

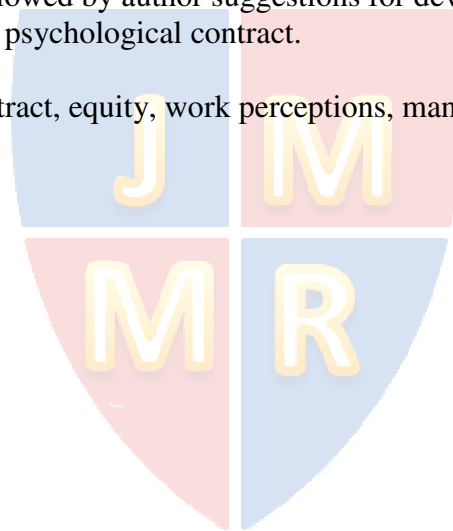
Understanding the importance of the employee/employer psychological contract

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ABSTRACT

While the term was not coined until the 1960s the recognition of a psychological contract has been around for centuries. Psychological Contract Theory is based in social exchange theory meaning individuals reciprocate their experiences. The theory suggests that people are constantly, whether consciously or unconsciously, calculating the amount of support they receive and give in any given work situation. A manager that understands the psychological contract, from the perspective of their employees, will have an advantage in creating a motivational work environment where their employees perceive equity. The following is a review of literature of the psychological contract followed by author suggestions for development and maintenance of a proactive employer/employee psychological contract.

Keywords: psychological contract, equity, work perceptions, management



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INTRODUCTION

Adam Smith, was a social philosopher and an economist that wrote *The Wealth of Nations* in 1776. Smith wrote, "Man seeks maximum pleasure from his work with minimal effort." This quote, from the 18th century, remains relevant today. While, each employee is different and their level of desire for a positive work experience and tolerance for effort will vary, it can be expected that all employees want to maintain a job where they perceive their pleasure to be at least equal to if not greater than their effort. Understanding this idea clarifies that an employee's goals and the employer's goals are rarely a mirror image. Consider that an employee can often maximize their return from an organization without offering a maximized contribution. Managers that come to understand the significance of an employee's perception as it relates to workplace enjoyment and workplace effort, will increase the chances of supporting employee motivation and supporting employee retention. The following paper will discuss employee work perceptions as framed by the psychological contract.

OVERVIEW OF THE PSYCHOLOGICAL CONTRACT

Consider the following equivalence:

How an employee perceives they are treated by their employer =
What the employee is willing to put into the job

This equivalence is a simplified summary of the Psychological Contract Theory, suggesting that people are constantly whether consciously or unconsciously calculating the amount of support they receive and give in any given situation. The term "psychological contract" was not coined until the 1960s. First, by Chris Argyris (1960) and Edgar Schein and next by Levinson, Price, Munden, Mandl & Solley (1962). But, George C. Homans, the founder of behavior sociology and the Social Exchange Theory was the first to begin to define the unwritten set of expectations in the employee relationship. Homans suggests that employees continuously, implicitly or explicitly, calculate the amount of support they receive and give (Nahum-Shani, Bamberger and Bacharach, 2011). Homans's theory suggest that expectations and obligations have an important role in the employer-employee exchange (Roman-Calderon, Vandenberghe, Odoardi and Battistelli, 2016). The social exchange theory has its foundation in both psychological and economic theory (Johns, Lindner and Wolko, 1990) and the theory describes an individual "as a rational calculator of pleasures and pains, forever intent on maximizing returns and minimizing losses" (Coser, 1977, p. 572). In other words, persons that give expect to receive from others and people that receive from others feel pressure from others to give (Downing Murley, Keedy and Welsh, 2008).

As the psychological contract theory supports the idea that individuals reciprocate their experiences, it can be concluded that negative treatment by an organization will result in negative employee attitudes and behaviors (Blau, 1964; Gouldner, 1960) and positive treatment by an organization will result in positive employee attitudes and behaviors. While, a legal contract formally represents the employee's and employer's relationship, the psychological contract may be more influential, as the later contract frames the perceptions of the employer-employee relationship. This includes everyday intangible actions, expectations and understandings about mutual obligations between the employee and the employer. Within the perceived relationship there can be a set of promises or expectations that are exchanged between

employees, managers and co-workers. The contracts are implicit, assumed, unspoken, information and often based on assumptions. While rarely written down, these understandings can have a heavy impact on an employee's motivation and performance.

