

PSYCHOLOGICAL CONTRACT - A THEORETICAL INVESTIGATION

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Abstract

This article explores psychological contracts, delving into definitions, types, antecedents of breaches, and their impact on employee behavior. Starting with Argyris' 1960 concept, it navigates through seminal works by Rousseau, Tomkins, Shepard, Guest, Conway, Briner, and others, providing diverse perspectives on this implicit agreement. Emphasizing complexity and subjective dynamics, the analysis differentiates psychological from legal contracts, highlighting tangible and intangible elements' interplay. Categorizing contracts into Transactional, Relational, Traditional, Transitional, and Balanced, it elucidates their distinct features. Antecedents of breaches, influenced by organizational changes, are explored, with factors like insufficient HR practices and peer comparisons analyzed. The article concludes by underlining the pervasive nature of breaches, offering insights into mitigation through effective HR practices, organizational support, and transparent communication, stressing the importance of preserving the employment relationship for future research.

Keywords:- Psychological Contract, Breach, Violation, Employment Contract, Balanced Contracts.

In 1960, Argyris introduced the concept of the “psychological work contract,” asserting that optimal employee productivity thrives under passive leadership, emphasizing a relationship

between employees and foremen. This notion, originating in the 1960s, gained significance in the late 1990s amid economic challenges.

This article explores the meaning, nature, and importance of the

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psychological contract, distinguishing it from legal employment contracts and investigating outcomes of breaches. Guest (1998) underscores its subjective nature and the importance of mutual understanding between employers and employees, emphasizing the pivotal roles of reciprocity and mutuality. Early conceptualizations by Argyris (1960), Levinson (1962), and Schein (1965; 1978) focused on understanding subjective interactions in the social exchange, while Cullinane & Dundon (2006) highlight the joint consideration of expectations, mutuality, and reciprocity in explaining agreement and disparity in the psychological contract.

Statement of the Problem

The study addresses a critical gap in the understanding of psychological contracts by exploring definitions, types, and antecedents of breaches, emphasizing the complexity and subjective dynamics inherent in these agreements. While foundational works by Argyris, Rousseau, Tomkins, Shepard, Guest, Conway, and Briner are navigated, there remains a need for a comprehensive synthesis of diverse perspectives. The analysis seeks to differentiate psychological contracts from legal contracts, highlighting the interplay of tangible and intangible elements. Despite an increasing significance of psychological contracts, particularly since the late 1990s, their pervasive nature and outcomes of breaches are not fully elucidated. The subjective nature of these contracts, as emphasized by Guest (1998), underscores the importance of mutual understanding between employers and employees, with reciprocity and mutuality

acting as pivotal elements. The study aims to contribute insights into mitigating breaches through effective HR practices and transparent communication, ultimately stressing the significance of preserving the employment relationship for future research.

Scope for the Study

This study aims to comprehensively explore psychological contracts, delving into their definitions, types, and antecedents of breaches, drawing on seminal works by key theorists. The scope extends to differentiating psychological contracts from legal contracts, categorizing them into Transactional, relational, traditional, transitional, and balanced types, and elucidating their distinct features. The study seeks to contribute nuanced insights into the complex and subjective dynamics of psychological contracts, offering practical implications for mitigating breaches through effective HR practices and transparent communication. The analysis spans the origins of psychological contracts in the 1960s to their heightened significance in the late 1990s, providing a thorough examination of the pervasive nature of breaches and emphasizing the importance of preserving the employment relationship for future research.

Methodology

This study relies solely on secondary sources gathered from JSTOR, Science Direct, Shodhganga, and ProQuest, comprising scholarly articles and theses. The methodology involves a targeted search on JSTOR and Science Direct, utilizing keywords and criteria like

publication date and source credibility. Simultaneously, a focused exploration on Shodhganga and ProQuest is undertaken to access relevant theses. The synthesis organizes literature chronologically or thematically, establishing a comprehensive conceptual framework on the psychological contract, and classifies types based on identified typologies from the reviewed sources. The exploration of antecedents, impacts, differentiation from legal contracts, and the contract's intricate nature is rooted in theoretical insights derived exclusively from these secondary sources. The paper concludes by summarizing key theoretical findings and suggesting potential future research directions, maintaining clarity on keywords and definitions integrated from the literature available on these platforms.

