



Development, Maintenance and Violation of Psychological Contracts and its Organisational Implications

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Abstract:

Many organisations they overlook the exchange agreement between the employee and the employer but it is the fundamental relationship demanding attention and consideration. In a business world signalled by lot of insecurity, developing and transforming at an exponential rate it is essential for the employers to maintain a steady and sustaining relationship with the employees. The concept of psychological contract pinpoints underlying processes regarding expectations within the employer – employee relationships. Covered in this paper is an introduction, development, maintenance and causes for the violation of psychological contract and its consequences on the organisation as a whole.

Key Words: Breaches and Violations, employee turnover intentions and mutuality of benefits.

Introduction:

While there is no one universally accepted definition of the psychological contract, most definitions tend to see it as the implied understanding of the mutual obligations due by an employee and their employers to one another. It is often violated with the formal legal employment contract that stipulates the formal duties, responsibilities and obligations of employees and employer in the contractual employment relationship. Critics differ in the extent to which they see these two kinds of contracts as mutually exclusive, coinciding or interdependent. Shields (2007:49), for example, see the psychological contract as ‘satisfying the gaps’ as left by the formal legal contract of employment to establish a more complete and comprehensive account of the entire range of mutual obligations between the employee and the employing organisation.

The most extensively accepted definition is Rousseau's (1995:9): like the psychological contract is separate individual belief by the employees shaped by the organisation and the employer, regarding the terms of an exchange agreement between the employee and the employer. Rousseau's (1989) former definition is also informative: as said that the psychological contract refers to an individual's perception and belief regarding the terms and conditions of mutual exchange agreement between the employee and employer. Significant issues here include the belief that an assurance has been made and a consideration offered in exchange for it, binding the parties to some set of mutual obligations.

The psychological contract according to recent definitions is an individual's insights regarding the obligations that exist between the employer and the employee. (Lester, Turnley et.al.,2002).

The contract is composed of an employee's beliefs about what they expect the employer to offer (competitive wages, growth opportunities, job security) in return for what they offer the organisation (loyalty, hard work) (Lester, Turnley et.al., 2002). Contrastingly formal employer and employee contract, the psychological contract is intrinsically perceptual and therefore employer and employee may have different understandings of the implied obligations (Lester and Kickul, 2001).

As De Meuse, Bergmann et.al. (2001) renowned, in today's aggressively competitive atmosphere companies emphasis more on long term corporate goals, profit and wealth maximisation and stock market prices. The 1980s and 1990s saw an excess of corporate downsizing, restructures and mergers (De Meuse, Bergmann et.al. 2001). Today this is considered as part of routine business. This has brought about a transformation in the employee-employee relationship. Previously employment was a only a formal and long term contract with an employee attaining skills on the job and expanding through the grades, today it is subjugated by short term contracts for extremely skilled professionals and technical workers (Smithson and Lewis, 2000, and Kickul, 2001). Nowadays employees are employed on a prerequisite to perform specific skills (Lester and Kickul 2001) and are sacked when their specific skills are no longer required by the organisation. As De Meuse, Bergmann et.al. (2001) states the "Workplace of today is one of increased workload and stress and decreased job security and commitment."

With the dearth of job security employees now emphasis on immediate job needs and career management by carrying out meaningful work, personal growth, skill development and networking opportunities (De Meuse, Bergmann et.al.2001, Lester and Kickul,2001)

This change in the employment pattern has transformed the nature of psychological contract. Previously psychological contract was more intensive towards the relational exchange, which was based on aspects like loyalty, respect and trust between the employer and the employee. But today with the insecure and uncertain work environment transactional exchange are more prevalent.

De Meuse, Bergmann et.al. (2001) define a transactional exchange as an "explicit and/or implicit assurance to provide definite, monetary compensation for certain services performed by the employee". This shift to transactional contracts was projected by Rousseau and Parks research (1993, as cited in Fedor and Farmer,

1999), which specified that when a breach of the contract occurs it becomes more transactional and self-centred.

Trust is a very crucial factor to build a relational psychological contract. But the dearth of job security has made difficult to build this trust. Thus De Meuse, Bergmann et.al. (2001) proposes the loss of job security has made the employee emphasis on developing transferable skills and interactions, resulting in a transactional contract being formed.

Literature Review:

Though the beginning of the concept of the 'psychological contract' can be drawn to the 1960s, the notion extended extensive currency in the academic and research fields of organisational psychology, organisational behaviour and Human Resource Management in the 1990s succeeding the publication of a crucial article, then a book, by Rousseau (1989,1995) which inspired renewed interest in the idea.

Psychological contract is an implicit and/or explicit exchange relationship between the employee and the employer (Schein, 1978). It is all related to an individual's perception, potential opportunities and mutual commitment in exchange relationships (Rousseau, 1989). There are two forms of psychological contract, relational contract and transactional contract (Morrison and Robinson 1997; Rousseau, 1995). Relational contracts are related to nonmonetary emotional interactional dimensions (Rousseau, 1995). Transactional contract describes the economic exchange relations with extrinsic, financial and narrow emphasis.

According to Rousseau (1990), psychological contracts are employee perceptions in mutual obligations with their employers. The investigation on belief regarding employment obligations was carried out among the graduating MBA students in a sample of 224 who had newly accepted job offers. Two types of obligations were verified empirically: transactional obligations of increase remuneration and career growth opportunities in exchange for hard work and relational obligations trading job security for loyalty and minimum length of service. These types of obligations are associated with two kinds of legal contracts: transactional and relational. Relational contract obligations for employer correlated with employee expected length of service with the organisation. Transactional contract obligations were connected with career motive on the part of new recruits.

