



Psychological Contract



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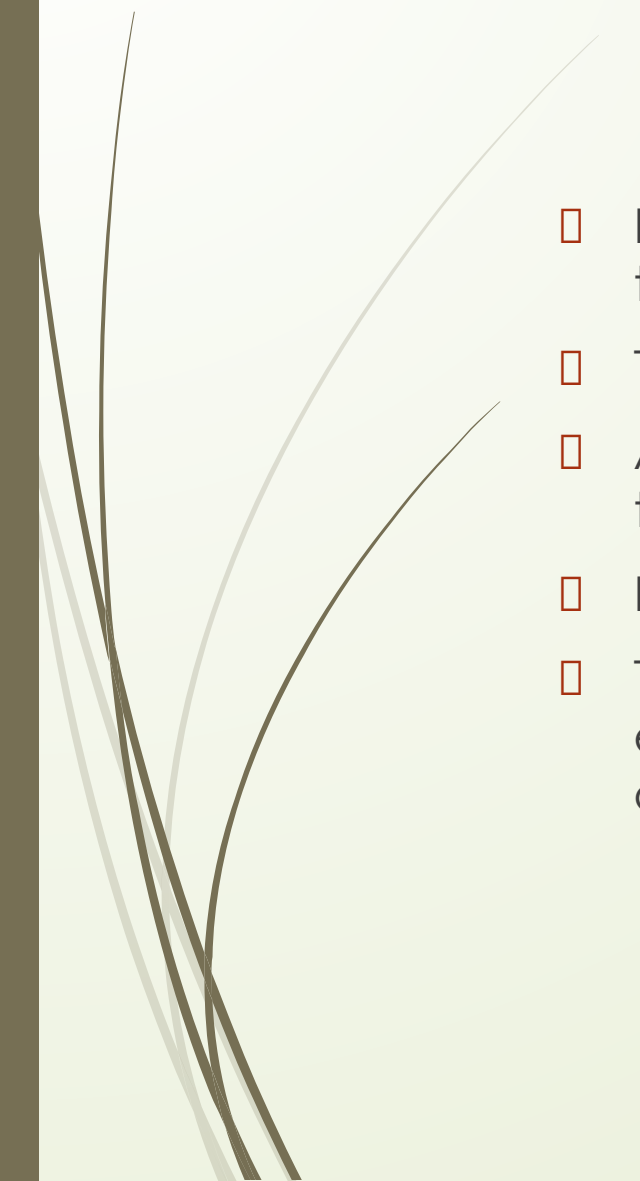
What is the Psychological Contract?

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.
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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
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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

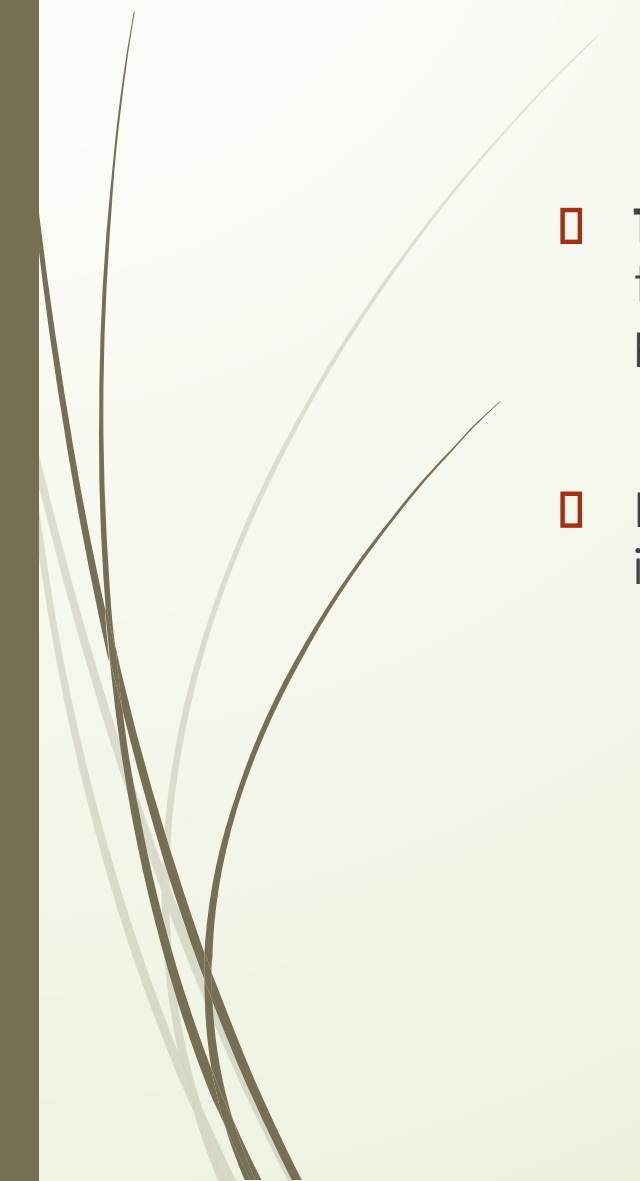
- ❑ Written
- ❑ Explicit
- ❑ Legally binding
- ❑ Doesn't tell us much about what people actually do at work
- ❑ May exert only a small influence on behaviour