Concept

Despite extensive literature on the psychological contract, a universally accepted definition is lacking (Anderson and Schalk, 1998). Denise Rousseau (1989) defines it as individuals' beliefs, shaped by the organization, regarding the terms of an exchange agreement. Tomkins and Shepard (1993) describe it as unwritten expectations between individuals and employers, extending beyond formal contracts. In Guest's framework (1998), it is the mutual expectations influencing attitudes and behaviors in the employment relationship. Conway and Briner (2005) view it as a dynamic set of evolving expectations held by individuals regarding reciprocal exchanges with employers. Schein (1978) characterizes it as unwritten reciprocal expectations, while Kotter (1973) sees it as an implicit contract

specifying mutual expectations. Herriot and Pemberton (1995) define it as perceptions regarding implied obligations in the employment relationship. Rousseau (1995) emphasizes the individual's beliefs shaped by the organization, and Conway (2005) elaborates on promises, obligations, and expectations of the parties involved.

The psychological contract is a dynamic set of expectations held by individuals regarding reciprocal exchanges with their employers, evolving over time through interactions and experiences. "These definitions offer diverse perspectives on the psychological contract, highlighting its nuanced nature and its significance in shaping the employment relationship".

Nature of Psychological Contract

The psychological contract is a complex interplay of subjective perceptions and mutual expectations between employers and employees, rooted in social exchange theory. Early conceptualizations by Argyris, Levinson, and Schein underscore the significance of subjective interactions. Guest's perspective characterizes it as largely subjective, emphasizing the profound influence of individual beliefs. Cullinane & Dundon's work enriches understanding by highlighting the necessity of jointly considering expectations, mutuality, and reciprocity, contributing to a comprehensive view. The psychological contract, guided by foundational theorists, navigates reciprocal obligations in contemporary organizational settings. It encapsulates individual convictions, transforming into contractual

Table 1
Psychological Contracts at Work: Belief, Promises and Expectations

Belief	Definition	Examples
Promise	1.a commitment to do (or not to do) something’ (Rousseau and Parks, 1993). 2. ‘an assurance that one will or will not undertake a certain action, or behaviour’ (Concise Oxford Dictionary 1996)	“I will get the reward because that was the deal”
Obligation	1. ‘a feeling of inner compulsion from whatever source, to act in a certain way towards another, or towards the community; in a narrower sense a feeling arising from beliefs received, prompting to service in return; less definite than duty, and not involving, the ability to act in accordance with it’. (Drever, Dictionary of psychology, 1958) 2. ‘the constraining power of a law, percept, duty, contract, etc.’(Concise Oxford Dictionary,1996)	“I should get the reward because I worked hard”
Expectation	1. ‘expectations take many forms from beliefs in the probability of future events to normative beliefs.’(Rousseau and Parks, 1993) 2. ‘the attitude of waiting attentively for something usually to a certain extent, defined, however vaguely’(Drever, Dictionary of psychology,1958) 3. ‘the act or instance of expecting of looking forward; the probability of an event’(Concise Oxford Dictionary,1996)	“I am likely to get the reward as that’s happened occasionally in the past”

Source: Understanding Psychological Contracts at Work: A Critical Evaluation of Theory and Research, Conway & Briner, 2005m the Perspective of Conway and Briner (2005):

commitments when the individual perceives owing the employer specific contributions. Rousseau emphasizes its subjective nature, evolving over the employer-employee relationship, involving mutual obligations grounded in promises. Despite diverse applications, common elements underlie all definitions, with two overarching types: transactional and relational contracts, distinguished by tangibility, scope, stability, and time frame.