Sandra.R. (1996) investigated the hypothetical and empirical relationships between employee's trust in their organisation and their understandings of psychological contract breach by their employers, from the data of 125 newly hired managers. The study demonstrates that the relationship between employee's trust and psychological contract breach is strong and multi-dimensional.

The study by Janssens, Sels and Van den Brande (2002) stated the presence of six types of psychological contracts, and each one has different patterns of mutual expectations, an instrument psychological contract, loyal psychological contract, an uncommitted psychological contract, strong psychological contract, investing psychological contract and a weak psychological contract. On the basis of these six types of psychological contracts and the number of respondents according to the study, they concluded that the

revolution from the traditional employment contractual relationships towards new deals is limited to a very small group of young and extremely educated professionals and managers.

Cullinane N. and Dundon T. (2006) in their review paper, addresses some of the key problems currently confronting the hypothetical side of the psychological contract literature. In quest of advance knowledge and understanding, this review calls for another method to study psychological contract on the basis of a more precarious and discursive literature analysis.

Piccoli B. and Witte D. H. (2015) examines the processes identifying the relationship between job insecurity and emotional exhaustion, recommending that lack of mutuality in the organisational exchange relationship is a main theoretical description for this relationship. The study contribute to research on the theoretical descriptions of the contrary significances of job security, bearing in mind the nature and antecedents of psychological distress from an organisational exchange perspective.

Maintenance and Development of Psychological Contract:

When an employee recognizes that contributions he or she makes obligate the employer to mutual benefit or the vice versa, a psychological contract emerges. Belief that mutuality of benefit will occur can be an antecedent to the development of a psychological contract. Though, it is the individual's faith in an obligation of mutuality that establishes the contract. The faith is independent, held by a particular employee, and does not compel those of any other parties to the relationship. Definite factors promote the individual's faith that a contract exists. If an obvious promise is being made during an interview, the more explicit and verifiable it is, the stronger will be the belief in the reality of a contract. In accordance with the Social Information Processing Theory (Salancik & Pfeffer, 1978), explicit and public commitments exert more influence on perceptions and performance than indirect or private ones. Belief in a contract is also enriched when a commitment heralds rather than follows employee's input.

Violations of Psychological Contract

Agreeing to Xu (2008) the psychological contract is a set of expectations that employees and employers embrace of each other with respect to the obligations they have towards each other. A breach of psychological contract is a cognitive perception that one party has that the other party is unable to fulfil these obligations. According to Bal and Smit (2012) there is age related variances in perception of breaches. Older employees are more concerned about the aspects of their psychological contract as compared to younger employees in the organisation. Older employees also expects more due to longer years of service and experience in the same organisation.

Breaches befall owing to factors such as broken promises, withholding promises, commanding longer working hours, incongruence of expectations due to inexplicable or misinterpreted changes in perception of what is just and unjust. Breaches also befall due to "contract drift" (Shields 2007), which is steady deviation of what is involved in the exchange relationship and what each party believes should be involved. Contract drifts occur due to any change in organisation like restructuring, merger or acquisition.

Suazo and Stone Romero (2011) describe the dissimilarity between breach and violation of the psychological contract. A breach is the perception by the employee that they have received not as much of what they promised. A violation is the disheartening emotional state that follows a breach. And a breach of psychological contract does not essentially lead to violation of the psychological contract.

Failure of an organisation and other parties to respond to the expectations of the employees in a way they are obliged to do so leads to the violation of psychological contract. It indicates a mutilation to the relationship between employees and the employer. It signals damage to the relationship of trust and commitment between the employees and the organisation.

Organisational Implications

According to Addae et al. (2006) when an absence of organisational support was perceived as a breach of employee's psychological contract, this will lead to a high employee turnover if no effort was made to resolve the breach. Breaches of psychological contract can diminish trust and commitment of employees in an organisation, but similarly a lack of trust can also lead an employee to perceive a contract breach (Atkinson 2007, Kramer 2006)

Breaches and violations of psychological contract lead to an employee becoming disengaged with their work and if not resolved it will continue to cause dissatisfaction and demotivation that may result in deterioration in their performance at work. In more serious cases, the entire relationship, the whole relationship may get break down and cause the employee to exhibit negative and sometimes deliberately malevolent or aberrant behaviour.

More irrepensible employees will identify that the psychological contract has been violated but they will adopt coping tactics that allow them to work to embrace up their own side of the contract while it undergoes a period of repair.

Conclusion

This paper explored the research literature on the development, maintenance and breach of psychological contract to gain the insight into when employees perceive a breach of their psychological contract, how they react to these breaches and what are the organisational implications of these breaches. The psychological contract is an unwritten set of expectations about what employer and employee give and receive in context of their job. These expectations are unwritten promises that emerge from a history of transactions and interactions between an employee and an employer or are indicated at the commencement of the employment relations.

As indicated above there are reasons to believe that the concept of the psychological contract is very important with respect to managing workforce in today's organisational setting. These reasons are concerned with the strategic adaption of organisations to their setting. There is a need for more employees oriented as well as need for flexible and adaptable employees in an organisation. The core of handling and

managing psychological contract is to cope with the expectations of the employee so that the perception of breaches can be avoided or at least minimised so that they do not lead to perceptions of violations of psychological contract.

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