



A FRAMEWORK ON PSYCHOLOGICAL CONTRACT

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ABSTRACT Psychological contract is considered a central construct in studying the employee organization relationship. The management of employees is a key organizational issue as scholars have demonstrated their potential as a source of sustained competitive advantage in a dynamically changing business environment. When an individual perceives that contribution that he or she makes obligate the organization to reciprocity (or vice versa), a psychological contract emerges. Under a transactional contract, an individual's identity is said to be derived from their unique skills and competencies, those on which the exchange relationship itself is based. Relational contracts are broader, more amorphous, and open ended and subjectively understood by the parties to the exchange. Transitional contract, as the name suggests, is a passing phase of relationship between the two parties reflecting the absence of commitments regarding future employment. A balanced contract contains both transactional and relational dimensions which are dynamic and open-ended employment arrangements conditioned on economic success of firm and worker opportunities to develop career advantages. Psychological contract shapes the behaviour of the parties and also aids the management to effectively manage their employees.

KEYWORDS :**Introduction**

'The Psychological Contract' is an increasingly relevant aspect of workplace relationships and wider human behavior. The Psychological Contract is a deep and varied concept and is open to a wide range of interpretations and theoretical studies.

Primarily, the Psychological Contract refers to the relationship between an employer and its employees, and specifically concerns mutual expectations of inputs and outcomes. The Psychological Contract is usually seen from the standpoint or feelings of employees, although a full appreciation requires it to be understood from both sides.

Simply, in an employment context, the Psychological Contract is the fairness or balance (typically as perceived by the employee) between:

- how the employee is treated by the employer, and
- what the employee puts into the job

The concept of 'psychological contracting' is even less well understood in other parts of society where people and organizations connect, despite its significance and potential usefulness. Hopefully what follows will encourage you to advance the appreciation and application of its important principles, in whatever way makes sense to you. It is a hugely fertile and potentially beneficial area of study.

At the heart of the Psychological Contract is a philosophy - not a process or a tool or a formula. This reflects its deeply significant, changing and dynamic nature. The way we define and manage the Psychological Contract, and how we understand and apply its underpinning principles in our relationships - inside and outside of work - essentially defines our humanity. Respect, compassion, trust, empathy, fairness, objectivity - qualities like these characterize the Psychological Contract, just as they characterize a civilized outlook to life as a whole.

Relationships between employers and employees in many modern Indian organizations resemble a marriage under stress, characterized by poor communication and low levels of trust. Employers should be looking to generate passion and enthusiasm, and to make work a happier experience for all their employees. This can be achieved by building a positive psychological contract which results in good employment relationships.

In the new people-economy, organizations cannot survive unless they have the right kind of knowledge. This turnaround in attitude is because access to other resources is no longer limited. Globalization has created an all-important quality standard. The world economy has increasingly become service-oriented.

In the light of this shift from 'organizational career' to 'self-managed career,' one of the crucial challenges is to create and maintain a more

viable relationship between employer and employee. A major element of this relationship is the psychological contract.

Importance of Psychological Contract

Anderson and Schalk, (1998) make it evident through their interaction with the employees that the psychological contract is an explanatory notion. It has an impressively high 'face validity' and everyone agrees that it exists as most employees are able to describe the content of their contract. When an individual perceives that contribution that he or she makes obligate the organization to reciprocity (or vice versa), a psychological contract emerges. A belief that reciprocity will occur can be a precursor to the development of a psychological contract (Rousseau, 1989) When intimates start counting what each brings to the relationships, there arouses a reason to question the shape that relationship is in. Employers in turn have their own psychological contracts with workers, depending upon their individual competence, trustworthiness and importance to the firm's mission (Rousseau, 2004). Some employees might feel that the organization is failing to meet its obligations and view their expectations not being realized. This could affect employee's overall loyalty and performance (Rousseau, 1995; Beardwell et al., 2004; Sarantinos, 2007) for now is an era of employment relations than industrial relations (Guest, 1998). Psychological contract is a belief that the main expectation of employees in return for their input to the company was a level of employment stability both in terms of working environment and job security (Sarantinos, 2007). What is important in determining the continuation of the psychological contract is the extent to which the beliefs, values, expectations and aspirations are perceived to be met or violated and the extent of trust that exists within the relationship (Middlemiss, 2011).

