

Chapter 3E – THE PSYCHOLOGICAL CONTRACT: A BIG DEAL!

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3E.1 EXECUTIVE SUMMARY

Psychological contracts are the beliefs individuals hold regarding terms and conditions of the exchange agreement between themselves and their organizations. By filling the gaps between the formal contract and all that applies to the working relationship it reduces uncertainty, shapes behavior, and gives people a feeling about what happens to them in the organization. It can be seen as the foundation of the relationship originating during the recruitment phase and further developing the first few months after entry. If the organization succeeds in meeting the beliefs employees hold regarding the working relationship, the psychological contract is in a good state leading to job satisfaction, higher levels of commitment and more intentions to remain. If on the other hand employees perceive that the organization has failed to fulfill one or more obligations comprising the psychological contract, breaches occur. A variety of studies reveal the relationships between breaches and lower job satisfaction, trust, commitment, OCB, more emotional exhaustion, higher turnover intentions and turnover behavior. The psychological contract has shown its contribution in civil settings especially in respect to retention of personnel. Implementing the concept into military settings will help explain why recruits leave during initial training, satisfaction and commitment levels drop, and (intentions to) turnover rise.

3E.2 INTRODUCTION

Recruiting and retaining qualified personnel has become increasingly challenging for many North Atlantic Treaty Organisation (NATO) countries. These challenges, in part, stem from a shrinking youth population, increased labor market competition and greater educational opportunities and are multi-dimensional, inter-related, and highly complex. In an effort to identify causes and subsequent solutions to these intricate challenges NATO established a Human Factors and Medicine (HFM) task group (TG). The TG identified 10 fundamental areas systemic to the problem, and identified viable solutions within each area that could overcome the challenges of recruiting and retaining personnel in today's competitive market place. One such area is managing individual beliefs about implicit or explicit promises regarding the working relationship, commonly referred to in literature as the psychological contract.

In this chapter the role of the psychological contract and its importance in recruiting and retaining the “right” personnel is discussed. Given the paucity of military research in this area, the summary findings draw heavily on findings from academia. The chapter starts with a short history of the psychological contract. After that attention will be given to how the contract originates and develops. The chapter continues with the contents/dimensions of psychological contract, sorts of contracts, violations, and consequences of these violations. Furthermore the notion of a “New Deal” will be reviewed. The chapter ends with a discussion and practical implications.

3E.3 BRIEF HISTORY

The concept of a “psychological contract” was introduced in 1960 by Argyris; however, it was not until the mid 1980s and 1990s with the advent of corporate downsizing, mergers, and takeovers that the concept of the “psychological contract” was explored as a theory to explain resulting employee turnover behavior (Van den Brande, 1999).

In the early definitions of the concept, expectations from the individual as well as the expectations of the organization were incorporated. In 1989 Rousseau stated that these expectations are difficult to comprehend as a whole, but can be seen more like a multiple collective of diverse and differing expectations held by a set of actors (Anderson and Schalk, 1998). Therefore, Rousseau (1989) presented a narrower definition with the perspective of the individual as the central element: *“Psychological contracts are defined as the beliefs individuals hold regarding the terms and conditions of the exchange agreement between themselves and their organizations”* (Rousseau, 1995 pp 9). This accounts for the employees’ expectations of the organization and their ideas about what they feel they owe to the organization. In addition to the individual aspect, Rousseau also emphasizes the obligatory nature of the psychological contract.

3E.4 FUNCTION

The function of the psychological contract is reduction of insecurity. Inasmuch as all possible aspects of the employment relationship cannot be addressed in a formal, written contract, the psychological contract fills the gaps in the relationship. Furthermore, the psychological contract shapes behavior. Employees weigh their obligations towards the organization against the obligations of the organization towards them and adjust their behavior on the basis of critical outcomes. Finally, the psychological contract gives employees a sense of being able to influence what happens to them in the organization (McFarlane Shore and Tetrick, 1994, summarized in Anderson and Schalk, 1998).

3E.5 BASIS

Because psychological contracts involve employee beliefs about the reciprocal obligations between themselves and their employers, they can be viewed as the foundation of employment relationships (Rousseau, 1995; Shore and Tetrick, 1994). But how do these beliefs originate? Turnley and Feldman (1999) state that individuals generally form the expectations from two sources: their interactions with organizational representatives and their perceptions of the organization’s culture. During “anticipatory socialization,” organizational agents (recruiters, human resource managers) make specific promises to employees about what to expect from the organization (Feldman, 1976; Van Maanen, 1976). Employees’ perceptions of their organization’s culture and standard operating procedures also shape their beliefs regarding psychological contracts. Through expectations formed during recruiting and early experiences in the organization, the psychological contract develops.

3E.6 DEVELOPMENT

In the first three to six months after entering the organization, the rudimentary psychological contract will be brought more into reality (Thomas and Anderson, 1998). According to Rousseau (1995), newcomers usually have an overly positive view of the labor relationship. Their initial perceptions are characterized by high expectations towards the employer and lower expectations of themselves, which matches findings from the

“realistic expectations” literature (Louis, 1980). Though there is a substantial difference. Beliefs about what the job will be like have been investigated in terms of expectations (Wanous and Collella, 1989). Beliefs about implicit or explicit promises have been investigated in terms of psychological contracts (Anderson and Schalk, 1998).

