

## **PSYCHOLOGICAL CONTRACT AND EMPLOYEE BEHAVIOUR**

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### **Abstract**

Psychological contract refers to the mutual expectation between the employer and employee regarding the outputs and incomes. It is an implicit contract unlike verbal or written agreement where the claims are perspicuous. The present paper titled “Psychological Contract and Employee Behaviour” aims to analyze the influence of correlates of psychological contract and employee behaviour. The paper examines the importance of trust in a psychological contract, the influence of psychological contract on organizational citizenship behaviour, motivation and job satisfaction. The paper also examines conflicts that arise due to a breach in the implicit contract.

**Keywords: Psychological contract; Trust; Citizenship; Job satisfaction; Breach; Conflict.**

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## **Introduction**

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

An implicit exchange between an individual and his organisation which specifies what each expects to give and receive from each other in their relationship (Kotter, 1973 as cited in McGuire, 2007).

The perceptions of both parties to the employment relationship, organisation and individual of the reciprocal promises and obligations implied in the relationship (Guest and Conway, 2000 as cited in McGuire, 2007).

According to the Business Dictionary, The unwritten understandings and informal obligations between an employer and its employees regarding their mutual expectations of how each will perform their respective roles. Within a typical business, the psychological contract might include such things as the levels of employee commitment, job satisfaction and the quality of working conditions.

An individual begins one's career in the organization by the process of socialising, adapting to the new culture, learning the norms and expectation of the members of the organization. These expectations are reflected specifically in the psychological contract. These expectation not only cover how much work is to be performed for how much pay but also involve the whole pattern of rights, privileges, and obligation between the worker and organization (Schein,1970).

The psychological contract is a continuous process that is negotiated throughout one's stay in an organization. In any relationship, individuals are bound to have certain anticipation about how things will be like in the relationship, this anticipation guides one's behaviour to what is expected by of opposite party much the same way as anticipated by oneself. These contracts are not legal, terms are not made explicitly; they are perceptual in nature.

As psychological contract is perceptual in nature, there may be differences in the view regarding these anticipatory behaviours. That is, what one expects may not be exactly what the other expects. These sorts of perceptual disagreements create turmoil in a healthy interpersonal relationship.

The psychological contract that one shares with the other is largely dependent on the type of relationship shared with them. Based on the aspect of relationship, there are two broad categories of psychological contract. They are transactional contract and relational contract.

Transactional contract is a type of psychological contract in which the parties have a brief and narrowly defined relationship that is primarily economic in focus. Relational contract is a type of psychological contract in which the parties have a long term and widely defined relationship with a vast focus.

The primary focus of transactional contracts are concerned about economic factors, the time frame of transactional contracts are close ended and short term with the stability of relationship being static and rarely changing and a narrow scope of relationship, and a well defined tangibility of terms.

The primary focus of relational contracts are concerned about people, the time frame of transactional contracts are open ended and indefinite with the stability of relationship being dynamic and frequently changing with a broad and pervasive scope of relationship, and a highly subjective tangibility of terms (Rousseau & Parks, 1993).

### **Importance of trust in psychological contract**

The degree of trust between parties make transactional contract different from relational contract. Trust refers to a person's degree of confidence in the words and actions of another (Lewicki, McAllister & Biles, 1998).

There are two major types of trust, each which is linked to a kind of relationship we have with the other. Namely, Calculus based trust and Identification based trust.

Calculus based trust is a form of trust based on deterrence, whenever people believe that another will behave as promised out of fear of getting punished for doing otherwise. Identification based trust is based on accepting the wants and desires of another person.

Individuals involving in a transactional contract maintain calculus based trust while Individuals involving in a relational contract maintain identification based trust.

Scientists have identified two important factors that develop trust (Greenberg & Baron, 2003). The predisposition to consider everyone trustworthy and developing a reputation of being trustworthy or not trust worthy.

In a working environment, trust is an essential factor that determines psychological contract. It is important to be considered a trustworthy individual. Most often, trust determines the success of the relationship. Trust in work place can be promoted by always meeting deadlines, following through as promised and spending time sharing personal values and goals.