The psychological contract (PsyCon) is a philosophy, it is not a tool and not a strategy. It is the understanding that, employees with perceived high levels of PsyCon have high level of organizational commitment (Shore and Barksdale, 1998). So, acknowledging the psychological contract includes organizational recognition of the employee's perceptions and the understanding that organizations benefit from fostering and supporting intact psychological contracts (Sharma and Thakur, 2016).

EXAMPLES OF PSYCHOLOGICAL CONTRACTS

Employers will have a formal contract that clarifies employee expectations like hours worked, necessary certifications, production expectations and compensation/benefits. But, as time passes, the employer and employee will develop a set of unwritten expectations that are not explicit in the contract. The following are examples of unwritten psychological contracts that may develop within a working relationship:

- Employees can leave work 30 minutes early on Fridays.
- Employees that produce results will be rewarded.
- Employees that exceed expectations will be promoted.
- The job work load will allow for work/life balance.
- Employee investment in the organization will equal employee "ownership" in organizational outcomes.
- Employee loyalty will be rewarded by organizational loyalty.

ELEMENTS OF A PRODUCTIVE PSYCHOLOGICAL CONTRACT

Organizations must focus, at least in part, on goals and profits. To remain competitive, employees are often pushed to maintain increased work load and without thoughtful management, employees may experience heightened stress and increased perception of violations in the psychological work contract (Bunderson, 2001). There is great long term organizational value in seeking attainment of organizational goals through understanding, support and reciprocity. Josh Bersin, wrote the book, *The Five Elements of a "Simply Irresistible" Organization*. In the book Bersin clarifies that organizations must remain proactive and diligent to create a meaningful work environment that attracts and retains employees. From his research, Bersin outlines, five elements that are necessary for creating work environments that supports and responds to employee needs:

1. Meaningful work that empowers people to be creative.
2. Management that incorporates coaching and feedback.
3. Growth opportunities that encourage and support learning.
4. Inclusive, flexible, fun environment.
5. Leadership that can be trusted.

Berson's five elements are aligned with many management theorists, recognizing that organizations must work to build a productive work environment that supports employee motivation.

Some management leaders that have similar conclusions are Berson are Bernard, Drucker

and Branson. Bernard's (1938) theory of equilibrium states that the employee contributions depend on organization motivations (Roehling, 1997). The management guru Peter Drucker, originated the idea of building an organization that is more than an investment. Drucker envisioned an organization that is a community for employees, built on trust and respect for the worker. While, Richard Branson, Virgin CEO, Visionary and Entrepreneur says, "It should go without saying, if the person who works at your company is 100 percent proud of the brand and you give them the tools to do a good job and they are treated well, they're going to be happy," (Raymundo, 2014). Each of these management leaders, recognizes that an organization has the responsibility of creating a positive, motivating, trustful and respectful work environment. These are the same ingredients that are important for an effective psychological contract.

The PsyCon is a broad concept and that is somewhat open for interpretation, but can be summarized as the relationship between an employer and employees with specific attention to the mutual expectations of give and take. While the contract is applied in the workplace it involves feelings, ideas that must be understood by both sides. To maintain talented employees, organizational leaders should understand and continually manage the employee perceptions and assumptions.

THE EFFECTIVE PSYCHOLOGICAL CONTRACT HAS VALUE

Studies shows that individuals expect a balanced and fair exchange relationship in the workplace (Sherman and Morley, 2015). The PsyCon frames these expectations as an individual's assumptions about the terms of a reciprocal exchange within their organization (Trybou, Maaik, Elke and Gemmel, 2016). Rousseau (2004) identifies two types of contracts, transactional and relational contracts. Transactional contracts are written contracts with clear punishment if the contract is not fulfilled. Relational contracts have concern with maintaining emotional and interpersonal relationships between employees and co-workers. The PsyCon is a relational contract.

"Most organizational scientists agree that needs, motivations and values are importantly influenced by adult development and work experiences across the life span," (Kooij, 2011). When all parties are happy with how things are going and people believe the PsyCon is being adhered to, then there is no problem, and no direct action is needed to the unwritten agreements. Direct action is different from attention. Paying attention to the psychological contracts of your principle stakeholders is ongoing and essential. Attention to the employee's expectations helps individuals feel valued and acknowledged. This occurs through forming good quality manager-employee relationships, allowing a manager to catch an issue early if an employee is struggling. In addition, building and maintaining equity in the employer and employee relationship supports recruitment, supervision and employee development.