In their study Sutton and Griffin (2004), showed that measures of both (met) expectations and psychological contract (violations) are distinct and meaningful. Results demonstrated that pre-entry expectations, post-entry experiences, and psychological contract violation independently explain a significant percent of variance in job satisfaction. The results also support job satisfaction playing a key mediating role between both experiences and contract violations and turnover intentions. Furthermore, they note that psychological contract violations can be assessed by a single contemporaneous measure, while met expectations need to be assessed by two distinct measures (pre-entry expectations and post-entry expectations) (Sutton and Griffin, 2004).

Unlike pre-entry expectations, psychological contracts are formed through interaction with the employer (Sutton and Griffin, 2004). The same holds for socialization literature, but De Vos and Buyens (2002) note that socialization literature concentrates on the integration of the newcomer within the organization and the acquisition of the required knowledge about the job and the organization culture. Psychological contract literature, on the other hand, focuses on the development of a realistic perception of the work *relationship* (Rousseau, 1995; Shore and Tetrick, 1994). In both instances, reducing uncertainty is central to the process and the exchange of information between employee and organization is emphasized.

As newcomers gain more experience within the organization, they will adapt their expectations more to reality. Based on that reasoning, Rousseau (1995) states that newcomers’ perceptions of organizational promises will weaken during the first months in their new jobs, while the perceptions of their own promises will increase.

3E.7 CONTENT AND DIMENSIONS

Psychological contracts are based on specific promises made by both parties and on generally accepted promises based on the general obligations of employers and employees. Even if an employer has not made specific promises in that regard, every employee appreciates clarity, fairness and good communication. Every employer appreciates employees dealing properly with confidential information and doing good work. In addition to general obligations, the psychological contract is further augmented with written agreements, such as employment contracts (Huiskamp and Schalk, 2002).

Objective employee characteristics play only a small part in both setting the terms of the psychological contract and in implementation. Context-specific differences between organizations, within organizations and among individuals are more important for the creation, development and evaluation of the psychological contract (Huiskamp and Schalk, 2002).

A thorough preliminary investigation of existing benchmarks and three studies (see also, De Vos, Buyens and Schalk, 2001; De Vos and Buyens, 2002) support conceptualizing the psychological contract as a multi-dimensional construct with five dimensions distinguishing organizational promises (see Table 3E-1).

Table 3E-1: Organization Promises

Organization Promises	
1) Career development	Offering possibilities for development and/or promotion within the organization (such as possibilities for development, chances of promotion)
2) Job content	Offering challenging, interesting job content (such as work in which employees can use their capacities, challenging tasks)
3) Social environment	Offering a pleasant and cooperative working environment (such as good communication among co-workers, good cooperation within the group)
4) Financial compensation	Offering appropriate compensation (such as remuneration commensurate with the work, conditions of employment that have favorable tax consequences)
5) Work-private life balance	Offering respect and understanding for the personal situation of the employee (for example, flexibility in working hours, understanding of personal circumstances)

Source: De Vos, Buyens and Schalk, 2001.

Along with organizational promises five dimensions for employee promises can also be distinguished (see Table 3E-2).

Table 3E-2: Employee Promises

Employee Promises	
1) Effort and performance	Willingness to make efforts to perform well for the organization (for example, making efforts for the benefit of the organization, doing good work both quantitatively and qualitatively, working well with co-workers)
2) Flexibility	Willingness to be flexible in carrying out the work that needs to be done (for example, working overtime, taking work home)
3) Loyalty	Willingness to continue working longer for the organization (for example, not accepting every job offer that comes along, working for the organization for at least several years)
4) Ethical conduct	Willingness to conduct oneself ethically towards the organization (for example, not making confidential information public, dealing honestly with resources and budgets)
5) Availability	Willingness to keep one's availability status at an acceptable level (for example, taking training courses that become available, keeping up with trade literature)

Source: De Vos, Buyens and Schalk, 2001.

Although everyone has expectations along the mentioned dimensions the focus on, and importance of, a dimension varies with the type of contract.

3E.8 SORTS OF CONTRACTS

Rousseau (1995) distinguishes between transactional and relational contracts. Two dimensions reflect the transactional psychological contract:

- a) Narrow involvement in the organization, limited to a few well-specified performance terms; and
- b) Short term duration, two to three years at most.

In contrast relational contracts are open-ended collaborations with only loosely specified performance terms. The ownership has significant implications for employee attitudes and workplace behavior.

In Table 3E-3, characteristics of transactional versus relational contracts are listed.

Table 3E-3: Continuum of Contract Terms

Transactional Terms		Relational Terms
Economic	Focus	Economic, Emotional
Partial	Inclusion	Whole person
Close-ended, specific	Time frame	Open-ended, indefinite
Written	Formalization	Written, unwritten
Static	Stability	Dynamic
Narrow	Scope	Pervasive
Public, observable	Tangibility	Subjective, understood

Source: Rousseau, 1995.

