

# A Research Paper on Psychological contract

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**Abstract:** The Psychological Contract' is an increasingly relevant aspect of workplace relationships and wider human behavior. In recent business environment we experience immense changes .The Psychological Contract is a newly arousing organizational term that interprets the fulfillment & non-fulfillment of organizational relationships in terms of mutual obligations, expectations & promises. This paper discusses conceptual part on this topic.

**Keywords:** psychological, social exchange, breach, mutual.

**Introduction:** The concept of psychological contract was first introduced by Argyris (1960)—"Since the foremen realize the employees in this system will tend to produce optimally under passive leadership, and since the employees agree, a relationship may be hypothesized to evolve between the employees and the foremen which might be called the "**psychological work contract**". The employee will maintain the high production, low grievances, etc., if the foremen guarantee and respect the norms of the employee informal culture (i.e., let the employees alone, make certain they make adequate wages, and have secure jobs). The psychological contract is a type of social exchange relationship.

**Definition:** 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. Psychological Contract is sets the dynamics for the relationship and defines the detailed practicality of the work to be done. It is distinguishable from the formal written contract or employment which, for the most part, only identifies mutual duties and responsibilities in a generalized form a set of unwritten reciprocals expectation between an individual employee & an organization.(Schein,1978)

An implicit contract is between an individual & organization which specifies what each expect to give & recieve from each other ina relationship.(Kotter,1973). Psychological contracts are defined by the relationship between an employer and an employee where there are unwritten mutual expectations for each side. A psychological contract is rather defined as a philosophy, not a formula or devised plan.

Types of Psychological Contract:

TYPES	DETAIL
Transactional	It is short term based with major focus on definite description of duties. It includes workers off - site.
Relational	It is long term. This one helps in developing & growing career & remuneration. It is based on trust & loyalty. This includes family businesses.
Balanced	In this an open ended employee engagement balance between the organization & employee takes place for mutual development.
Transitional	cognitive state reflecting changes in an organization like in case of merger, downfall etc.

## **Breach:**

A breach in the Psychological Contract occurs if employees perceive that their firm, or its agents, have failed to deliver on what they perceive was promised, or vice versa. Employees or employers who perceive a breach are likely to respond negatively as it may oftentimes result in an immediate response of mistrust from the other side.

Responses may occur in the form of reduced loyalty, commitment, and organizational citizenship behaviors. These feelings typically increase negative tension in the environment. Perceptions that one's psychological contract has been breached may arise shortly after the employee joins the company or even after years of satisfactory service. A breach in the contract may occur when the organizational changes are not necessarily beneficial for employees because of extenuating factors such as globalization and fast-changing markets.

The risk for breach may be reduced when the organization knows and respects the contracts of the employees. Further, if the activities of the organization are perceived as being unjust or immoral, e.g. aggressive downsizing or outsourcing causing significant unemployment, its public reputation and brand image may also be damaged.

### Development of the psychological contract:

The psychological contract develops and will constantly evolve over the working relationship. It is refined according to the behavior and communication that goes on between employer and employee. Even things that are not said, or perhaps perceived to be deliberately left unsaid, can contribute to the psychological contract. The employee inputs things such as effort, ideas and commitment, and may make sacrifices for the company. In return, they receive rewards from the employer, such as job security, recognition, personal development and status. As the employee inputs more, so the company rewards with more.

Conversely, what the employee is putting in can be seen from the employer's perspective as their expectations. They may expect a certain amount of commitment or dedication in return for the recognition and responsibility that they give.

### Maintaining a strong psychological contract:

Fairness and equity are important aspects of the psychological contract. They need to be maintained in order to sustain a robust and healthy psychological contract. It is the employer's responsibility to try to maintain the employment relationship and to spot any deterioration. It is easier to maintain the psychological contract than to repair it following a breach. With companies expecting increasing flexibility and agility from their staff, a key aspect of maintaining relationships is that the psychological contract is upheld. The very need for adaptability may run counter to how things have been done before, and so changes in the needs of the company may be perceived as breaches of the contract. Proactively managing employees' expectations therefore becomes an ongoing and necessary process.

### Ice berg model:



### Explanation:

The left side of the iceberg represents the employee's inputs. These are also the employer's needs or expectations. The right side represents typical examples of rewards given by the employer. These are also the employee expectations or needs. The right side represents typical examples of rewards given by the employer. Psychological Contract is one where both sides agree that a fair balance of give and take exists. This is impossible to achieve where there are lots of hidden perceptions, so the first aim is to encourage greater openness and mutual awareness. Given greater awareness most people tend to take a more positive approach to compromise and working agreements.

**Black arrows-** represent market influences on work and pay, especially including those that are specific to the employment situation, which are obvious, visible, and known, etc. These influences would include specifics such as market demand for and availability of people who can do the job concerned. This extends to market rates of pay and salary.

