

A theoretical Review on Psychological Contract

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Abstract

The psychological contract is a pivotal concept in understanding contemporary employment dynamics. It embodies a mutual exchange of obligations between individuals, shaping their expectations, perceptions, and interactions within the workplace/organisation/industry. This paper explores diverse definitions of the psychological contract, highlighting its dynamic nature and variable interpretations. The dimensions of the psychological contract (transactional and relational contract), surrounds aspects such as mutual expectations, obligations, and socio-emotional exchanges.

Keywords: Psychological Contract, Mutual Obligations, Transactional Contract, Relational Contract

Introduction:

The study of psychological contracts has drawn a lot of attention over the years because it offers a unique framework for understanding the results of labour and shifts in the job affiliation (Rousseau, 1995). Employees' expectations of what they should or ought to get based on perceived commitments made by the company is known as psychological contracts (Morrison and Robinson, 1997). Numerous findings from studies suggest that a psychological contract reliably predicts attitudes and behaviours associated with the workplace (Katou and Budhwar, 2012). Many people believe that psychological contracts is a useful concept for explaining how employment relationships appear to have changed as a result of new organisational and economic conditions like demographic diversity, a greater reliance on temporary work, and increased global market competition (Anderson and Schalk, 1998; Guest, 2004).

The article is organized as follows: First, the context of the study and second, review the relevant literature to clarify the definitions and last, the different dimensions of psychological contract so far.

Literature Review:

The psychological contract represents a mutual exchange of obligations between two individuals (Levinson, 1962; Argyris, 1973; Rousseau, 1989). Recent research has applied the concept of the psychological contract to enhance the comprehension of employment relationships (Anderson & Schalk, 1998; Parks et al., 1998; Rousseau, 1989, 1990; Schein, 1965). It's noteworthy that within an organizational context, an employer may engage in numerous psychological contracts (Shore et al., 2004). It's essential to acknowledge that the existence of a psychological contract doesn't presuppose uniform

mutual understanding; in other words, an employee might possess a psychological contract, while their supervisor or subordinates might not share the same contract (Rousseau & Parks, 1993). Levinson (1962) explored an assortment of factors that can influence the formation and evolution of contracts. The interactions and perceptions among individuals within an organization, whether pertaining to work or not, can be incorporated within the notion of the psychological contract (Herriot & Pemberton, 1995). Organizations are compelled to adapt their

workplace/organisation relationships due to the mounting pressure for incremental and widespread enhancements, with these adaptations significantly influenced by the intricate human contracts that underlie them. In the context of contemporary employment dynamics, the role of psychological contracts is increasingly pivotal, particularly in response to recent societal shifts marked by populism, transformation, and downsizing (Sims, 1994). Psychological Contract have been clarified by innumerable researchers in past. The significant definitions are displayed in table 1 below.

Table: 1 Definitions of Psychological Contract

Year	Author	Definition
1973	Kotter	“An implicit contract between an individual and his organization which specifies what each expect to give and receive from each other in their relationship”
1978	Schein,	“A set of unwritten reciprocal expectations between an individual employee and the Organization”
1995	Herriot and Pemberton	“The perceptions of both parties to the employment relationship, organization and individual, of the obligations implied in the relationship”
1989	Rousseau	“An individual's belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party. A psychological contract emerges when one party believes that a promise of future returns has been made, a contribution has been given and thus, an obligation has been created to provide future benefits”
1995	Rousseau	“Individual’s beliefs, shaped by the organization, regarding terms of an exchange agreement between the individual and their organization”

Source: Compiled by Authors

The above definitions outlay psychological contract as implicit contract, unwritten reciprocal expectations, perceptions of both parties, Individual's beliefs, exchange agreement which coins psychological contract as an unwritten reciprocal exchange between employer and employees. The dilemma that ascends with these definitions are "the different level of psychological contract engagement"

2.1 Emergence of Psychological Contract

Does every person have a psychological contract?
Does their psychological contract differ? These