Transactional contracts can be characterized as easy-to-exit agreements with relatively high turnover. Lower levels of organizational commitment and weak integration into the organization allow for high member rotation and freedom to enter new contracts. With high affective commitment, strong member-organization integration, and stability built on the traditions and the history of the relationship, relational contracts exemplify many emblematic characteristics of paternalistic relationships. Relational obligations include mutual loyalty and long-term stability, often in the form of job security (Rousseau, 1995).

3E.9 VIOLATIONS

Violations or breaches of the psychological contract occur when an employee perceives that the organization has failed to fulfill one or more of its obligations comprising the psychological contract (Rousseau and Parks, 1993).

According to Rousseau (1995), breaches can take three forms: inadvertent, disruptive or renegeing (see Table 3E-4).

Table 3E-4: Forms of Breaches

Inadvertent	Able and willing (<i>divergent interpretations made in good faith</i>)
Disruption	Willing but unable (<i>inability to fulfill contract</i>)
Reneging	Able but unwilling (<i>deliberate breach of contract</i>)

Source: Rousseau, 1995.

Whether the victim understands the source of the breach to be unwillingness or inability to comply has a tremendous impact on how breach is experienced and what the victim’s response is (Bies and Moag, 1986).

3E.9.1 Causes of Violations

Although contracts can be breached in innumerable ways, there are a number of common forms. Recruiters may “over-promise” a job’s opportunity for challenge, growth, or development. At the same time; however, eager job seekers may read their own interpretation into a promise. Managers, co-workers, or executives who say one thing and do another can all engender breaches. A common cause of breaches for many employees involves a change in superiors. When one’s boss or mentor is promoted, terminated or retires, old deals may be abrogated. Similarly, changes in human resource practices, even with constructive intent can appear to break old commitments. Then the different contract makers express divergent intentions. A mission statement can convey that the organization rewards employees based on merit while the compensation system is based on seniority. Different contract sources may each convey mutually exclusive promises (Rousseau, 1995).

3E.9.2 Framework Responses on Violations

A framework for understanding situational constraints on employees’ responses to breaches of psychological contracts is provided by the exit, voice, loyalty, and neglect (EVLN) typology. This typology was originally developed by Hirschman (1970) and subsequently expanded upon by other researchers (e.g., Farrell, 1983; Rusbult, Farrell, Rogers and Mainus, 1988; Whitey and Cooper, 1989). This framework suggests that employees will respond to breaches of psychological contracts with:

- Increased exit (leaving the organization altogether);
- Increased voice (taking initiative with superiors to improve conditions);
- Decreased loyalty (decreasing the number of extra-role or “organizational citizenship behaviors” they engage in); and
- Increased neglect (putting in half-hearted effort, more absenteeism and lateness, less attention to quality).

This framework also suggests that different responses to breaches of psychological contracts may be more likely to occur in different situations (Turnley and Feldman, 1998). A study conducted by Turnley and Feldman supported the idea that breaches of psychological contracts have a pervasive negative effect on employees’ exit, voice, loyalty, and neglect behaviors. In general, breaches of psychological contract were most strongly related to measures of exit and loyalty and somewhat more weakly (although still statistically significantly) to measures of voice and neglect.

The situational factors moderated the relationship between breaches of psychological contracts and exit, but did not moderate the relationships between breaches of psychological contracts and voice, loyalty,

or neglect. A possible explanation of why people do not engage in voice or neglect behavior is that the situation may not allow them to act out their anger without injuring themselves further.

3E.9.3 Relationship with Job Satisfaction, Commitment and Turnover

More in general, many studies revealed the relationship between breaches, attitudes and workplace behavior. A meta-analysis between the relationship of psychological contract breach and organization – bonding, – commitment, turn-over intentions, job satisfaction and performance revealed that the less an organization meets the expectations of its employees, the more significant the consequences (Wanous, Poland, Premack and Davis, 1992). Schalk et al. (1995) concluded that a poor state of the psychological contract is related to lower commitment to the job and to the organization, less identification with the organization and higher turnover intentions. Further Robinson, Kraatz and Rousseau (1994) concluded that the occurrence of breaches was negatively related to trust, job satisfaction, and intentions to remain and was positively related with turnover.

A longitudinal study conducted by Robinson (1996) revealed a negative relationship between psychological contract breaches and “organizational citizenship behavior”, performance, intentions to stay with the employer and a positive relationship with turnover. Inasmuch as psychological contracts are formed on the basis of trust, breach may lead to strong emotional reactions and feelings of betrayal (Robinson and Rousseau, 1994). Less severe breaches also have consequences; however, such as higher turnover (Guzzo et al., 1994; Robinson and Rousseau, 1994), lower trust and job satisfaction (Robinson and Rousseau, 1994), lower commitment to the organization (Guzzo et al., 1994), and less Organizational Citizenship Behavior (OCB: Robinson and Morrison, 1995).

Bunderson (2001), to wind up with, argued that professional employees are more likely to respond to breaches of *administrative* role obligations, with feelings of dissatisfaction, turnover intention and actual turnover, whereas breaches in *professional* role obligations are more likely to result in lowered organizational commitment and job performance.

