

Psychological Contract





Contents



- What is the Psychological Contract?
- What is Social exchange theory?
- Similarities between PC and Social exchange theory
- Contents of Psychological Contracts
- Employment versus Psychological Contracts
- Types of Psychological contract
- Strength of Psychological Contract
- Managing Psychological Contract
- How can Psychological Contracts go wrong?
- Causes of breach in Psychological Contract
- What happens when Psychological Contracts go wrong?



What is the Psychological Contract?

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



What is Social exchange theory?

- People help each other when there is a positive cost-benefit analysis; when the benefits outweigh the costs.
- The benefits can be tangible or intangible, physical or psychological.
- All that really matters is that the person perceives the benefits to be greater than the costs.
- Long term
- The norm of reciprocity plays an important role in the development of social exchange relationships by perpetuating the ongoing fulfilment of obligations and strengthening indebtedness.



Similarities between PC and Social exchange theory

- Both view exchange relationships as comprising tangible and intangible resources governed by the norm of reciprocity.
- Both relationship brings a set of expectations/obligations that they will provide in return for what they receive




Contents of Psychological Contracts

Employees promise to:

- Work hard
- Uphold company reputation
- Show loyalty to the organization
- Work extra hours when required
- Develop new skills and update old ones
- Be flexible, for example, by taking on a colleague's work
- Be courteous to clients and Colleagues
- Come up with new ideas

Organizations promise to:

- Pay commensurate with performance
- Opportunities for training and development
- Opportunities for promotion
- Recognition for innovation or new ideas
- Feedback on performance
- Interesting tasks
- An attractive benefits package
- Respectful treatment
- Reasonable job security



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



Types of Psychological contract

- **Transactional** : Economic or monetary base with clear expectations that the organisation will fairly compensate the performance delivered and punish inadequate or inappropriate acts
- **Relational** : Socio-emotional base that underlies expectations of shared ideals and values and respect and support in the interpersonal relationships



Strength of Psychological Contract


- 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*)?



Managing Psychological Contract

Organizations

- ❑ Realistic job previews
- ❑ Employee attitude surveys
- ❑ Team meetings & focus groups: two-way communication
- ❑ Performance appraisals
- ❑ Performance management practices
- ❑ Equal opportunities
- ❑ Job security



Managing Psychological Contract (Continued)

Employees

- 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




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



Causes of breach in Psychological Contract

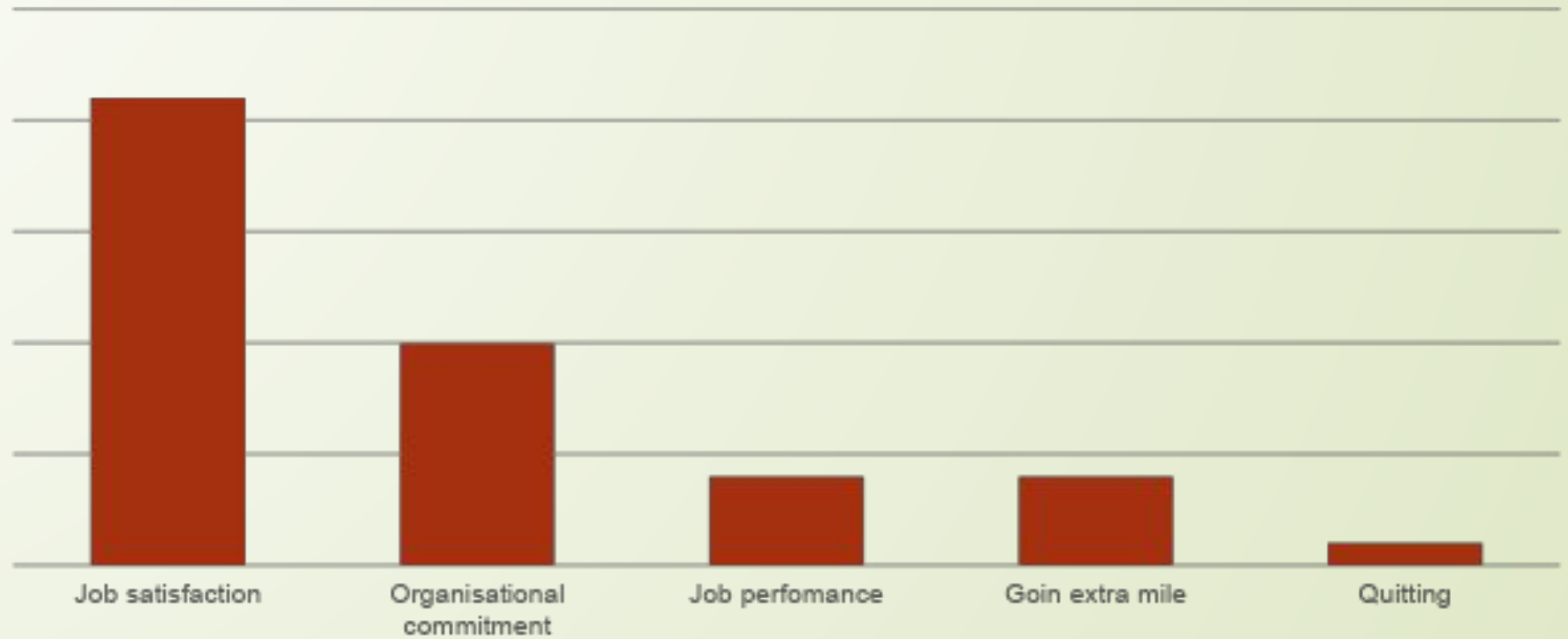
- ❑ Unsatisfactory human resource practices
 - ❑ Lack of support from management
 - ❑ Additional demands by employees
 - ❑ Previous history of breach
- 



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

Affected areas due to breach of Psychological Contract





Thank you