**Above the water level - 'work and pay' -** represents the basic employment contract - the traditional 'fair day's work for a fair day's pay'. The iceberg diagram shows the the most basic work and pay exchange. In reality most workers are formally responsible for others. inputs and are formally entitled to benefits beyond pay alone, so in this respect the iceberg here represents a very basic situation.

**Red arrows-** represent the tendency for the iceberg to rise with success and maturity in the job, and to a degree also in the success and maturity of the employer organization. More mature experienced and high-achieving employees will tend to see their personal icebergs rising so that increasingly the hidden contractual factors become visible, and written into formal employment contracts.

**Blue arrows-**represent hidden factors influencing employee and employer and notably affecting their perceptions and attitudes to each other.

**Below the water-line** - the metaphorical 90% of the iceberg which is under the surface. These are the hidden perceptions which strongly affect interpretation of the Psychological Contract, notably by the employee. So, we can imagine the iceberg being more than 90% submerged. Where the Contract is healthier and clearer - for whatever reason - we can imagine the iceberg perhaps being only 60-70% submerged. Interestingly, in cooperatives and employee ownership organizations the iceberg model will tend to be (due to the nature of the employee ownership model) mostly out of the water, and perhaps even floating on top, as if by magic, which is a fascinating thought.

#### ***Inference of ice berg model:***

This reflects the fact that employee's feelings and attitudes act on two levels:

1. Employee feelings and attitudes are strongly influenced by their treatment at work (an aspect of the Psychological Contract), while at the same time,

Employee feelings and attitudes **strongly influence** how they see themselves and their relationship with the employer, and their behavior towards the employer (also an aspect of the Psychological Contract).

This last point is intriguing, because in organizations such as employee ownership corporations and cooperatives, a different constitutional business model applies, in which workers and potentially customers own the organization and can therefore to a major extent - via suitable representational and management mechanisms - determine the nature and quality of the Psychological Contract, and a lot more besides. We see a glimpse here possibly as to how organizations (and other relationships involving leadership authority or governance) might be run more fairly and sustainably in future times. We live in hope. Several factors within the Psychological Contract - for example employee satisfaction, tolerance, flexibility and **well-being** - are both **causes** and **effects**. Feelings and attitudes of employees are at the same time expectations (or outcomes or rewards), and also potential investments (or inputs or sacrifices). Modern technology, which the younger generations understand and exploit infinitely better than older people, is fantastically liberating for employees. Historically workers relied on employers for access to technology. In the future, employers will progressively depend on employees for its optimization.

#### ***The psychological contract - tool, process, working model?***

Unfortunately the Psychological Contract is not yet a scientific tool or a process. Given the growing power of technology - notably in gathering and interpreting highly complex data, in real time, across large groups of people - perhaps a feasible tool will be developed one day, but not for a while. Fairness is fascinating - it is both a leadership driver (for leaders who decide so), and also a positive outcome and perception within the Psychological Contract. The perception of fairness within the Psychological Contract is influenced by many factors, as we have seen. There is nevertheless a fundamental and unavoidable correlation between perceived fairness and the organization's balancing of the needs of:

- customers
- staff
- shareholders.etc.

Some organizations have flexibility and inclination to address the balance of these needs. Others have neither. Naturally where the balance is set strongly in favor of shareholders, employees are less likely to perceive great fairness in the Psychological Contract. This has been largely the traditional shape of employment organizations and businesses since work itself became organized.


#### ***Conclusion:***

The Psychological Contract is fascinating for many reasons because it offers so many different perspectives. It's not a tool or a process. The Psychological Contract is a model and a philosophy which can guide us in the way we structure and manage organizations, and deal with employees within them. At a basic level it helps us understand more about the 'give and take' that characterizes working for an organization, and particularly leading an organization. It is very useful in understanding why employees are 'difficult to motivate', or 'difficult to manage' - especially when this is an ongoing or widespread challenge.

The Psychological Contract helps leaders understand better how to align their people's needs with those of the organization, which is a very elusive notion. The concept also offers a powerful way to expand thinking and possibilities for people and work, in some distinctly separate and important ways:

- individual employee motivation and management
- motivation and management of workgroups and departments
- entire workforce motivation and management
- review of grading, management hierarchy, succession
- recruitment and selection and induction
- training and development
- assessment of leadership - vision, style, capability
- assessment of traditional workplace terms and conditions, contracts, etc
- organizational communications
- organizational philosophy and culture
- fundamental organizational purpose, constitutional rules and ownership
- new business purpose and legal structure
- markets and societies - types of organizations that will work best in the future.

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outline of the meaning, nature and importance of psychological contract as well how the psychological contract differentiates itself with the legal employment contract, causes and effects of breach and violation of contract. Psychological contract is basically measured from an employee perspective though Guest (1998) points out that it is largely in the 'eye of the beholder'. Perception of each party differs according to the individual's belief and values and they are destined to assume a particular course of action