3E.9.4 Procedural Justice

Psychological contracts are closely related to organizational justice perceptions, specifically individual assessment of procedural fairness (Cropanzano and Prehar, 2001). Managers in organizations undergoing change, should, therefore consider employee perceptions of procedural justice, since these play a role in employee evaluations of psychological contract breach (Robinson, 1995; Turnley and Feldman, 1998).

3E.9.5 Health

Gacovic and Tetrick (2003) conclude in their study that while increased job demands are related to employees reporting more emotional exhaustion, when an organization lives up to its promises, employees experience less emotional exhaustion and are more satisfied with their jobs. Therefore, they suggest that perceptions of organization failure to fulfil obligations, or psychological contract breach, may be an important source of emotional exhaustion and job dissatisfaction.

3E.9.6 Transactional versus Relational

Robinson et al. (1994) state that psychological contracts became more transactional after the breach. The employee withdraws from the relationship and will pay more attention to financial and other economic

THE PSYCHOLOGICAL CONTRACT: A BIG DEAL!

aspects. Herriot and Pemberton (1996) agree with this, Stating that breaches of transactional contracts lead to explicit negotiations, or adjustment of own investment or quitting the job. Emotions play an important role in the case of breaches of relational contracts. Disappointment and distrust may develop, and as a result of this the contract may become more transactional. At the core of the change may be the re-evaluation downwards by the employee of what they owe to the organization relative to what it owes to them.

3E.9.7 Downsizing

Work force reductions can range from forceful in nature, i.e., involuntary reductions, to the milder approaches, such as resignation incentives and job sharing (Sutton and D'Aunno, 1989) – but even under circumstances where departures are voluntary, downsizing is considered as a destabilizer of status quo ante.

A stream of research, both laboratory and field, has provided documentation of the harmful effects downsizing can have on “survivors”. These effects have been described in terms of lower morale (e.g., Armstrong-Stassen, 1993), high stress (e.g., Leana and Feldman, 1992), and a “syndrome” marked by anger, envy, and guilt (e.g., Noer, 1993). Perceived fairness of the downsizing is considered a key mediating variable (e.g., Brockner, 1992), as is the effectiveness of the communication of information (e.g., Bridges, 1987).

Brockner et al. have studied the “fairness” of layoffs from a procedural justice perspective and shown a link between perceived fairness of the layoffs and survivor commitment to the organization (e.g., Brockner et al., 1994). Among the fairness factors that Brockner examines, is the connection with existing corporate culture. Organizations, which have traditionally managed to avoid layoffs, are likely to be perceived by employees as breaching the psychological contract and therefore as more unfair when they do resort to layoffs.

Parks and Kidder (1994) suggest that the changes are likely to create breaches of psychological contracts among the remaining employees. In turn, these employees are likely to reduce their commitment to the organization and to become poorer organizational citizens. Just when organizations need their employees to become more flexible and to work even harder, many employees may be less willing than ever to give their all for the good of the organization (Parks and Kidder, 1994).

3E.10 THE “NEW DEAL”

Until the last decade, the majority of organizations were described as hierarchical, bureaucratic, and the employment relationship as paternalistic. The organization’s structure and employees’ current and future place in it were clear. In exchange for loyalty, commitment, and acceptable levels of performance, employees received security, regular advancement opportunities, annual pay increases, reward for outstanding or loyal performance in the form of higher paid costs, additional benefits, and investment in training and development (Capelli, 1997; Pascale, 1995; Sims, 1994).

To control fluctuating demands for labor and increase the flexibility of the workforce, there has been a shift from permanent jobs to contractors, leased employees and temporary workers. As organizations focus less on long term performance, employees are recruited and retained for particular skills, often for only a short time (Herriot and Pemberton, 1996; Pascale, 1995).

The traditional working relationship characterized by a permanent, full-time job with regular working hours will therefore in the new labor condition be replaced by a big variety of contracts (Van den Brande et al., 2002). Theoreticians/Scholars and practitioners speak about this so-called changing working relationship in a sense of “the new employee” (De Korte and Bolweg, 1994), “a new protean career” (Hall, 1996; Hall and

Moss, 1998), “the boundaryless career” (DeFillippi and Arthur, 1994; Arthur, 1994) and “a new deal” (Herriot and Pemberton, 1994). For the psychological contract this means that the old key features (security, continuity, and loyalty) will be replaced more and more by (business-like) exchange aimed at employability for the near future (Anderson and Schalk, 1998). In the new psychological contract (Gasperz en Ott, 1996) the employer would value aspects like multi-deployability en mobility, as for the employees the broadening of competencies is important, with the aim at jobs elsewhere. The employee switches then from job security in the current organization to work security on the labor market.