### **Influence of psychological contract on organizational citizenship behaviour**

Organizational Citizenship Behaviour (OCB) is an informal form of behaviour in which people go beyond what is formally expected of them to contribute to the well being of their organization and those in it (Podsakoff, MacKenzie, Palne & Bachrach, 2000). Although OCB is informal and sometimes minor in nature, it is important for the smooth functioning of the organization.

Organizational Citizenship Behaviour is influenced by several factors. Evidence strongly suggests that people's belief that they are being treated fairly by the organization is a critical factor (Greenberg & Baron, 2003). The more people believe they are treated fairly by the organization, the more they trust the management, the more willing they are to go the extra mile to help out when needed. By contrast, those who feel that the organizations are taking advantage of them are untrusting and are not at all likely to engage in OCB. The expectation of being treated fairly and getting in return to what was delivered to the organizational success is a factor that defines psychological contract.

### **Influence of psychological contract on motivation**

Motivation is defined as the set of processes that arouse, direct, and maintain human behaviour toward attaining some goal (Greenberg & Baron, 2003).

There are three key points about motivation as described by Greenberg and Baron.

- Motivation and job performance are not synonymous.
- Motivation is multifaceted
- People are motivated by more than just money.

People at job are motivated by several facets. The process of setting goals is one of the most important motivational forces operating on people in organizations (Wood & Locke, 1990). Motivating by being fair, distributive justice, organizational justice, procedural justice, interactional justice, motivating by altering expectations are all factors that influence the level of motivation of an individual.

People are motivated when the organization treats all its employees cordially with no bias irrespective of context. Justice in distributing rewards, appraisal techniques, interpersonal treatment, influencing by making one believe that efforts will positively influence performance are all factors that motivate an individual to attain personal and organizational goals (Greenberg & Baron, 2003)

Rapid changes of working environments have resulted in changes to employment relations and psychological contracts have been gaining attention. Work ethic motivates people to seek interesting and challenging jobs instead of just money. This motivation to serve the organization beyond all odds must be noticed and must be rewarded with the expectation of the individual as identified and noted in perception by psychological contract.

### **Influence of psychological contract on job satisfaction**

Job satisfaction is defined as the positive or negative attitudes held by individuals towards their jobs (Locke, 1976).

There are several theories of job satisfaction to analyse the level what makes people satisfied or dissatisfied with their jobs. The two most influential approaches are the two factor theory of job satisfaction and value theory.

According to the two factor theory of job satisfaction, Job satisfaction is caused by a set of factors called motivators and job dissatisfaction is caused by a different set of factors called hygiene factors. Dissatisfaction is associated to the conditions surrounding the jobs rather than the job itself; working conditions, pay, security, quality of supervision, and relationship with others constitute the hygiene factors. Satisfaction is derived from factors associated with work itself or outcomes directly resulting from it; achievement in work, promotion opportunities, and chances for personal growth and recognition constitute the motivators.

The theory stresses on minimizing the hygiene factors and maximizing the motivators in the organization. The motivators are implicit factors that an employee is always on search for. The motivators can normally be achieved by fulfilling the expectation of the employer. For instance, if I reach my target much before the deadline, the supervisor will consider me for promotions. The psychological contract between the two individuals is at play.

The second most important theory of job satisfaction is value theory (Locke, 1984).

According to the value theory of job satisfaction, job satisfaction depends primarily on the match between the outcomes that the individuals value in their jobs and their perceptions about the availability of such outcomes. The theory claims that job satisfaction exists to the extent that the job outcome an individual receives matches those outcomes that are desired. Satisfaction arises when people receive outcomes that they value, the less they receive outcomes they value, the less satisfied they will be. Value theory focuses on any outcomes that people value, regardless of what they are. The key to satisfaction in this approach is the discrepancy between those aspects of the job one has and those one wants; the greater the discrepancy, the less people are satisfied. The values of individuals are not expressed in the written contracts and are not legal in nature. The values or desires that one holds are identified only through good interpersonal relationship and by developing trust amongst each other to share these values. This bond establishes a psychological contract between the employer and the employee. Understanding the expectation

or desired outcomes of the opposite party allows an individual to perform to meet the demands and receive desirable outcomes.

