The contemporary workforce is much more complex and much more diverse.
There is no longer a coherent “social norm” around which we can standardize our workplace relations.
Work is also becoming more knowledge intensive. There are new requirements for flexibility of employment, for education, training and life-long learning.
Unions are no longer sought.
Rise in individualism/individual negotiation
Greater concern for individual employment rights – equal opportunities
Blurring of boundaries of work eg location
Management increasingly in control
Emphasis on human resource management
Persisting issues of trust and fairness
Some Reasons for Change

- Workplaces getting smaller.
- Flexibility and fragmentation of the workforce
- Pervasiveness and urgency of change.
- Feminisation of workforce and growing interest in issues such as work-life balance.
- Pro-active HR practices – increase the level of cooperation between employees and management.

The Need for a New Conceptual Framework

- The traditional collective model of employment relationship is less relevant in many workplaces
- Need a model that can accommodate rise in individualism and flexibility
- Need a model that can address core issues in the employment relationship of trust, exchange and control
- The psychological contract can meet these requirements
### What is the psychological contract?

- About the exchange relationship between employee and employer
- R/ship based on exchange – each party will exchange something they can provide for something the other party can provide.
- Nature of exchange – based on perception of each party/implicit understanding. Not written down or expressly agreed.

### History of PYC

- PYC concept was introduced in 1960 by Chris Agryis – 1960.
  - Observed relationship between plant foreman & their employees. When plant foreman adopts an ‘understanding management approach’ – respect for informal culture of the workgroup – r/s between employee-mgt evolves: employee provide higher productivity & lesser grievances in exchange for foreman’s willingness to deliver acceptable wages & employment security.
  - Referred as PSYCHOLOGICAL WORK CONTRACT
Also describe by Whyte in The Organization Man (1956):
- ‘there is an increasingly common standard in companies of being loyal to the company, and the company will be loyal to you’

Levinson (1962) – informal agreement between employee & his employer where each party held expectations of the other that originated prior to employment and if fulfilled satisfied their needs in the r/ship.

Schien (1970) – the importance of forming employment relationship that permitted both the employee and the org to retain some power to enforce its view of the contract

March & Simon (1958) – inducement contribution model: recognized the concept of unwritten contractual obligations between the organization and employee:
PC construct was also derived from the work of Menninger (1958) a clinical psychoanalyst focusing on the relationship the psychotherapist-patient contract.

Rousseau – know for her work on PYC in her seminal paper 1989.


---

**Defining Psychological Contract**

- Tacit assumptions that are held on the part of the members of an organization. It differs from the formal contract of employment and it is not necessarily written down, but is nonetheless commonly understood (Cornelius, 2001)

- An individual’s belief about the terms of the reciprocal exchange agreement that exists between themselves and their organization (Rousseau, 1989).

- A psychological contract is an implicit, unwritten understanding that specifies the contributions an employee is expected to make to the organization and the rewards the employee receives form the organization in exchange for his or her contributions (Greenhaus et al. 2000).
cont

- The perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship” (Guest, 2003)

- A set of unwritten expectations between an individual employee and the organization (Schien, 1978)

- The perceptions of both parties to the employment relationship, organization and individual, of the obligations implied in the relationship (Herriot & Pemberton, 1995)

Understanding Psychological Contract (PYC)

- PYC like employment contract involve 2 parties.
- Does not have clear agreement but reside in the perceptions of individuals. May be different from what organization understand what is employees’ obligations.
- PYC is concerned with whether the promises and obligations have been met, whether they are fair and their implications for trust. Previously focus on expectation, now more on promises (implied).
- PYC – motivate workers to fulfill commitments made to employers when workers are confident that employers will reciprocate and fulfill their end of the bargain.
6 features of PYC

- Voluntary choice
- Belief in **mutual agreement**
- Incompleteness
- Multiple contract makers
- Managing losses when contract fails
- The contract as model of the employment relationship.

Features of PYC

- Voluntary choice – based on exchange of promise that employee freely participate
- Implicit – PC has explicit & implicit. Express promises from verbal/written agt. Implicit – interpretations of patterns of past exchange, vicarious learning, things taken for granted
- Belief in mutual agreement- indv PYC reflect indv understanding of the commitments made with another. Indv act on the subjective understanding **as if it is mutual even though in reality it may not be so.**
  - Promises vs expectations vs obligations
  - Promises – commitment to do or not to do (form PC)
  - Expectations – what employee expect to receive from employer (does not form PC)
  - Obligations – inner feeling to act in a certain way (only part of PC accompanied by a promise)
Incompleteness - incomplete, may change over time.