Significance of the Study

The psychological contract is pivotal in shaping the complex relationship between employees and employers, impacting organizational dynamics and

performance. Beyond formal agreements, it includes tacit expectations, perceptions, and reciprocal obligations, fostering trust and shared values. Denise Rousseau underscores its importance in understanding the employment relationship’s dynamic evolution (Rousseau, 1989). In the contemporary organizational landscape, adeptly managing the psychological contract is crucial for a motivated workforce (Anderson and Schalk, 1998). It emerges when individuals believe their contributions obligate the organization to reciprocate (Rousseau, 1989). Motivating workers, it relies on employers’ competence, trustworthiness, and

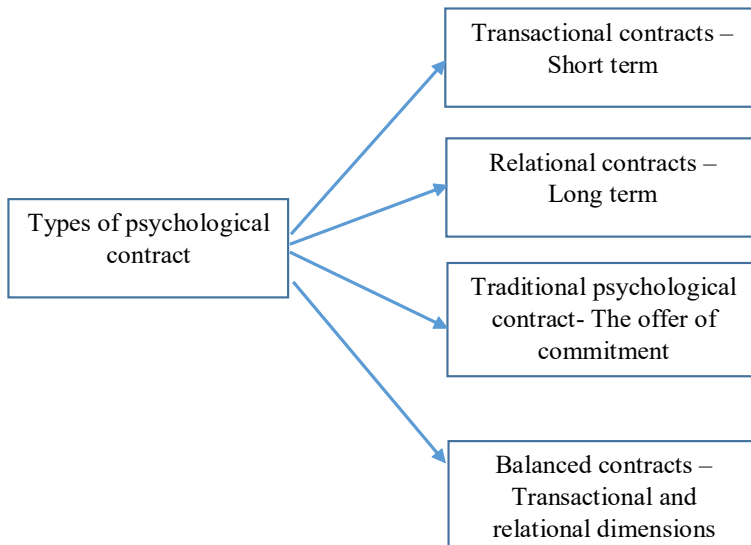
alignment with the firm’s mission (Rousseau, 2004). Instances of perceived organizational failure can impact loyalty and performance (Rousseau, 1995; Beardwell et al., 2004; Sarantinos, 2007). Job security is linked to fundamental expectations, with the contract’s continuity depending on perceived fulfillment or violation of beliefs, values, expectations, and trust within the relationship (Middlemiss, 2011).

Psychological Contract Vs Employment Contract

In employer-employee dynamics, the interplay between formal employment contracts and implicit psychological contracts shapes the work environment. Employment contracts, legally binding with explicit terms, safeguard rights (Stone, 2019). Psychological contracts, outlined by Rousseau (1989), encompass emotions and trust beyond explicit terms, operating beyond legalities (Middlemiss, 2011). Middlemiss (2011) emphasizes the

formality and enforceability of employment contracts, while psychological contracts (Rousseau, 2004) generate enduring mental models. Kim et al. (2007) highlight legal contracts’ limitations in addressing complexity. Dabos and Rousseau (2004) note psychological contracts’ influence despite lacking legal binding. On the nature basis: Employment contracts are tangible, providing a clear roadmap, while psychological contracts (Rousseau, 1995) are fluid and subjective, covering beliefs, fairness, growth opportunities, and social dynamics. On the significance basis: Both contracts are significant, with employment contracts offering legal clarity, and psychological contracts profoundly impacting employee well-being and satisfaction (Raja et al., 2004). The interplay resembles a dance, with formal agreements establishing the foundation and psychological contracts weaving the social and emotional fabric of the workplace.

Types of Psychological Contract



Transactional contract- short term

Transactional contracts, characterized by their short-term nature, are limited to the agreed-upon period, where an individual's identity is closely linked to their distinct skills and competencies. Individuals favoring transactional arrangements prioritize immediate rewards like pay and credentials, viewing the organization as a workspace with minimal emotional attachment. Miles and Snow's study (1980) exemplifies specific monetizable exchanges in transactional contracts, such as pay-for-attendance agreements common in temporary employment. 'Transactional psychological contracts' reflect the prevailing sentiment, indicating a lack of anticipation for a long-lasting relational process based on loyalty and job security. This perspective aligns with labor market flexibility and economic restructuring, emphasizing competitive wage rates and a lack of long-term commitments. The negotiation of transactional contracts typically involves explicit formal agreements by both parties (Conway & Briner, 2005).