### **Conflict as an inevitable result of perceived breach in psychological contract**

Conflict is a process in which one party perceives that another party has taken or will take actions that are incompatible with one's own interest (Greenberg & Baron, 2003).

The conflicts faced in an organization may be viewed as stemming from a variety of causes, including both one's interactions with other people and the organization itself. Some of the most important sources of organizational conflict are perceptual distortion, grudges, distrust, competition over scarce resources, destructive criticism (Greenberg & Baron, 2003).

Conflict brings negative images to mind; thoughts of anger and confrontation. Negative emotions follow conflict. These emotional reactions mark only the beginning of a chain of reactions that can have harmful effects in organization. Besides being stressful, conflicts are problematic and may divert people's attention from task at hand. Organizational conflict has costly effects on organizational performance (Bragg, 1999).

As stated earlier, psychological contracts are perceptual in nature. Distortions in perceptions can cause a breach in psychological contract. Distrust is another important factor that can violate psychological contract. Breach in psychological contract as a result of conflict or unfulfilled desires and expectation can lead to lack in motivation, job dissatisfaction, and lack of organizational citizenship behaviour.

In a telephonic interview with a male professional working in hospitality based organization when asked about his opinion on psychological contract responded that, "On a positive note, psychological contract is much important for any individual, for a student, child or an employee. It boosts up a person from within in whatever he is doing, the outcome is always positive. It is very important to every individual. In case of a breach, performance goes down, there is a lack of motivation, relationship between boss and one is spoilt, creating a negative picture of boss and neglecting boss is common, commitment is hindered and one moves out of the organization"

which indicates that the individual has a significant meaning to psychological contracts not just at work but most streams of life. The verbatim signifies the importance of psychological contract and its breach (P.Kumar, Personal Communication, March 15, 2016)

In a telephonic interview with a female employee of a Multinational Software Organization who has been sent off shore for work reported when asked about her views on psychological contract as, “It’s all about how well you gel in the firm. I mingled well, and here I am working well, paid well and happy. Only if your interaction and tolerance is out of hand, you’ll face a great difficulty and you might just want to even quit job. I have been treated badly in my previous job. I gave in my heart and soul for it because it was my first; all I got in return was a kick. So now I know what to do and what not. I work as per my need” which signifies the importance of psychological contract, and affirming the value based theory of job satisfaction that people are better in their performance when their desired values or expectations are the outcome of their effort (U.Devi, Personal Communication, March 18, 2016)

## **Conclusion**

Psychological contracts are the beliefs individuals hold regarding terms and conditions of the exchange agreement between themselves and their organizations. By filling the gaps between the formal contract and all that applies to the working relationship it reduces uncertainty, shapes behaviour, and gives people a feeling about what happens to them in the organization. It can be seen as the foundation of the relationship originating during the recruitment phase and further developing the first few months after entry. If the organization succeeds in meeting the beliefs employees hold regarding the working relationship, the psychological contract is in a good state leading to job satisfaction, higher levels of commitment and more intentions to remain. If on the other hand employees perceive that the organization has failed to fulfil one or more obligations comprising the psychological contract, breaches occur. A variety of studies reveal the relationships between breaches and lower job satisfaction, trust, commitment, OCB, more emotional exhaustion, higher turnover intentions and turnover behaviour (Ven, 2002). Therefore psychological contract is an important agreement to be well maintained that leads the organization towards success.

**Implication:**

- Psychological contract is positively correlated to enhanced trust, organizational commitment, citizenship behaviour and higher turnover. Hence, a training module to create awareness and not breach psychological contract for the employees leading groups will create a positive and conducive work environment.

**Further suggestions:**

- There is scope for a quantitative study considering the relationship between psychological contract and employee behaviour.
- There is scope for a mixed method study to identify the evidences of breaches in psychological contract.

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