

# The psychological contract

## OPP Ltd

One of the final stages of a selection process is the agreement of an employment contract. This is an explicit, signed contract that outlines all the tangible legal obligations that the organisation and the new employee agree to. At the same time an implicit, yet equally important contract is generated. This is known as the 'psychological contract'. The psychological contract concerns less tangible expectations between the organisation and employee, and its implicit nature makes it particularly delicate. It can incorporate areas as diverse as training and development opportunities, and the expected style of communication.

Breaches to this contract can be just as serious as breaches of employment contracts. They can result in reduced employee motivation and productivity, in high staff turnover rates, and even in malicious acts. The contract is complicated further by the fact that it is constantly evolving and its unspoken nature means it can be difficult to manage.

The psychological contract is unique to each employee, as it describes expectations and obligations between them and the organisation. However, there are patterns to these expectations. For example, some employees have very few expectations, asking only that the organisation fulfils its contractual obligations and in return they feel obligated only to complete the explicit requirements of their role. Such a pattern of expectations and obligations is referred to as a 'transactional psychological contract'.

By contrast, other employees place a large number of expectations on their organisation. They may expect ongoing training and development, promotion opportunities, involvement in decision-making, and more. However, in return they feel obligated to go beyond the explicit requirements of their role. This is manifested in behaviours such as working additional hours, sharing innovative or creative ideas with the organisation or through long-term loyalty to the company. This pattern is described as a 'relational psychological contract'. The transactional and relational contracts represent different ends of a continuum, as shown in Diagram 1, and individual contracts typically fall between the two poles.

## Difference in behaviour

The nature of a contract, whether it is more transactional or relational, is expressed by differences in behaviour. Those with a more transactional contract tend to exhibit 'role' behaviours, such as starting and finishing on time and completing assigned tasks. The more relational a contract becomes, the more likely an individual is to show 'pro-role' behaviours that go beyond their remit, such as working additional hours, providing assistance to colleagues, or volunteering for extra projects.

## Changes to psychological behaviour

The nature of an employee's psychological contract can and will change with time. For example, when a new member of staff joins the organisation, it is likely that their contract will be mostly transactional, focusing around the signed contract, although some individuals may have additional expectations such as training opportunities. Over time the nature of the contract evolves, as employee and employer meet mutual expectations and consequently form a stronger bond. For example, after a year, the individual may expect that they will receive fair promotion opportunities and ongoing development in their role, or even involvement in decision-making. They may also feel

obliged to work harder or for longer hours when required, and to speak highly of their organisation to colleagues and external contacts.

The nature of the contract is also likely to vary, relative to the employee's position in the company. Typically, the psychological contract of those in more senior level positions may be of a more transitional, transformational, or relational nature.

Although changes to the nature of the psychological contract tend to be gradual, there are occasions when the changes are more rapid, such as when an employee feels that their contract has been broken. For example, somebody who expects that the organisation will provide fair promotion opportunities, could feel that their contract has been violated if they do not receive a promotion, or believe that they have been treated unfairly.

## Violations of the psychological contract

The organisation will feel the effect of such a perceived violation through changed employee behaviours, the nature of which will be dependent upon the current nature of their psychological contract:

### Relational

An employee who previously had a relational contract may withdraw some of their pro-role behaviours and may, for example, stop sharing their innovations with the organisation. If there was a further violation, their contract may then move from relational to transactional. In such situations the employee would withdraw most, if not all, of their pro-role behaviour, and is likely to adopt a 'work to rule' mentality.

### Transactional

A breach of an employee's transactional contract may occur if, for example, organisational restructuring requires them to complete more work without additional remuneration. Since they don't have any pro-role behaviours to withdraw, they may instead engage in 'anti-role' behaviours; actions that are detrimental to the organisation. At first these may be attempts to restore a perceived balance, such as arriving late or taking long lunch breaks, but in more extreme cases may result in actions such as petty theft. Employees who are desperate to restore a sense of control may even resort to vandalism or sabotage.