Relational Contracts: Nurturing Long-Term Connections

Relational contracts, in contrast to transactional ones, adopt an enduring approach, spanning economic and socio-emotional elements. Williamson's research (1979), highlighted by Rousseau (1990), underscores the growing significance of relationships and socio-emotional factors in economics and organizational behavior. Guest (2004) notes the impact of flexible employment on workplace fragmentation, with relational contracts encompassing both monetizable and non-monetizable

exchanges like loyalty and security. Blau's work (1964), cited by Millward & Hopkins (1998), distinguishes transactional from relational obligations. Rousseau and McLean Parks (1993) posit that relational contracts involve a continuum, with increased relational aspects correlating with decreased transactional elements and vice versa (Conway & Briner, 2005).

Traditional Psychological Contract: The Offer of Commitment

The traditional psychological contract entails employees offering commitment in exchange for employers providing job security, often embodying the concept of a 'job for life' (Cullinane & Dundon, 2006). In contrast, a transitional contract, as implied by its name, represents a temporary phase in the employment relationship where commitments regarding future employment are absent (Aggarwal & Bhargava, 2009). While not constituting a distinct form of psychological contract, it functions as a cognitive expression reflecting the consequences of organizational changes and transitions that disrupt previously established employment arrangements (Rousseau, 2000).

Balanced Contracts: Integrating Transactional and Relational Dimensions

A balanced contract achieves a harmonious integration of transactional and relational elements within flexible and ongoing employment arrangements. These contracts, contingent on the economic prosperity of the organization, offer opportunities for reciprocal contributions to learning and development by both employees and the firm.

Rewards are tied to individual performance and contributions that enhance the firm's competitive advantages, particularly in response to changing market dynamics (Rousseau, 2000). In the context of balanced contracts, employers commit to fostering the growth of employees, both within the organization and potentially elsewhere. Anticipating worker adaptability to economic shifts, these contracts include provisions for renegotiation over time to align with changing economic conditions and the evolving needs of workers, thereby embodying a shared risk between employees and employers (Rousseau, 2004).

Psychological Contract Breach

The psychological contract, as defined by Xu in 2008, encapsulates the mutual expectations between employees and employers regarding their respective obligations, with a breach occurring when one party perceives a failure in meeting these agreed-upon obligations (Guerrero and Herrbach, 2008; Pate, 2006; Xu, 2008). Age-related differences in breach perception, highlighted by Bal and Smit in 2012, reveal that older workers, due to accumulated service and experience, are more sensitive to breaches in their psychological contract compared to younger colleagues (Bal and Smit, 2012). Breaches result from various factors, including broken promises like pay cuts and extended working hours, as well as incongruence of expectations arising from misunderstood changes in fairness perceptions (Guerrero and Herrbach, 2008). 'Contract drift,' a gradual misalignment in the exchange relationship,

can also lead to breaches, particularly during organizational changes like restructuring (Shields, 2007). Addae et al.'s research in 2006 emphasizes the role of organizational support in mitigating breaches, noting that the lack of such support can result in high turnover unless underlying issues are addressed (Addae et al., 2006). Breaches not only erode trust within an organization but also create a reciprocal effect where a lack of trust can cause employees to perceive a breach in the psychological contract (Atkinson, 2007; Kramer, 2006).

Psychological Contract Violation

Parzefall and Coyle-Shapiro's 2011 study reveals that breaches of the psychological contract prompt immediate emotional responses, with intensity escalating when perceived breaches lack justification. These enduring emotional reactions, if significantly shaping an employee's perception, can adversely impact trust levels and the overall relationship (Parzefall and Coyle-Shapiro, 2011). Suazo and Stone-Romero (2011) distinguish between breach and violation, where a breach is the perception of receiving less than promised, and violation refers to the ensuing depressive emotional state. Tomprou and Nikolaou (2011) suggest heightened expectations of modern recruits may lead to more psychological contract violations than breaches. Rozario (2012) emphasizes the consequences, including personal withdrawal and a productivity shortfall following violations. The response to a violation is tied to the individual's sense-making process, influenced by Weick's work in 1995. Unexpected events without

satisfactory explanations lead individuals to create their own, often framing it as a violation, triggering negative attitudes and behaviors (Parzefall and Coyle-Shapiro, 2011; Weick, 1995). Chiang et al.'s 2012 findings note that violations manifest during rapid, unpredictable organizational changes. Dulac et al. (2008) underscore the impact of the employee-employer relationship on the sense-making process following a perceived breach, influencing whether it leads to feelings of violation or not.