Multiple contract makers – PYC with employers is shaped through many sources of information such as top management, HR, boss, colleague, subordinates. Boss usually send strong PYC with employee

Early experience with employer from recruitment to initial work on the job have powerful affects on PYC

Managing losses when contract fails – breach of PYC generate anger, withdrawal, termination etc.

PYC as a model of the employment relationship – PYC create an enduring mental model of the employment r/ship. It provides a stable understanding what to expect in future and guides efficient action. In changing environment, workers need to change their PYC because unable to adapt.
## The traditional PYC

<table>
<thead>
<tr>
<th>Individual Offered</th>
<th>Organization expect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Loyalty</td>
</tr>
<tr>
<td>In-dept knowledge of the org</td>
<td>Staff with deep understanding of how the business function</td>
</tr>
<tr>
<td>Accept bureaucratic system that define indv. career progress</td>
<td>Willingness to build career slowly through a defined system</td>
</tr>
<tr>
<td>Willingness to beyond the call of duty when required</td>
<td>Indv. who would put org needs before other needs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individual expect</th>
<th>Organization offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job security</td>
<td>Job security</td>
</tr>
<tr>
<td>Regular pay increase</td>
<td>Regular pay increase based on length of service</td>
</tr>
<tr>
<td>Recognition for length of service</td>
<td>Status and rewards based on length of service</td>
</tr>
<tr>
<td>Recognition for experience</td>
<td>Respect for experience</td>
</tr>
</tbody>
</table>

## Difference between PYC and Legal contract

- PYC - Employee perception of organization implicit or explicit promise (Rousseau, 1989)
- Legal Contract – offer + acceptance + consideration = legally binding contract
- PYC that does not contain the 3 elements of a legal contract is not legally binding.

The traditional careers have been described as structured, predictable, secure, linear, and organizationally focused (Baruch, 2006). As a result, career success is measured by high promotions and achievements such as higher salary and prestige (Baruch, 2004; Sullivan, 1999). Employment relationships are usually formed early in life with one organization, planned for and most of the time lasts in one organization.

The traditional view of careers assumes a relational PYC between employee and organization (Greenhaus et al. 2000; Sullivan, 1999).
The relational psychological contract between employee and organization typically involve a high degree of commitment based on a promise of job security by the organization in exchange for loyalty on the part of the employee (Greenhaus et al. 2000; Sullivan, 1999).

Based on the relational PYC organizations may provide interesting and challenging work, substantial salary increases and rapid advancement in exchange for loyalty on the part of the employee (Greenhaus et al. 2000).

Employees are expected to serve their organization for their entire working life (Baruch, 2004) and to make many personal and family sacrifices for the good of the company (Greenhaus et al. 2000).

The new psychological contract

- Many organizations have adopted a more short-term transactional psychological contract that involves lower levels of commitment by both parties (Greenhaus et al. 2000).
- Organizations o longer talk about opportunities for advancement or progression but opportunities to improve marketability and employability by providing opportunities for continued professional growth and development (Greenhaus, et al. 2000), are offering more short-term employer and employee relationships along with more lateral career development in place of hierarchical career progression.
- Employees are expected to be flexible in accepting new work assignments and be willing to develop new skills in response to the organization's needs (Greenhaus et al. 2000).
- Allows for easy exit from the employment contract (Greenhaus, et al. 2000).
Examples of PYC – by employer

- Competitive Salary
- Pay and bonuses tied to performance
- Vacation benefits
- Retirement benefits
- Health care benefits
- Job security
- Flexible work schedule
- Adequate equipment to perform job
- Enough resources to do the job
- Well-defined job responsibilities
- A reasonable workload
- Safe work environment
- Challenging and interesting work
- Meaningful work
- Participation in decision-making
- Freedom to be creative
- A job that provides autonomy and control
- Opportunities for personal growth
- Continual professional training
- Career guidance and mentoring
- Job training
- Tuition reimbursement
- Recognition of my accomplishments

Kickul 2001

Example of PYC - employee

- Effort
- Skill
- Creativity
- Flexibility
- Do good job
- Be honest
- Loyalty
- Treating organization property respectfully

(Conway & Briner, 2005)
## Types of PYC

- **Transactional** – based on economic exchange. Contribute time and effort in exchange for reward/money
- **Relational** – based on socio-emotional exchange. Pledging personal attachment and devotion to the organization in exchange for job security, professional development and membership

### More examples

(https://www.cipd.co.uk/subjects/empreltns/psycntrct/psyctr.htm)