Types of Psychological Contract

Transactional contracts are short term contracts that last only until the agreed period of contract. Under a transactional contract, an individual's identity is said to be derived from their unique skills and competencies, those on which the exchange relationship itself is based. Use of 'transactional psychological contracts' - where employees do not expect a long-lasting 'relational' process with their organization based on loyalty and job security, but rather perceive their employment as a transaction in which long hours are provided in exchange for high contingent pay and training - seemed to capture the mood of the day concerning labour market flexibility and economic restructuring of the employment relationship (Cullinane & Dundon, 2006).

Relational contracts are broader, more amorphous, open ended and subjectively understood by the parties to the exchange. They are concerned with the exchange of personal, socio-emotional, and value based, as well as economic resources (Conway & Briner, 2005) and they exist over a period of time. Guest (2004) articulates the view that workplaces have become increasingly fragmented

because of newer and more flexible forms of employment. The traditional psychological contract is generally described as an offer of commitment by the employee in return for the employer providing job security - or in some cases the legendary 'job for life' (Cullinane & Dundon, 2006)

Transitional contract, as the name suggests, is a passing phase of relationship between the two parties reflecting the absence of commitments regarding future employment (Aggarwal, & Bhargava, 2009). They are not a psychological contract form itself, but a cognitive statement, reflecting the consequences of organizational change and transitions that are at odds with a previously established employment arrangement (Rousseau, 2000).

Balanced contract contains both transactional and relational dimensions which are dynamic and open-ended employment arrangements conditioned on economic success of firm and worker opportunities to develop career advantages. Balanced contracts combine commitments on the part of the employer to develop workers (both in the firm or elsewhere if need be), while anticipating that workers will be flexible and willing to adjust if economic conditions change and such contracts anticipate renegotiation over time as economic conditions and worker needs change. Balanced contracts entail shared risk between worker and employer. (Rousseau, 2004).

Can the Psychological Contract Be Considered a 'Contract'?

Central to the theoretical assumptions behind the psychological contract literature is the notion of the subjective interchange between employer and employee having (or having the potential to) contractual status. This issue, as to whether the concept of a psychological contract can be constituted as a 'contract', has been considered by Guest (1998, 2004a) and Boxall and Purcell (2003) (although it is only the latter authors who have suggested that this fundamentally compromises the central scaffolding of psychological contract theory). In legal terms, the notion of a contract implies an agreement or at least the outward appearance of an agreement. Indeed, this problem is even more pertinent if the contract is viewed as some form of ongoing process (Herriot and Pemberton 1997). As Guest (1998, 652) observes, 'where the implicit encounters the implicit, the result may be two strangers passing blindfold and in the dark, disappointed at their failure to meet. This suggests that both parties have read and agreed to its terms and conditions. In many instances, it is often unclear as to who the actual employing organization might be (Rubery et al. 2004). As discussed above, a contract implies that the parties have entered into an agreement freely and equally, and, in legal terms, the agreement cannot be changed without some consent between the two contracting parties. However, this is a flawed assumption. In entering into a relationship with an employer, for the majority of employees, it means that they become subordinate to their employers' power and authority, because it is employers who control and direct the productive resources of the enterprise (Fox 1974).

Conclusion

In conclusion, psychological contract shapes the behavior of the parties and also aids the management to effectively manage their employees. Being so, psychological contract turns out to be advantageous for both the employers and the employees.

Tracing the sustainability and consistency of preserving a contract implies on acting in good faith, respecting and sharing equal concern for each other's interests. This lies as an obvious requirement in a relationship. Employer and employee will have to create good intentions, confidence and feelings of attachment in the minds of each other which will in return strengthen their bond and also influence on how they intend to behave and reciprocate their mutuality towards each other.

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