Antecedents of Breach

Turbulent market conditions and organizational changes have significantly impacted psychological contracts, leading to an increase in breaches and influencing employee behavior. Economic challenges have made it difficult for organizations to fulfill promises, creating perceptions of shortfalls in meeting obligations. Identifying specific incidents causing breaches is challenging, but various organizational changes, such as downsizing and reorganization, contribute to deviations in the employment relationship. Notably, employees reporting significant organizational changes tend to report contract breaches, highlighting disruption as a causative factor. Studies show widespread psychological contract breaches, with a substantial percentage of employees experiencing them. Factors contributing to breaches include insufficient implementation of HRM practices, lack of support from the organization and supervisors, past breach experiences, perceived employment alternatives, and unfavorable comparisons with peers. The impact of breaches on

the employment relationship is emphasized, with the suggestion that managers can enhance forgiveness through communication and, in some cases, renegotiation of the contract may be necessary (Conway, 2005; CIPD, 2010; Middlemiss, 2011).

Findings

- The intricate nature of the psychological contract involves dynamic interplay and mutual expectations between employers and employees, rooted in social exchange theory and shaped by individual beliefs and values.
- Transactional contracts are short-term and task-oriented, while relational contracts nurture long-term connections, and balanced contracts integrate transactional and relational elements, offering a harmonious approach.
- Breaches occur due to broken promises, incongruence of expectations, and 'contract drift' during organizational changes. Older workers are more sensitive to breaches, indicating age-related differences in perception.
- Eroding trust within an organization, breaches create a reciprocal effect, with organizational support playing a crucial role in mitigating breaches and preventing turnover.
- Guest's perspective highlights the subjective nature of the psychological contract, existing in the 'eye of the beholder.' Rousseau emphasizes its subjective and evolving nature.

- The psychological contract assumes a central role, profoundly influencing organizational dynamics, behavior, and performance. It operates beyond formal agreements, delving into trust, equity, and shared values, contributing to heightened employee engagement, job satisfaction, and organizational commitment.

Suggestions for the Study

Enrich exploration of psychological contracts by delving into seminal works like Argyris (1960), Rousseau, Tomkins, Shepard, Guest, Conway, and Briner for a comprehensive understanding of diverse perspectives on this implicit agreement. Improve categorization into Transactional, Relational, Traditional, Transitional, and Balanced types, elucidating their distinct features for a nuanced application in organizational settings. Bolster analysis of antecedents causing breaches, particularly those influenced by organizational changes, through a detailed examination of insufficient HR practices and peer comparisons, offering insights into preventive measures. Enhance the concluding section by emphasizing practical insights into mitigating breaches, focusing on the role of effective HR practices, organizational support, and transparent communication to preserve

the employment relationship. Extend the discussion on future research directions, highlighting potential areas for further exploration within psychological contracts, providing a roadmap for scholars and practitioners to address emerging challenges and workplace dynamics.

Conclusion

In conclusion, the intricate landscape of psychological contracts, encompassing transactional, relational, traditional, transitional, and balanced contracts, reflects the nuanced interplay of subjective perceptions and mutual expectations between employers and employees. The pervasive nature of breaches, often influenced by organizational changes and external factors, highlights the formidable challenge organizations encounter in upholding commitments. Effectively addressing breaches necessitates a strategic focus on human resource management practices, organizational support, and transparent communication. As organizations navigate this complex terrain, understanding and mitigating breaches becomes paramount for fostering a positive and enduring employment relationship. This conclusion underscores the importance of ongoing research and managerial strategies to navigate the intricate world of psychological contracts.

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