Evidence suggest that the presumed “quantum shift in the balance of the reciprocal agreements between employers and employees” (Anderson and Schalk, 1998) is only partly the case. Huiskamp en Schalk (2002) concluded from their results that there were only few indications of the upcoming of a new psychological contract in The Netherlands. Researchers like Ebadan and Winstanley (1997) and Stevens (1995) found that workers of all age still had long term employment plans with their current employer. It further has been suggested that many organizations that demand changes in working practices have not changed other aspects of their culture, which the “new deal” requires and which might encourage the acceptance of employability. Rajan (1997) found that organizations had not clearly articulated the new values they are operating on. The carry over a mixed “baggage” of old and new culture and thus give out conflicting messages. The conclusion of a study that involved over 400 participants from 40 different organizations by Shape (2000) was that employability as a key feature has become a reality for only the minority, being the more privileged, highly educated and more ambitious group. Van den Brand et al. (2002) concluded likewise in their study that the transition from the traditional psychological contract to so called “new deals” was only the case for a small group of highly educated professionals and managers.

3E.11 SUMMARY AND PRACTICAL IMPLICATIONS

Psychological contracts are the beliefs individuals hold regarding terms and conditions of the exchange agreement between themselves and their organizations. By filling the gaps between the formal contract and all that applies to the working relationship it reduces uncertainty, shapes behavior and gives people a feeling about what happens to them in the organization. The relevance of Psychological Contract is clearly indicated by the various studies conducted as described in the foregoing.

3E.11.1 Basis

The basis of the psychological contract is already formed before individuals enter the organization. Expectations are formed from two sources: their interactions with organizational representatives and their perceptions of the organization’s culture. During “anticipatory socialization,” organizational agents (recruiters, human resource managers) make specific promises to employees about what to expect from the organization (Feldman, 1976; Van Maanen, 1976). Employees’ perceptions of their organization’s culture and standard operating procedures also shape their beliefs regarding psychological contracts. Through expectations formed during recruiting and early experiences in the organization, the psychological contract develops.

3E.11.1.1 Practical Implication

It is important that individuals, prior to and during organizational entry, receive accurate information. Not only should attention be paid to job contents, but also what the working relationship is like: what the individual may expect from the organization and what the organization expects to receive from the individual. The following table presents some topics that should be addressed during the entry process.

Table 3E-5: Managing the Psychological Contract

Topics to be addressed during the Entry Process
Specify expectations regarding performance
Specify review process and timeframe
Describe training (use examples)
Describe expected length of employment (e.g., how long in first job, typical length of employment)
Explore candidate expectations (reality check)
Check with candidate how accurately you have understood what he or she expects
Convey behavioral expectations (e.g., interpersonal task norms such as individual initiative or teamwork)

Source: Rousseau, 1995.

3E.11.2 Development

In the first three to six months after entering the organization, the rudimentary psychological contract will be brought more into reality (Thomas and Anderson, 1998). According to Rousseau (1995), newcomers usually have an overly positive view of the labor relationship. As newcomers gain more experience within the organization, they will adapt their expectations more to reality. Based on that reasoning, Rousseau (1995) states that newcomers' perceptions of organizational promises will weaken during the first months in their new jobs, while the perceptions of their own promises will increase.

This, however, was not found in a study conducted in military context. Thomas and Anderson (1998) studied the development of the psychological contract of new recruits in the British Army. Instead of a decrease with respect to employee expectations they found a significant increase. Within the first eight weeks the recruits heightened their expectations regarding job security, social and leisure time, effect on the family and accommodation. The authors were unable to determine what caused the increase in expectation. They suggested that it is possibly a result of the experiences that personnel have during the first weeks in respect to the high expectations that the army has of the recruits' contribution. Another possible explanation is that the recruits realized that the employer offers more possibilities in a number of areas than they had counted on initially. After the first few weeks, as a result, they have raised the level of their expectations in respect to those aspects (Thomas and Anderson, 1998).

Another study conducted in a military training context, stressing the importance of the development of the psychological contract, concerns a study amongst 556 Spanish newly hired professional soldiers. The decision to remain or leave the army and other attitudinal and behavioral outcomes, proved to be a function of the psychological contract breach during the training period, as far as two years afterwards (Topa and Palaci, 2005).

3E.11.2.1 Practical Implication

The rapid development of newcomers' psychological contracts during organizational socialization has implications for employers (Thomas and Anderson, 1998). Previous research demonstrated that relative stability of outcomes is achieved early in the socialization process (Ashforth and Saks, 1996; Bauer and Green, 1994), and that such outcomes are predicted by the psychological contract (Guzzo, et al., 1994). Based on this evidence, Thomas and Anderson (1998) recommend that employers attend to the dimensions included in employees' psychological contracts from the most rudimentary stage onwards, to encourage the

inclusion of realistic and desirable employer and employee obligations (Hiltrop, 1995; Robinson, 1995). Negotiation and renegotiation may be particularly important in developing a match between what both employees and employers want and offer.

3E.11.3 Content/Dimensions

A thorough preliminary investigation of existing benchmarks and three studies (see also, De Vos, Buyens and Schalk, 2001; De Vos and Buyens, 2002) support conceptualizing the psychological contract as a multi-dimensional construct. Five dimensions are distinguished for organization promises (career development, job content, social environment, financial compensation, and the work-personal life balance) and five dimensions for employee promises (effort and performance, flexibility, loyalty, ethical conduct, and availability).