Diagram 1

### Effect of a breached contract

As these examples show, one of the first effects to the organisation of a perceived breach of psychological contract will be the loss of those behaviours that are outside employees' job roles, which were previously performed due to a sense of loyalty and commitment. These prorole or organisational citizenship behaviours are of huge impact to organisational requirements, as illustrated in diagram 2.



Diagram 2: Some areas of essential business activity are not covered by job roles. Organisations need to manage these 'white spaces'.

The large outer circle represents the behaviours required by the organisation for it to both function and flourish. To accomplish these requirements the organisation establishes a number of roles, represented by the smaller circles. However, the changing nature of organisations and the huge range of possible required behaviours, means that there are often significant areas that are not covered by the defined roles. This represents the organisational citizenship behaviours, which could range from the obvious, such as working additional hours, to the less obvious, such as inter-departmental cooperation or the sharing of new ideas. These are important to the smooth and successful functioning of the organisation, and the loss of such behaviours could be hugely detrimental. However, as they are not part of any individual's defined role, they will be some of the first behaviours to be withdrawn following a perceived contract violation.

## Box 1: Estimating the financial cost

The violation of psychological contracts can have a significant financial implication for the organisation, as employees who feel their contracts have been broken may react with reduced effort, inefficient communication, reduced additional hours and so on.

Organisations can calculate the financial implications of broken psychological contracts as follows:

Number of employees affected

*multiplied by*

Average number of hours of reduced effort (per week, per employee)

*multiplied by*

Average hourly wage or monthly salary of affected employees

*multiplied by*

Number of weeks that reduced effort lasts

Box 1

## Example

The reduced effort resulting from a breached contract can easily amount to one hour less being worked each week. If 100 people within an organisation are affected, then the company will lose 400 hours per month. Taking an average wage of £20 per hour, then for this group of 100 employees, the cost to the organisation is at least £8000 a month.

Research suggests that it typically takes six months to overcome a violated contract, allowing for the employees to re-establish trust and effort, or for the organisation to introduce formal systems and processes to fulfil the behaviours that were previously fulfilled through citizenship behaviours. Over a six-month period therefore, these broken contracts could equate to organisational losses worth at least £48,000.

## How to prevent the contract being broken

Organisations can protect themselves from the negative effects of contract violations by establishing a reputation of trust, support and fairness. If an organisation has generally treated its employees well, has kept its promises and treated them fairly, then they are less likely to react negatively when they feel let down. However, the more that contracts are broken, the less value this reputation will hold.

If this reputation was never developed, or has been reduced through previous negative events, then the organisation is liable to suffer the full consequences of a perceived violation, as already outlined.

## What to do if it's already been broken

Once an individual feels that their psychological contract has been violated, there is no quick and easy fix, which of course is one more reason why violation should be avoided in the first place. However, it is possible to take steps to restore faith. One of the first and most obvious things to do in this situation is for managers to consider carefully the feasibility of any commitments to employees before making them.

When individuals feel that their organisation is not fulfilling their long-term promises then they may focus more upon short-term rewards. This is why during times of upheaval, employees may be very demanding regarding short-term, transactional expectations, such as pay or benefits.

If the organisation wishes to overcome this, they must ensure that short-term promises are delivered so that individuals can begin to focus upon longer-term investments and rewards. This will begin the process of restoring faith in the willingness and ability of the organisation to meet the employee's expectations, which will then lead to individuals being more willing in turn to invest more in the organisation, returning to some of the pro-role behaviours that were previously exhibited.

A key step in achieving this can be discussing mutual expectations more openly. By openly discussing what they expect from an organisation, individuals can maximise the possibility of seeing these fulfilled. In return, by making explicit what they want from individuals, organisations can ensure that workers know what is expected of them.

The potential impact of broken psychological contracts is immense, as shown in Box 1. If organisations are to avoid this loss of potential they must start by recognising and addressing the psychological contract.