Psychological Contract in Recruitment

During recruitment, managers have their first opportunity to begin to develop a healthy psychological contract. Lengthening the recruitment process and increasing the number of communications between prospective employee and employer before hire can set the foundation for clarifying and communicating expectations and assumptions.

Psychological Contract in Supervision

Managers that value the psychological contract will actively work to build communication and honor reciprocity in their working relationships with employees. This occurs through ongoing verbal and written communication and management seeking to support employees as much as management seeks employee support.

Psychological Contract in Employee Development

Talented employees are motivated by opportunities to grow and develop. It should be communicated and followed by action that if employees meet or exceed organizational goals there will be opportunities to participate in ongoing learning that leads to their personal and professional development and growth.

Psychological Contract Support for Recruitment, Supervision and Development

As management become knowledgeable and respectful of the employee's needs for trust, respect and perceived reciprocity, a productive, professional relationship can develop and be sustained. If all is going well, there is generally less and less attention to a psychological contract and more attention focused on productivity and organizational stability. Thus, there is a link between a healthy psychological contract and high performance.

WHAT HAPPENS WHEN THE CONTRACT IS BROKEN?

When the relationship between the company and the individual is efficient, the benefits of the intact PsyCon are limitless and attention to the contract can be minimal. It is when the contract is violated that employee attention becomes intense. It is important to understand that employee expectations have evolved from expectations of long term job security to contemporary expectations of meaningful work, proper policy application and work life balance. When the psychological contract breaks, both the employee and the employer experience negative consequences, the employee feels betrayed and the employer questions the employee's loyalty. This dynamic can result in underperforming, generation of a toxic work environment or employees leaving. Once the contract is perceived to be broken, the employee will act in intrinsic and self-motivated methods. These potential consequences are serious for any organization.

HOW WILL THE PSYCHOLOGICAL CONTRACT EVOLVE?

Several major changes in the work world have caused the parent-child relationship of the past to disappear (Deep & Sussman, 1995):

1. Increased globalization and competitive
2. Advancements in technology
3. Need for employees with unique employee skill sets
4. Death of employee/employer loyalty

In the past employees sought a fixed work place with relatively stable agreements and

assumptions of permanent employment. Contemporary PsyCons are more unstable, there are assumptions of partnerships rather than hierarchies and the partnership is only expected to last if the project or the contract remains relevant. Effective contracts of the future must incorporate these current expectations and assumptions.

EXAMPLES OF PSYCHOLOGICAL CONTRACTS IN INDUSTRY

There are numerous organizations that have created corporate cultures with the purpose of supporting a foundation of positive, productive and meaningful understanding between employees. Three examples will be discussed, Southwest Airlines, Dollywood and Lego. Each demonstrate effective aspects of reciprocity with their employees.

Southwest Airlines

Southwest Airlines is a unique organization that has consistently recognized the needs of their employees. The organization has been profitable for over three decades, has the fewest customer complaints of any major airline, has an employee turnover rate that is under 10% and is constantly named an employer of choice (D'Aurizio, 2008).

In her book, *Lessons in Loyalty: How Southwest Airlines Does It—An Insider's View*, Lorraine Grubbs-West (2005) a former Director of Employment at Southwest Airlines shares nine organizational loyalty lessons Southwest has applied to build the corporate culture of respect and reciprocity:

1. Hire Attitude- Train Skills
2. Immerse Everyone in the culture immediately
3. Keep 'Em Learning
4. People Give as Good as They Get
5. Find the Kid in Everyone
6. Do More with Less
7. Luv'Em in Tough Times
8. Do What's Right
9. Nurture the Corporate Family

"For Southwest, being a good corporate citizen means giving back through volunteerism, with individual and personal efforts, or serving together as teams, or in corporation-wide efforts" (Rutherford, 2011).

Southwest Airlines is an organization that maintains mission, values and goals that seeks first to support, care for and sustain their employees. The organization emphasizes communication, work life balance, ongoing learning and reciprocity between employer and employee and ultimately supports maintenance of efficient internal psychological contracts.