3E.11.3.1 Practical Implication

In a survey of 1,331 employees in 27 organizations in The Netherlands, Huiskamp and Schalk (2002) asked respondents to describe the obligations they felt they owed to the organization and what obligations they felt the organization owed them. Furthermore, an evaluation was included of the degree to which agreements were fulfilled (see also, Schalk and Rousseau, 2001). It was found that employees felt obligated primarily to do good work, protect confidential information, providing good service and working together well. To a lesser degree, employees felt responsible for working overtime, not supporting competitors and doing non-mandatory tasks. Obligations that clearly score low were informing the organization that employees were looking for another job, and accepting another position within the company or accepting a transfer.

Employees found that employers had primary obligations for more ‘soft issues.’ Employees thought that employers had a strong obligation to take clear and fair measures, provide open and direct communication and provide a suitable salary and appreciation. This was more important to them than aspects of security, challenging and stimulating work, possibilities for promotion and compensation for exceptional performance. Training and development and a good working environment both received an average score.

The psychological contract appeared most fulfilled in the areas of good working environment, job and income security and training and development. The psychological contract was least fulfilled in the areas of open and direct communication, possibilities for promotion, and clarity and fairness. Huiskamp and Schalk (2002) note further that the level of meeting employers’ obligations is good primarily in relation to ‘traditional’ aspects such as good working environment, job and income security and training and development. The psychological contract is least well fulfilled in ‘modern’ aspects such as open and direct communication and possibilities for promotion.

Replicating the aforementioned study in military organizations will shed light into questions as: do soldiers value some obligations as being more important and differ soldiers in respect to this from (non-commissioned) officers. And to what level, and on which dimensions, is the psychological contract fulfilled. There are, though, some studies that have been conducted in the military in which the contents were subjected: Performance Management and the Psychological Contract in the Australian Federal Public Sector (2002) and Exploring the Psychological Contract of the Canadian Armed Forces (1999).

3E.11.4 Sorts of Contracts

Based on the job characteristics, duration and specification, contracts can be divided in transactional and relational. A short-term duration and a rather narrow involvement in the organization limited to a few well-

THE PSYCHOLOGICAL CONTRACT: A BIG DEAL!

specified performance terms characterize transactional contracts. Whereas relational contracts are open-ended with loosely specified performance terms, and compared to transactional contracts are more affective and stable (Rousseau, 1995).

3E.11.4.1 Practical Implication

Armed forces often offer two types of contracts: fixed-term contracts of various lengths and contracts for indefinite service (career personnel). Following the distinction between transactional and relational contracts, the fixed term contractors would have a more transactional contract and the permanent (career) contractors would have a more relational psychological contract. This implies that depending on the kind of contract (fixed or permanent) employees differ in the way they value aspects of the working relationship and what they feel the organization is obliged to them and reversibly what they feel are obliged to the organization. Characteristics of the different contracts and the way owners view their relationship with the organization are put out in Table 3E-6.

Table 3E-6: Characteristics of Different Contracts

<i>Transactional</i>	<i>Relational</i>
Little organizational loyalty	High organizational loyalty
Employees develop marketable skills	Employees develop company-specific-skills
Unstable employment	Stable employment
Flexibility/easy exit	Willing to commit to one company
Less willing to take additional responsibilities	High intent to stay with organization
Reward system focuses on short term	Members highly socialized

Source: Rousseau, 1995.

3E.11.5 Violations

Although there are significant differences in attitudes and workplace behavior; if expectations are being fulfilled, both transactional and relational contractors will produce productive behavior. But even with the best intentions from both the employer and employee, relations can break down and the psychological contract can be violated. Breaches occur when employees perceive that the organization has failed to fulfill one or more obligations comprising the psychological contract. A variety of studies reveal the relationships between breaches and lower job satisfaction, trust, commitment, OCB, more emotional exhaustion, higher turnover intentions and turnover behavior (e.g., Robinson, Kraatz and Rousseau, 1994).

3E.11.5.1 Practical Implication

Although contracts can be breached in innumerable ways, there are a number of common forms where organizations should be aware of.

To avoid psychological contract violation, employers need to fulfill the promises that they make regarding issues such as training and development, supervision and feedback, promotion and advancement, long-term job security, change management, power and responsibility, and work environment. Many of these issues are explicitly or implicitly addressed during the selection and recruitment phases (Sutton and Griffin, 2004).

Table 3E-7: Sources of Violation by Contract Makers and Systems

Sources	Violations
Contract Makers	
Recruiters	Unfamiliar with actual job, over-promise
Managers	Say one thing do another
Co-workers	Failure to provide support
Mentors	Little follow-through, few interactions
Top management	Mixed messages
Systems	
Compensation	Changing criteria
Benefits	Reward seniority, low job security
Career paths	Dependent on one's manager
Performance review	Not done on time, little feedback
Training review	Skills learned not tied to job
Documentation	Stated procedures at odds with actual practice

Source: Rousseau, 1995.