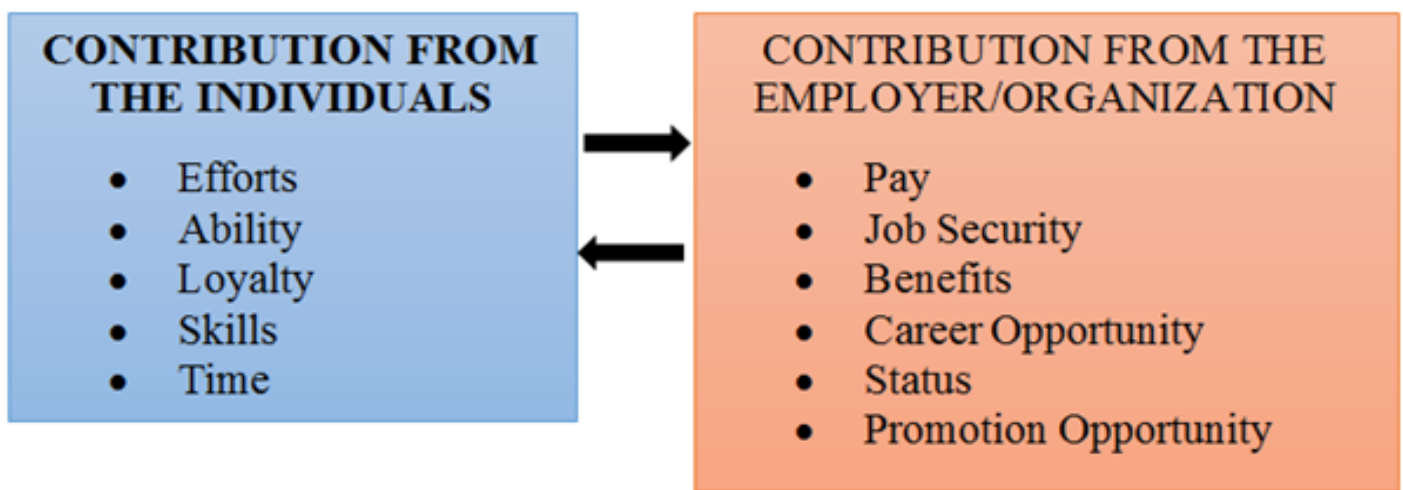


Figure 1: Psychological Contract of employees and employer.

Source: Viquepedia

2.2 Dimensions of Psychological Contract

Transactional Contractual: Transactional contracts, often of short-term nature, are defined by their temporal limitation to the agreed-upon duration. Within such contractual frameworks, an individual's sense of self is constructed around their distinctive proficiencies and capabilities, forming the very foundation upon which the reciprocal association is established. For employees oriented towards transactional interactions, the organization is essentially a milieu where their occupational responsibilities are discharged, typically devoid of substantial emotional affinity or allegiance towards the organizational entity. Instead, this domain serves as a platform for immediate gains derived from

the employment circumstance, such as remuneration and professional credentials (Millward and Hopkins, 1998). In a study by Miles & Snow (1980), as referenced, transactional contracts are characterized by specific monetizable transactions—like compensation for attendance—between involved parties, occurring over a defined temporal span, akin to instances of provisional employment or engagement by "buyer"-oriented enterprises (Rousseau, 1990). The notion of "transactional psychological contracts" pertains to scenarios wherein employees do not anticipate enduring "relational" interactions with their employing organization, rooted in loyalty and occupational stability. Instead, they perceive their employment as a transactional exchange, wherein protracted work hours are tendered in return for

substantial variable remuneration and skill enhancement. This perspective resonates with the prevailing sentiment regarding labor market adaptability and the structural reconfiguration of employment connections (Cullinane and Dundon, 2006). Such contracts embody distinctive features, including highly competitive salary structures and the conspicuous absence of protracted commitments (Rousseau, 1990). The negotiation of transactional contracts typically involves explicit deliberations and necessitates formal accord from both contracting parties (Conway and Briner, 2005). Relational Contracts: Relational contracts encompass a broader and more flexible scope, characterized by their open-ended nature and the subjective comprehension shared among the involved parties. These contracts revolve around the exchange of personal, socioemotional,

and value-based resources, in addition to economic factors (Conway & Briner, 2005), and extend over a considerable period of time. In his research, Williamson (1979) has underscored the mounting significance of relationships and relational considerations, including obligations, within the realms of economics and organizational behavior (Rousseau, 1990). The conventional psychological contract is commonly defined as an arrangement where the employee commits to the employer in exchange for assurances of job security, occasionally even encompassing the concept of a 'job for life' in certain instances (Cullinane and Dundon, 2006). Figure 2, entails a bird eye view for the inscribed dimensions above.