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

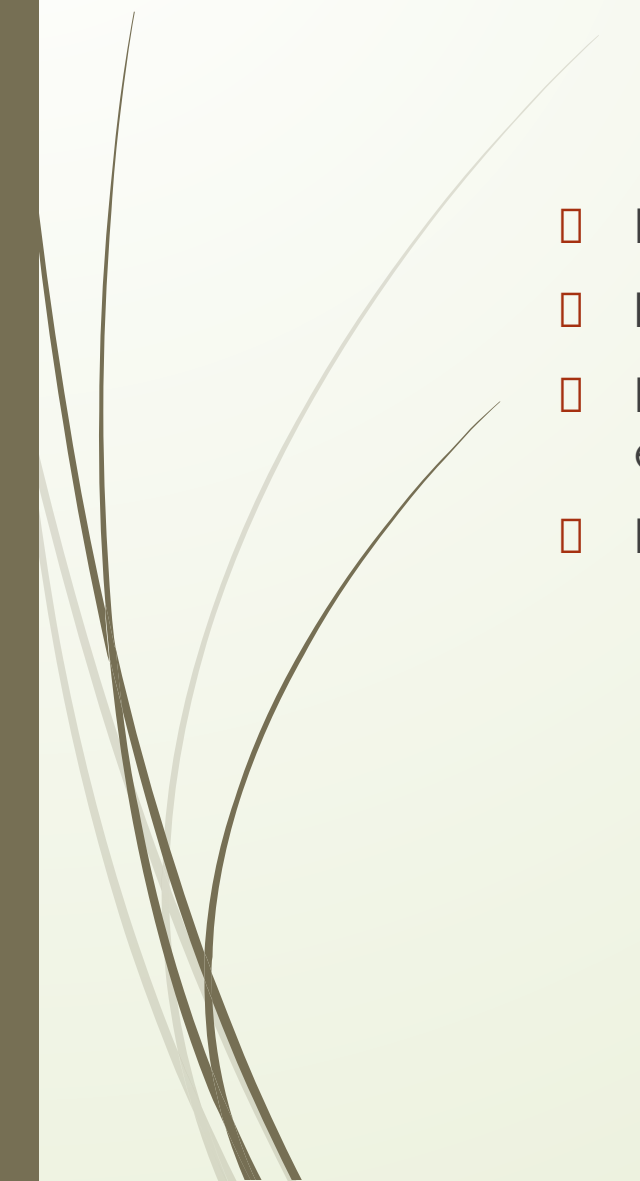


Types of Psychological contract

- **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
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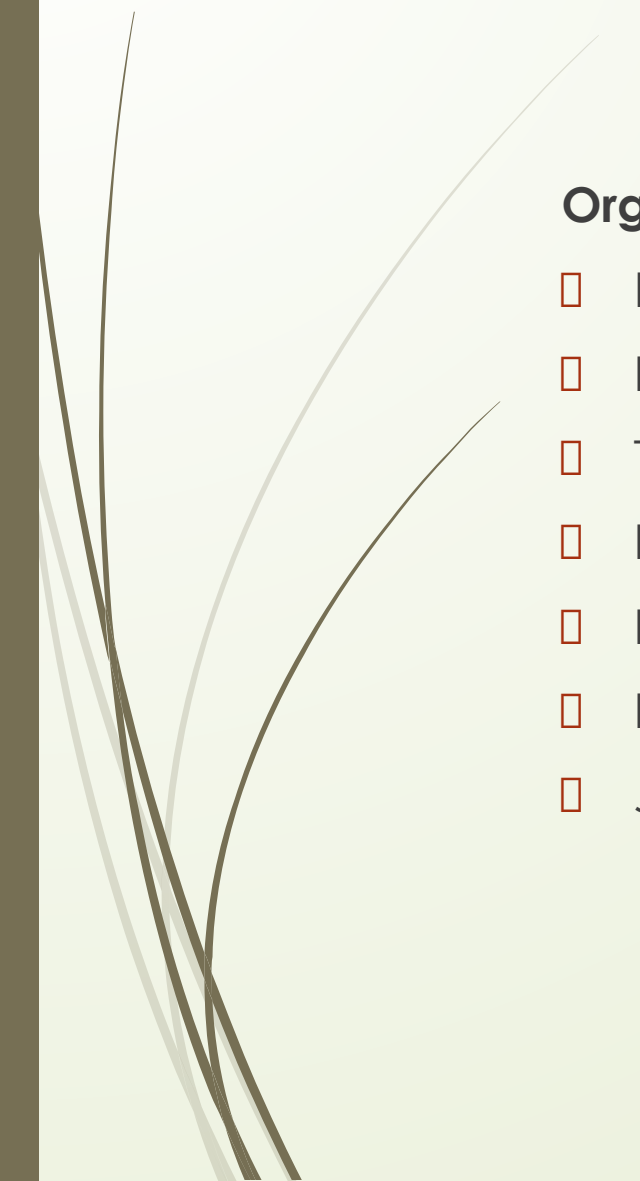
Strength of Psychological Contract