<table>
<thead>
<tr>
<th>Employees promise to:</th>
<th>Employers promise to provide:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work hard</td>
<td>Pay commensurate with performance</td>
</tr>
<tr>
<td>Uphold company reputation</td>
<td>Opportunities for training and development</td>
</tr>
<tr>
<td>Maintain high levels of attendance and punctuality</td>
<td>Opportunities for promotion</td>
</tr>
<tr>
<td>Show loyalty to the organisation</td>
<td>Recognition for innovation or new idea</td>
</tr>
<tr>
<td>Work extra hours when required</td>
<td>Feedback on performance</td>
</tr>
<tr>
<td>Develop new skills and update old ones</td>
<td>Interesting tasks</td>
</tr>
<tr>
<td>Be flexible, for example, by taking on a colleague’s work</td>
<td>An attractive benefits package</td>
</tr>
<tr>
<td>Be courteous to clients and colleagues</td>
<td>Respectful treatment</td>
</tr>
<tr>
<td>Be honest</td>
<td>Reasonable job security</td>
</tr>
<tr>
<td>Come up with new ideas</td>
<td>A pleasant and safe working</td>
</tr>
</tbody>
</table>
- Balanced/Hybrid – combine the relational concern and transactional concern. Combine commitment by employer to develop worker and expect worker willing to adjust if economic conditions change.
- Transitional – little trust, uncertainty. Usually before real PYC is established
- Ideological – based on social exchange theory. (expect org to contribute to social cause and in return employee feels obligated to participate in the cause.

**PYC theory**

- Social Exchange Theory
- Norm of Reciprocity
- Social Contract theory
- Perceived Organizational Support (POS)
Framework for applying the psychological contract to the employment relationship

Contextual and Background Factors

- Individual:
  - Age
  - Gender
  - Education
  - Level in organisation
  - Type of work
  - Hours worked
  - Employment contract
  - Ethnicity
  - Tenure
  - Income

- Organizational:
  - Sector
  - Size
  - Ownership
  - Business strategy
  - Union recognition

Policy and Practice

- HR policy and practices
- Leadership
- Climate
- Employment relations
- Quality of workplace

Psychological Contract

- Reciprocal promises and obligations

State of the Psychological Contract

- Delivery of the deal
- Fairness
- Trust

Outcomes

- Attitudinal Consequences:
  - Organizational commitment
  - Work satisfaction
  - Job security
  - Motivation

- Behavioural Consequences:
  - Attendance
  - Intention to stay/quit
  - Job performance
  - OCB

The PC and business performance

BACKGROUND FACTORS

- Employee characteristics
- Organization characteristics

POLICY INFLUENCES

- HR policy
- HR practices
- Job alternatives

STATE OF THE PC

- Fairness
- Trust
- Delivery of the deal

OUTCOMES

- Attitudinal outcomes
- Behavioural outcomes
- Employee behaviour (OCB)

Adapted from Guest (2003)
Overall, to what extent has the organisation kept its promises and commitment to you?

- fully
- partly
- not at all

Do you feel fairly paid for the work you do?

- Yes, definitely
- Yes, probably
- No, probably not
- No, definitely not
The State of the Psychological Contract

To what extent do you trust your senior management to look after your best interests?

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A lot</td>
<td></td>
</tr>
<tr>
<td>Somewhat</td>
<td></td>
</tr>
<tr>
<td>Only a little</td>
<td></td>
</tr>
<tr>
<td>Not at all</td>
<td></td>
</tr>
</tbody>
</table>

Exploring the Links

- Human Resource Management
  - .40
  - .12
- Flexible Practices
  - .08
  - .12
- High quality workplace
  - .44
- State of the psychological contract
  - .37
- Effective supervisory leadership
  - .35
- Number of promises
  - .16
  - .47
Exploring the Links cont...

Psychological Breach vs Violation

- **Psychological Contract Breach** common
  - Morrison & Robinson (1997): Breach is “the cognition that one’s organisation has failed to meet one or more obligations within one’s psychological contract”
  - May be a short-term phenomenon and may result in an individual returning to a relatively stable psychological contract state
Morrison & Robinson (1997): Violation is “an emotional and affective state that may follow from the belief that one’s organisation has failed to adequately maintain the psychological contract”
- Violation response more intense than breach as respect and codes of conduct are called into question as a “promise” has been broken and it is more personalised

**Types of PYC contract breach/ violations**
- Inadvertent – results from divergent interpretations made in good faith
- Disruption – either or both parties are willing to comply with the contract but are unable to
- Reneging - either or both parties are able to to comply with the contract but are unwilling to comply.
  - Type of violation will affect how individual react to the PYC breach
## Reaction to violations

- If inadvertent – org & employee will make accommodation. Misunderstanding may be ignored & remedies rationalized.
- If amount to a breach of promise/trust/ - feeling of betrayal:
  - Resign
  - Voice to superior
  - Silence
  - Destructive/neglect