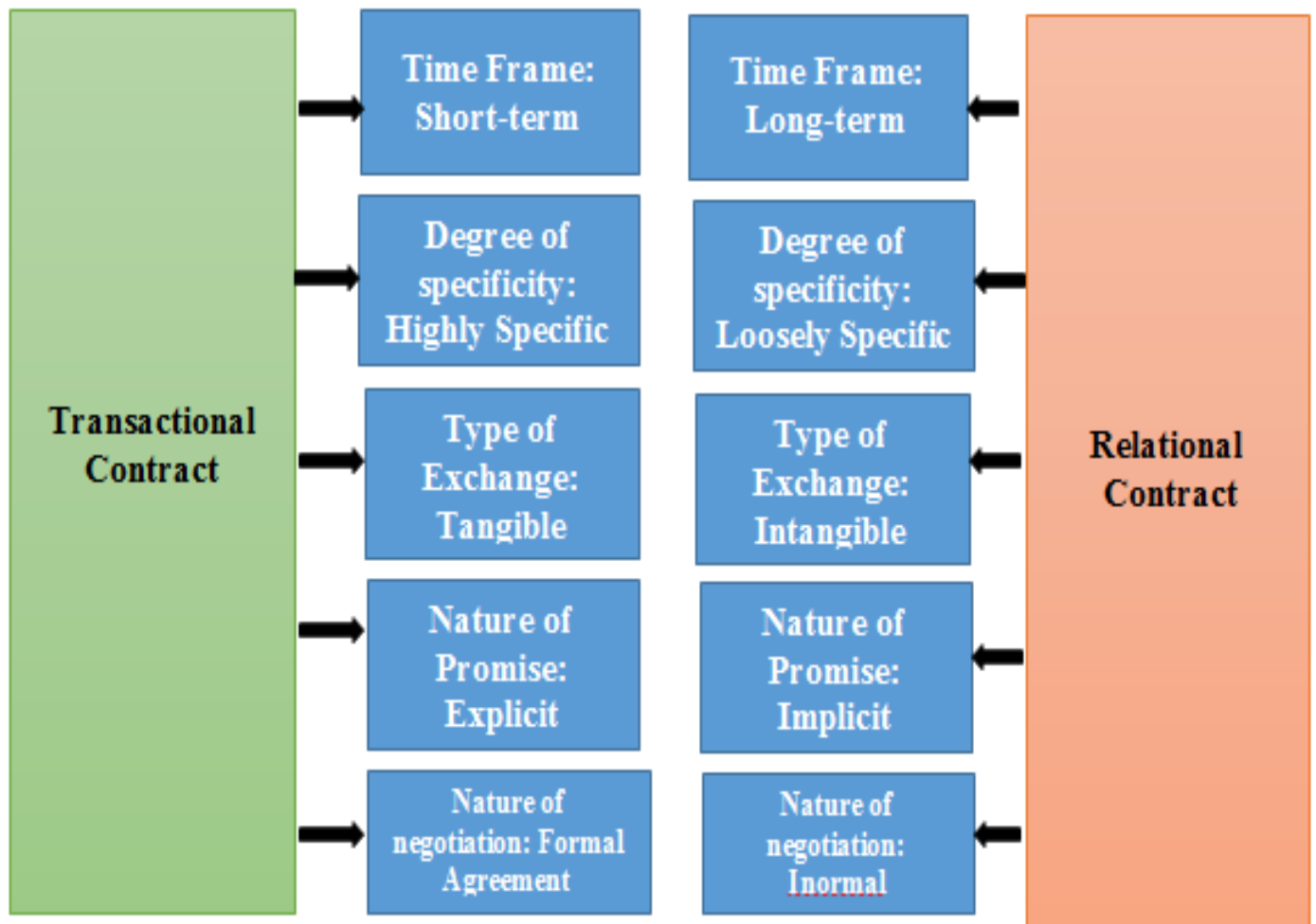


Figure: 2, Relational Contract, Source: Compiled by Authors

Conclusion:

In conclusion, the idea of psychological contracts is an essential lens for comprehending the complexities of contemporary job relationships. These contracts, which have their roots in the exchange of obligations between individuals,

have been thoroughly studied, highlighting their complexity. It is clear that psychological contracts are not consistent across the board, despite the fact that recent applications have advanced our understanding of these contracts in the context of

changing job dynamics. Instead, they take diverse forms for different people, with employers often participating in several contracts at once. Unquestionably, psychological contracts have an impact on how people interact and perceive one another at work, affecting both specific organisational dynamics and larger job-related dynamics. These agreements become more important when organisations work to adapt and advance in response to societal developments. Thus, psychological contracts continue to be a key component of the modern job landscape despite evolving societal trends marked by transition and change.

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