- 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*)?
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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
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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
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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

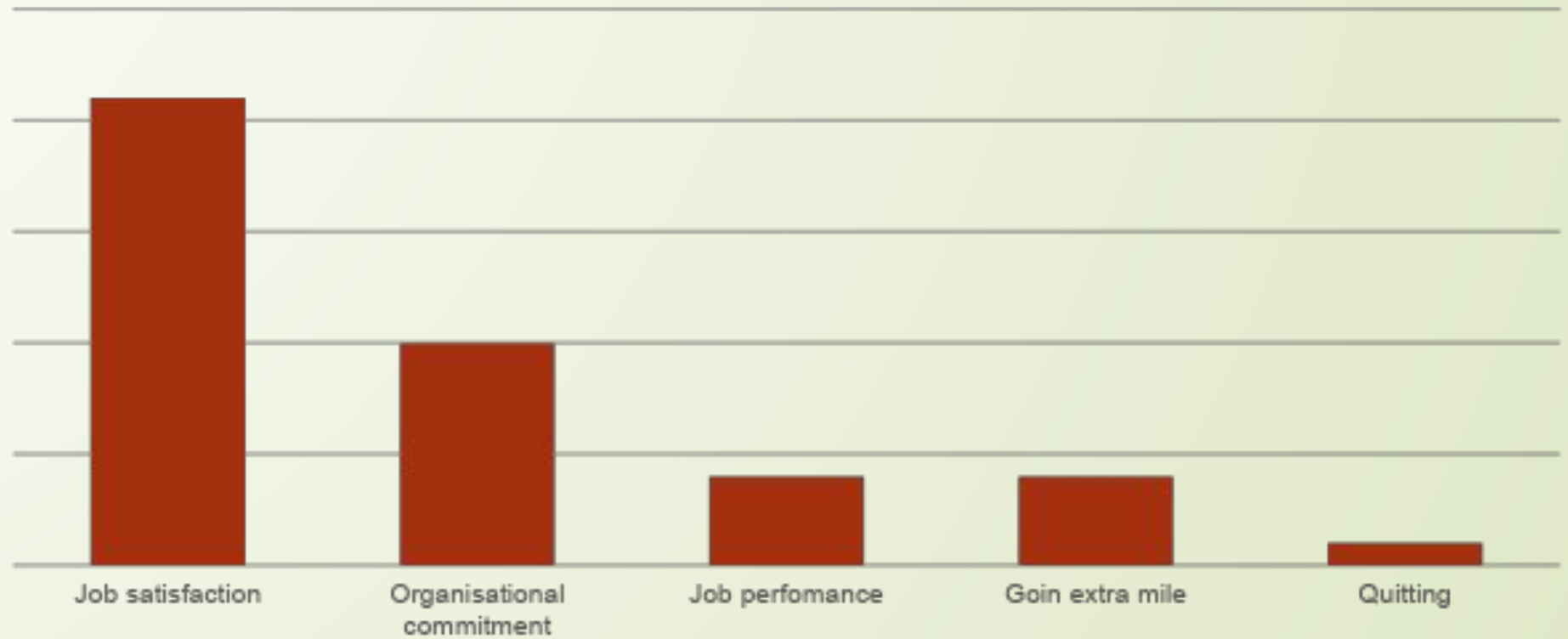
- ❑ Unsatisfactory human resource practices
 - ❑ Lack of support from management
 - ❑ Additional demands by employees
 - ❑ Previous history of breach
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What happens when Psychological Contracts go wrong?

- ❑ 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
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Affected areas due to breach of Psychological Contract





Thank you