

Everything You Need to Know About the Psychological Contract

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Introduction

The *Psychological Contract Theory* is a deep and varied concept and is open to a wide range of interpretations and theoretical studies. Primarily, the Psychological Contract refers to the relationship between an employer and its employees and specifically concerns mutual expectations of inputs and outcomes (Janssens and Sel, 2003). This article will explore what Psychological Contracts are in the business environment and why they are important to take note of.

What is a *Psychological Contract*?

When you think of the two words separately, it is possible to have an idea of what a psychological contract is. Usually, when we think of contracts, we think of signing a document or making promises to each other. In this case, there are promises made but they are not always obvious to both parties (the employer and the employee). The *Psychological Contract* is quite different to a physical contract or document - it represents the notion of 'relationship' or 'trust' or 'understanding' which can exist for one or some employees, instead of a tangible piece of paper or legal document which might be different from one employee to another.

According to Anderson (2020), the term psychological contract refers to the “often unspoken set of expectations and assumptions that two parties (employees and the organisation, its leaders and managers) have of each other about things like how they will behave and act.”

Anderson (2020), explains further what entails Psychological Contracts.

1. There are a series of mutual obligations on both sides, which include crucially intangible factors that can be impossible to measure conventionally.
2. It is a relationship between an employer on one side and on the other side an employee and/or employees.
3. The obligations are partly or wholly subject to the perceptions of the employer and employee (which adds further complexities, because perceptions are very changeable, and as you will see, by their subjective 'feeling' and attitudinal nature perceptions create repeating cause/effect loops or [vicious/virtuous circles](#), which are scientifically impossible to resolve).
4. The Contract itself has a very changeable nature as it is such a fluid concept itself and being subject to so many potential influences, including social and emotional factors, which are not necessarily work-driven.
5. One point often overlooked by many is that within any organisation, the *Psychological Contract* is rarely written or formalised, which makes it inherently difficult to manage, and

especially difficult for employees and managers and executives and shareholders to relate to. The *Psychological Contract* is almost always a purely imaginary framework or understanding, which organisational leadership rarely prioritises as more real or manageable issues.

Types of Psychological Contracts

As there are verbal and written contracts, there are different types of *Psychological Contracts* as well. Janssens and Sel (2003), outline the six different types of *Psychological Contracts* that are there in organisations.

1. Instrumental psychological contracts
2. Weak psychological contracts
3. Loyal psychological contracts
4. Unattached psychological contracts
5. Investing psychological contracts
6. Strong psychological contracts

Psychological Contract Example

To better understand what can be categorised as a psychological contract, an example is provided below:

Anne might expect annual raises. Her previous employer offers raises and her coworkers tell her that they've received annual raises in the past. She may feel that because she is going to

receive annual raises, she should work on weekends or in the evenings to increase productivity.

Why are Psychological Contracts Important?

Research shows that employees behave differently depending on whether the obligations they perceive and their expectations are met. When these obligations are met, employees have a "fulfilled psychological contract." We can link these contracts to behaviours like higher job performance and lower intentions to leave the company. If these obligations aren't met, however, employees perceive a "violated psychological contract". This leads to feelings of anger or betrayal, as well as absenteeism (Sigma Assessments Systems, 2020).

Anything that results in you giving or taking something, whether it be your time or energy or an actual asset, requires a mutual understanding. Imagine entering a job with no contract, you aren't sure of what is expected of you and what you are to get in return. In such cases, the chances of you giving off your best are slim to none. *Psychological Contracts* are no different. They just aren't on a piece of paper.

Kinh Do Corporation (2015), outlines the importance of positive psychological contracts in the organisation. The biggest one is that they improve the human capital in the organisation. Without people, where does a business go?

- Positive *Psychological Contracts* can raise productivity and improve the focus on performance and skills of the organisation's workforce to gain the competitive advantages needed to drive the business forward.
- The Psychological Contract has been built and developed base on the communication between the parties. Good communication will make the parties understand each other as well as their expectations, obligations and promises.

One thing to note is to **never** breach the psychological contract created, whether you are an employee or employer. By doing so, the damaged relationship can result and organisational performance may suffer as well.

Any organisation needs to engage its people at work by letting them know what it expects and understand what people expect. Therefore, the employer and the employees can make agreements to know what they have to do for each other. This understanding can boost employees' morale and increase the employer's trust in the people who work there. At the end of the day, everyone benefits.

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