The content of the contract should, and does, evolve through formal and informal interaction between the two parties and places high demand for good communication skills on both employee and employer. Over time, it is likely that the separate psychological contracts that the employee and employer hold will differ, and this will necessitate the renegotiation of terms to avoid the perception of contract breach that may lead to a range of unwanted outcomes (Coyle-Shapiro and Kessler, 2000b).

3E.11.6 Responses on Breaches

A framework for understanding situational constraints on employees' responses to breaches of psychological contracts is provided by the exit, voice, loyalty, and neglect (EVLN) typology. This typology was originally developed by Hirschman (1970)

	Constructive	Destructive
Passive	Loyalty	Neglect
Active	Voice	Exit

Figure 3E-1: EVLN Typology as Responses to Violations.

This framework also suggests that different responses to breaches of psychological contracts may be more likely to occur in different situations (Turnley and Feldman, 1998). In general, breaches of psychological contract were most strongly related to measures of exit and loyalty and somewhat more weakly (although still statistically significantly) to measures of voice and neglect. A possible explanation of why people do not engage in voice or neglect behavior is that the situation may not allow them to act out their anger without hurting themselves further.

A study conducted by Turnley and Feldman (1998) supported the idea that breaches of psychological contracts have a pervasive negative effect on employees' exit, voice, loyalty, and neglect behaviors. Turnley and Feldman (1998) suggest that psychological contract violations may result in increased exit, increased neglect of in-role job duties, and a reduced willingness among employees to defend the organization against outside threats. Thus the negative consequences of psychological contract violations are likely to extend beyond just the hurt feelings of employees; psychological contract violations may result in behaviors that are damaging to organizations as well.

3E.11.6.1 Implication

The EVLN typology for understanding situational constraints on employees' responses to breaches of psychological contracts poses questions regarding responses to breaches in the military, even more during deployments. Because of the hierarchical structure and contractual obligations within the military, there is only limited space for active responses (e.g., voice and exit). Consequently responses are more likely to be passive (e.g., loyalty and neglect). Especially within the military the "neglect" response can have serious consequences.

3E.11.7 Transformation to All-Volunteer Armed Forces and Downsizing in General

A stream of research, both laboratory and field, has provided documentation of the harmful effects downsizing can have on "survivors". These effects have been described in terms of lower morale (e.g., Armstrong-Stassen, 1993), high stress (e.g., Leana and Feldman, 1992), and a "syndrome" marked by anger, envy, and guilt (e.g., Noer, 1993). Perceived fairness of the downsizing is considered a key mediating variable (e.g., Brockner, 1992), as is the effectiveness of the communication of information (e.g., Bridges, 1987).

Hickok (1995), for example, documented symptoms of survivor illness at an Air Force installation that had, up to the point of the research, experienced only voluntary departures. During the downsizing Hickok (1995) reported mentions of increased conflict were significantly greater than the more positive mentions of pulling together. That during periods of organizational decline work relationships can become more testy is also a finding of Mohrman and Mohrman (1983), who reported "backstabbing, placing of blame, and overt failure to cooperate".

3E.11.7.1 Implication

In economical lean years, besides companies, also the government is constrained to employ retrenchments. In most cases the defence budget is not spared. Besides retrenchments defence organizations can be transformed to all volunteer armies. In both cases the organization will be confronted with downsizing. In the case of transformation to an all-volunteer army it will mostly concern career personnel. After the announcement and during the transition there will be a heightened perception of job insecurity – but also after the operation is over, feelings and attitudes of the survivors can be altered.

3E.11.8 A New Deal?

To control fluctuating demands for labor and increase the flexibility of the workforce, there has been a shift from permanent jobs to contractors, leased employees and temporary workers. As organizations focus less on long term performance, employees are recruited and retained for particular skills, often for only a short time (Herriot and Pemberton, 1996; Pascale, 1995).

Consequently for the psychological contract this means that the old key features (security, continuity, loyalty) will be replaced more and more by (business-like) exchange aimed at employability for the near future (Anderson and Schalk, 1998). In the new psychological contract (Gasperz en Ott, 1996) the employer would value aspects like multi-deployability en mobility, as for the employees the broadening of competencies is important, with the aim at jobs elsewhere. The employee switches then from job security in the current organization to work security on the labor market.

3E.11.8.1 Implication

Based on Hiltrop (1995) and further developed and extended by Anderson and Schalk (1998) Table 3E-8 presents the presumed shifts in the balance of the reciprocal ‘agreement’ between employers and employees.

Table 3E-8: Past and Emergent Forms of the Psychological Contract

Characteristic	Past Form	Emergent Form
Focus	Security, continuity, loyalty	Exchange, future employability
Format	Structured, predictable, stable	Unstructured, flexible, open to (re)negotiation
Underlying basis	Tradition, fairness, social justice, socio-economic class	Market forces, saleable, abilities and skills, added value
Employer’s responsibilities	Continuity, job security, training, career prospects	Equitable (as perceived) reward for added value
Employee’s responsibilities	Loyalty, attendance, satisfactory performance, compliance with authority	Entrepreneurship, innovation, enacting changes to improve performance, excellent performance
Contractual relations	Formalized, mostly via trade union or collective representation	Individual’s responsibility to barter for their services (internally or externally)
Career management	Organizational responsibility, inspiring careers planned and facilitated through personnel department input	Individual’s responsibility, inspiring careers by personal reskilling and retraining

Source: Anderson and Schalk, 1998.

