norms of the employee informal culture (ie, let the employees alone, make certain they make adequate wages, and have secure jobs). This is precisely what the employees need.”

(Argyris, 1960, p. 97, italics added)

4. Strengths and weaknesses

Potential strengths

• Focuses on the employment relationship
• Implicit nature of ongoing exchange
• Proposes a more detailed understanding of the employee–employer exchange
• How employment relationships can go wrong (i.e., due to breach)?
4. Strengths and weaknesses

Recall definition: The PC is an individual’s beliefs, shaped by the organization, regarding terms of an exchange between individuals and their organization. Beliefs based on perceived promises.

A number of unresolved conceptual issues:

• What are the differences between expectations, obligations and promises?
• What are the precise links in the reciprocal exchange between the employer and the employee?
• Who, or what, do employees perceive to be the organization?

<table>
<thead>
<tr>
<th>Belief</th>
<th>Example</th>
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<tbody>
<tr>
<td>Promise</td>
<td>“I will get the reward because that was the deal”</td>
</tr>
<tr>
<td>Obligation</td>
<td>“I should get the reward because I worked hard”</td>
</tr>
<tr>
<td>Expectation</td>
<td>“I am likely to get the reward as that’s happened occasionally in the past”</td>
</tr>
<tr>
<td>Fantasies</td>
<td>“I want to get the reward because I desire it”</td>
</tr>
</tbody>
</table>
5. What do we know from field research?

Overview: Two major areas of research interest

• Contents of psychological contracts
  – What promises do employees and organizations make to one another?
  – How are these deals formed and changed?
• Breach of psychological contracts
  – Definition: Occasions where an employee believes that there organization has failed to fulfil its promises
  – How can psychological contracts go wrong?
  – What happens when psychological contracts go wrong/right?

Overview of research

• 100+ studies
• 50 on breach; 25 on content
• 70% cross sectional, 20% longitudinal, 10% qualitative
• Other methods include diary studies
5. What do we know from field research?

Contents – How are deals formed and changed?

- Organizational factors
  - Communications from management
  - HRM
- Individual and social factors
  - Personality
  - Influenced by the views of others (eg coworkers)
- Pre-employment influences
How can psychological contracts go wrong?

- **Breach** – when one perceives another as failing to fulfil promises. Examples:
  - **Pay** – promised increases in pay were not forthcoming
  - **Promotion** – promised promotion doesn’t materialize in expected time frame
  - **Type of work** – important features of the work were misrepresented to the employee
  - **Training** – employee doesn’t receive promised training
  - **Feedback** – performance reviews inadequate or absent compared to what was promised

5. What do we know from field research?

Likely causes of breach

- Unsatisfactory human resource practices
- Lack of support from line management
- Additional demands
- Previous history of breach
Breach – What happens when psychological contracts go wrong?

- Negative emotions – anger, betrayal, sadness
- Relationship suffers – loss of trust and respect, reduces commitment
- Reduces employee well-being – lower job satisfaction
- Withdrawal of behaviour – less willing to work hard, to share ideas, to be a good workplace citizen

<table>
<thead>
<tr>
<th>Studies</th>
<th>17</th>
<th>13</th>
<th>7</th>
<th>14</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>Job satisfaction</td>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
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<tr>
<td>Organizational commitment</td>
<td>17</td>
<td>13</td>
<td>10</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Going extra mile</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Quitting</td>
<td>14</td>
<td>5</td>
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</table>
6. Managing the PC

90% of HR managers in UK say the concept is useful and 36% say they use it to manage people

Some useful distinctions

- Stage of the employment relationship: pre-entry, selection, socialisation, better understanding of the deal, promotion, termination
- What organizations can do
- What line managers can do
- What employees can do

Likely psychological contract activity

<table>
<thead>
<tr>
<th>Stage</th>
<th>Likely psychological contract activity</th>
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<tbody>
<tr>
<td>Pre-entry</td>
<td>Formation.</td>
</tr>
<tr>
<td>Selection</td>
<td>Formation. Negotiation.</td>
</tr>
<tr>
<td>Promotion or job change</td>
<td>Repairing breach or deal fulfilment. Renegotiation. Formation of new contract.</td>
</tr>
<tr>
<td>Leaving or staying</td>
<td>Breach un-repaired/unforgiving or fulfilment or exceeded expectations.</td>
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</table>
6. Managing the PC

What organizations can do through HRM

- Realistic job previews
- Involvement programmes: encourage shared perceptions and perspective-taking
- Employee attitude surveys
- Team meetings & focus groups: two-way communication
- Organizational publications
- Performance appraisals
- Performance management practices
- Grievance procedures
- Equal opportunities
- Job security agreements

What line managers can do

- Clarifying organizational communications
- Managing implicit understandings
- Managing expectations about realistic creation and delivery of promises
- Establishing meta-contracts (ie rules about the rules of the contract)
- Building flexibility into the contract
- Procedural justice
6. Managing the PC

What employees themselves can do
- Clarify ambiguities
- Monitoring and vigilance
- Anticipate reactions to breach
- Being realistic about what they and the organization can deliver
- Self-awareness of desired contributions and rewards
- Job crafting – informally changing job to improve deal

Some dilemmas in managing the PC
- Can you manage something implicit?
- Is it a good idea to make it explicit?
- No ‘jam tomorrow’ deals if it’s made explicit
- Making promises you can’t keep versus not making any promises at all
- Constraints on managing (eg personality, external environment, HR can’t control change)
- What exactly are we trying to manage? (eg avoid breach, improve fairness of deal, get more out of employees, etc)
Conclusions

• All relationships entail psychological contracts
• Employment relationships may deteriorate even though they seem fair and to have high rewards
• Breach has significant effects on attitudes and, by implication, behaviour
• Preventing breach in the first place is better than trying to cure or repair breach
• Many ways to potentially manage psychological contracts – key concepts are communication, monitoring, negotiation and delivery

Conclusions

• The employment relationship remains a key way of understanding behaviour at work

AND

• The psychological contract promises to be one of the most useful ways of understanding the employment relationship
Thank-you

Questions? Comments?

n.conway@bbk.ac.uk