

The Psychological Contract

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Definition

A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. Guest (2007) describes it as the perceptions of both parties to the employment relationship, organization, and individual, of the reciprocal promises and obligations, implied in that relationship. 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.

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 moderated exchanges between parties. However, the key milestones leading to its current use as a 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.’ 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.

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?’ However, it is unlikely that the psychological contract and therefore the employment relationship will ever be fully understood by either party.

What does it cover?

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 its 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

The significance of the psychological contract

As suggested by Spindler (1994), a psychological contract creates emotions and attitudes which form and control behaviour. The psychological contract influences and shapes use and develop their talent and skills to contribute and achievement of the organisation’s goals.

A psychological contract can allow firms to understand and forecast how people behave at work. From that the organizations can align them better to customers and strategic goals. It will be easy to engage people at work to achieve the strategic goals underlying psychological contract (Michael, 2012). People who have an unclear idea about what they expect may, if such unexpressed expectations have not been fulfilled, have no clear idea why they have been disappointed. However, they will be aware that something does not feel right. In addition, a firm staffed by ‘cheated’ employees who anticipate more than they get is heading for trouble.

A balanced psychological contract is vital for a continuing, harmonious relationship between the employee and the firm. However, the breach 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 psychological contract governs the continuing development of the employment relationship, which is constantly evolving over time. However, how the contract is developing and the impact it makes may not be fully understood by any of the parties involved.

Changes to the psychological contract

The nature of the psychological contract is changing in response to changes in their external and internal environments. Hiltrop (1995) suggests some of the outstanding changes that happen to the psychological contract. The changes are as follows.

From	to
Permanent employment relationship	People and skills only obtained and retained when required
Focus on promotion	Focus on career development
Emphasis on job security and loyalty to the company	Emphasis on employability and loyalty to own career skills
Training provided by the organization	Opportunities for self-managed learning
Meeting job requirements	Add value

In his literature 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 defines the new emerging psychological 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.

How psychological contracts develop

Psychological contracts are not established by means of a single sit down. They evolve over time. Many contract makers exert influence over the whole duration of an employee's involvement with the firm. Spindler (1994) describes the psychological contract as cumulative. This is because 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.

Developing and maintaining a positive psychological contract

Define expectations during the recruitment and induction programmes. Define expectations during recruitment and induction programmes. Generally treat people as stakeholders, relying on consensus and cooperation rather than control and coercion.

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