Studies conducted until now (e.g., Van den Brand et al., 2002) conclude though that the transition from the traditional psychological contract to so called “new deals” is only the case for a small group of highly educated professionals and managers.

The notion of a new psychological contract as a consequence of economical, political and social changes is a feasible one. However until now there is only some evidence for a changed psychological contract concerning a high potential group (i.e., young officers). Contemporary and future *value* research may be at the basis of exploring new relevant features. The younger employees who are now entering the job market (i.e., potential soldiers) may have other career expectations compared to employees who are working right now.

3E.12 CONCLUDING REMARKS

The psychological contract is a very subjective concept which influences employees' beliefs and behavior in the workplace. From the recruitment stage of an employee's work to retirement or resignation, it can have a profound effect on the attitudes and well-being of an individual. Although it is an unwritten contract it has a central role in work behavior by better specifying the dynamics of the employment relationship. It is clearly an important ingredient in the business relationship between employers and employees and can be a powerful determinant of workplace behavior and attitudes. The military would gain a great deal when taking into consideration the psychological contract and its abundant implications.

Table 3E-9: Overview Practical Recommendations of the Research Reviewed

Topic	What the research says	Practical explanation of the research	Recommendation(s) to address the issue
Basis	The basis of the PC is already formed before organizational entry.	Expectations are formed by interactions with organizational representatives and by perceptions candidates have of the organizational culture and the standard operating procedures.	<ol style="list-style-type: none"> 1) During the entry process attention needs to be paid to specifying expectations and describing what the candidate may expect. 2) Explore the candidate's expectations (reality check).
Development	During organizational socialization the PC rapidly develops and becomes more stable.	During the first three till six months (mostly General Military Training) the employees' perceptions of the mutual promises will crystallize and remain effective for the upcoming years.	<ol style="list-style-type: none"> 3) The organization should attend to employees PCs from the most rudimentary stage onwards to encourage the inclusion of realistic and desirable employer and employee obligations. 4) Negotiation and renegotiation may be important in developing a match between what the employee and employer want.
Content	The PC can be conceptualized as a multi-dimensional construct with both five dimensions for organization promises and five dimensions for employee promises.	Employees have clear expectations on five areas of the working relationship being; career development, job content, social environment, financial compensation, and work-personal life balance. The employee on the other hand feels obliged to return effort and performance, flexibility, loyalty, ethical conduct, and availability.	<ol style="list-style-type: none"> 5) Make sure that employees are fairly met on the five organization areas. In return employees feel obliged to meet the organization on the employee areas. 6) Ensure that these areas of the working relationship are attended during consultations and being covered in surveys.

THE PSYCHOLOGICAL CONTRACT: A BIG DEAL!

Topic	What the research says	Practical explanation of the research	Recommendation(s) to address the issue
Sorts of contracts	Based on job characteristics, duration and specification contracts can be divided in transactional and relational. Short term duration (2 – 3 years) and well-specified performance terms characterize transactional contracts Whereas relational contracts are characterized by open-ended contracts with loosely specified performance terms.	Transactional contractors (fixed-term contractors) are more focused on instrumental aspects of the job like reward systems and acquiring marketable skills. Whereas relational contractors (career personnel) are more focused on non-instrumental aspects and include mutual loyalty.	7) Personnel policies aimed at fixed term contractors should well provide in instrumental aspects of the job. For career personnel also non-instrumental aspects are important.
Violations	Perceived failure by the employee to fulfill one or more obligations comprising the PC will result in contract breach.	Breaches have strong relationships with lowered job satisfaction, lowered commitment, and higher turnover (intentions).	8) To avoid breaches, pay attention to common sources of violations as well for contract makers (e.g., recruiters) as for systems (e.g., career paths) (see Table 3E-7). 9) Try to keep informed about contract fulfillment of your personnel and leave room for renegotiation.
Responses on violations	The EVLN typology is a framework for understanding employee’s responses to breaches.	Dependent on situational constraints employees respond to breaches by exit, voice, loyalty or neglect.	10) Make sure that there is always a possibility for the employee to respond with voice. 11) This is even more important during deployments because of the constraints to respond in another manner (exit) and the severe consequences it can have (neglect).

Topic	What the research says	Practical explanation of the research	Recommendation(s) to address the issue
New deal	To control for fluctuating labor demands and to increase the flexibility of the workforce, there has been a shift from permanent jobs to temporary contractors.	For the PC this means that old key features (security, continuity, loyalty) will be replaced more and more by business-like exchange aimed at employability. Evidence until now though has only been found for a smaller group of highly educated professionals and managers.	<p>12) If the organization can't provide in old key features, effort should be invested in providing opportunities for the employee to broaden competencies with the aim of finding a job after the contract.</p> <p>13) Contemporary and future value research is needed to be sure that the organization is able to meet the requirements to be an attractive employer and to be able to recruit and retain enough qualified personnel.</p>