Dollywood

Dollywood opened in May 3, 1986 in Pigeon Forge, Tennessee. Per the Pigeon Forge Chamber of Commerce, the organization has experienced over \$110 million in expansions, shows, attractions and rides. Further, Dollywood is the biggest tourist attraction in Tennessee and employees about 3000 local workers and supports 2.5 million guests to Pigeon Forge and

Gatlinburg a year (Jackson, 2011). But, one of the reasons for Dollywood's ongoing success is due to the organizations focus on giving to and supporting stakeholders. Per the Appalachian Regional Commission, most the counties in East Tennessee are economically distressed or at risk, the region has historically lagged the rest of the country in economic indicators and income in the Appalachians is about 25% less than the US average. For this reason, creating, supporting and sustaining Dollywood in this region, is offering opportunities for jobs, employee development, professional growth, entertainment and advancement in a region where opportunities were scarce.

Dollywood was founded, with a purpose of bringing opportunity to East Tennessee. The entire Dollywood experience is paying tribute to the lives of people that have lived and are living in the Appalachians. At the organization's core, there is intent to contribute to and improve the quality of life for the organizational stakeholders, whether it is through creation of economic opportunity or through entertainment, thus, creating an organizational culture that actively engages in reciprocity, through giving first.

Lego

Lego, the family owned business, was started in Denmark by Ole Kirk Christiansen in 1932 (Lauwaert, 2008). The name Lego, as it translates from Danish, means to "play well" and "play well" is the foundation of the organization's ideals. The organization seeks to create a construction toy that offers opportunity for imagination, construction and ultimately innovation. To reach these goals Lego drives innovations through collaboration between organization, employees and stakeholders. "A very important aspect of the strategy of bringing the fans into the company and tapping into their creative potentials is community building, providing a fertile basis for the user communities to thrive on" (Lauwaert, 2008). The organization actively seeks a broad stakeholder base through ongoing feedback and communication between users and engineers to build strategic plans. The organization believes in creating loops of "feedback bringing the consumer into the magic circle" of innovation (Lauwaert, 2008).

Lego seeks to be inclusive with stakeholders, communicative with stakeholders and responsive based on stakeholder feedback. Recognizing a broad stakeholder base and seeking to understand their needs creates a culture that acknowledges, responds to and streamlines stakeholder perceptions and assumptions.

FIVE STRATEGIES FOR DEVELOPING AND SUPPORTING PSYCHOLOGICAL CONTRACTS

Cultivating PsyCons requires proactive communication and ongoing choice to understand and respond to employee needs. The following is a list of five strategies to help employees support efficient and effective psychological contracts.

- Psychological contracts, like people, change over time. Thus, psychological contracts are dynamic. If a change needs to be made, acknowledge the old contract and explain why the change is needed and create a new pre-emptive PsyCon. Acknowledged change can be resolved and is very different from a broken contract.
- PsyCons can become increasingly difficult as the organization grows. Complexity of the contract will intensify with numbers of employees, numbers of projects and employee diversity. All of which will lead to broader variances in employee perceptions.

Recognize the potential for increased complexity and offer increased attention, time and resources to support and balance the perceptions of employees.

- Managers should establish and explain linkages in psychological contracts, employee perceptions and organizational goals. Establishing the linkage will support employee perceptions through organizational ups, downs and necessary change.
- It is important to view employees as relationships, not just tools as part of goal achievement. Taking time to understand the employee's perceptions, assumptions, goals and needs is time spent building a relationship. Thus, cultivated and clarifying PsyCons can contribute to employee relationship development.
- Psychological contracts are often unwritten and based in assumption, but should still fully support organizational core values. Because an expectation is unwritten does not permit the expectation to be unethical or contrary to organizational mission, values and goals.

CONCLUSIONS

Throughout each day, we are using assumptions and perceptions to navigate our activities. We must become aware of our psychological contracts and attempt for ourselves to test some boundaries. It can create huge problems if we use untested psychological contracts as our career map. Awareness is important. Beyond awareness, organizational leadership must respect and reciprocate at a level that supports positive employee perceptions. If the employee senses there is a break in the psychological contract with his company, the company's goals are no longer the employee's goals. The relationship between the employee and their manager/organization will be diminished, resulting in reduced productivity and reduced retention.

Maintaining positive psychological contracts requires an alert attitude and takes time, effort and resources. Psychological contracts that have potential for effectiveness include respect, compassion, trust, empathy, fairness and objectivity. Can the long-term experience of true reciprocity be understated? It can be said that this relation, true employer/employee reciprocity brings balance to the organization.

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