Psychological Contract: Implicit Agreement Whose Violations Have Real Consequences

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Psychological Contracts (PCs) are largely implied understandings between employees and employers. Some items are not in writing but reflect a worker's perception of benefits beyond pay in exchange for work done.

A large part of PCs have no legal status, so there is no direct recourse if they are not provided. Sometimes, however, they may derive some enforceable basis from age, gender, and race laws against discrimination.

Productivity and quality assurance repercussions by emotionally distraught workers will be addressed here. Spiritual, ethical, moral, political, and other non economic issues are not my focus, because they involve personal values. I will argue PC adherence is good business.

Employees' Needs and Expectations

Employees seek job security. Employers want workers that are committed, loyal, go the "extra mile," and do not actively seek other jobs when they are employed. Lifetime employment was once expected and personnel were developed to be well integrated within the organization. PC benefits were expected to enhance *company loyalty*. Personal independence and mobility were discouraged.

This became apparent to me more than thirty years ago when I asked a corporate educational advisor if I could get reimbursed for professional engineering review courses. Not only did the HR representative say "no" but gave me a lecture on how it was a waste of my time to pursue a P.E. license. He said I should take direct job-related courses.

Corporate regimentation can be mutually advantageous when and employee works for the same company from cradle to grave, so to speak. Now, for many reasons, we have entered an age where multiple employers are the norms.

It is unlikely there will be a return to the codependent post-WWII relationship between employees and employers. Therefore, Psychological Contracts need to be better understood and made more open. They can no longer be left to tradition and chance, and remain unstated.

Updated PCs are needed that are balanced and adhered to, as they are presently being violated. These expectations need to be understood, acknowledged, and managed.

To facilitate this, organizations need to pay attention to assuring that their PC is more realistic. Once trust is violated, it is hard to restore loyalty. **Violations of basic PC expectations and the long-term consequences are one of the *least* considered elements of corporate change.** It behooves management to address this unawareness.

Management must realize the necessity of understanding what is really happening within an organization. As most preparations for major corporate changes are carried out in secret, it fosters distrust. Workers become disenchanted and will not be obvious in the ways they reduce support for or even sabotage their organization.

History of Psychological Contracts

The Psychological Contract was first defined in 1960. During the next few years academics theoretically, but not empirically, explored PCs. Serious applied research was neglected until the 1990s. Early on, further understanding of the contract was not motivated by current events.

American industry flourished for decades following World War II. The demand for goods and services exceeded the supply. Education became a growth industry to meet the demands of discharged military personnel on the GI Bill. New family formations produced a "baby boom."

There was a period of unbridled postwar expansion. Organizations grew, hired new employees, and promoted many already on board. It was widely expected that loyal staff would retire from their one lifetime job, especially if they were white-collar and professional hires.

By the 1980s there was an apparent shift away from traditional guarantees of lifetime employment. There were major layoffs in the 1960s, such as large military base closings, but it would be another generation before downsizing became popular. When many companies cut staff, we became aware of serious problems with not considering workers' employment expectations.

Revamping of organizations took hold and gained respectability with the publication of a book: In 1993, Michael Hammer and James Champy gave credibility to widespread downsizing with *Reengineering the Corporation*, a *New York Times* bestseller for six months. It advocated and institutionalized drastic changes in the makeup of corporations and credulous reasons were cited. Fashionable companies restructured, right sized, globalized, and used other terms that led to early termination.

Being terminated was seen as the first major violation of the Psychological Contract. Less staff led to a shrinking management pyramid and limited opportunity for advancement. As cost-cutting measures grew, reduction in training, health and retirement benefits followed. While some companies made efforts to ease the "transition" of displaced workers, there was little attention paid to the *survivors* of downsizing.

The Future of Psychological Contracts

The intent of this essay is to raise awareness of Psychological Contracts. Although almost a half century has passed since they were defined, they have only been seriously studied for less than two decades. We now know that employees feeling their *implied* contract was violated will appear to work hard and put in more hours — *but* produce less work and that has lower quality.

Revitalizing the PC will require much work and effort. The postwar agreement was gratifying to both employer and employee. The expectation of lifetime employment plus substantial benefits, ending with a generous company retirement plan, produced good corporate citizens. Workers, in return, identified with the company, lauded it to their friends, worked longer hours, thought about the job off-hours, and provided extra higher quality work.

The Essential Psychological Contract

A basic postwar Psychological Contract provided for challenging and interesting work, training, promotional opportunities, and competitive wages.

Wages alone tend to reflect the market because they can be short-term. Remarkably few companies effectively use wages strategically to develop a loyal, stable workforce. This is evident in entry-level jobs where hourly rates offered increase during labor shortages and decrease when it becomes an employer's market. This effect can be observed on the hiring signs in front of fast-food franchises when available labor is in short supply. Supply-demand economics prevails, not workforce development.

Exceptions to this rule are evident when the same faces are seen at retail checkouts over the years. Other companies eat up any salary gains with inefficiency, turnover, recruitment, hiring, and training costs.

In addition to wage attraction, there are at least five factors that enter a **Psychological Contract menu:**

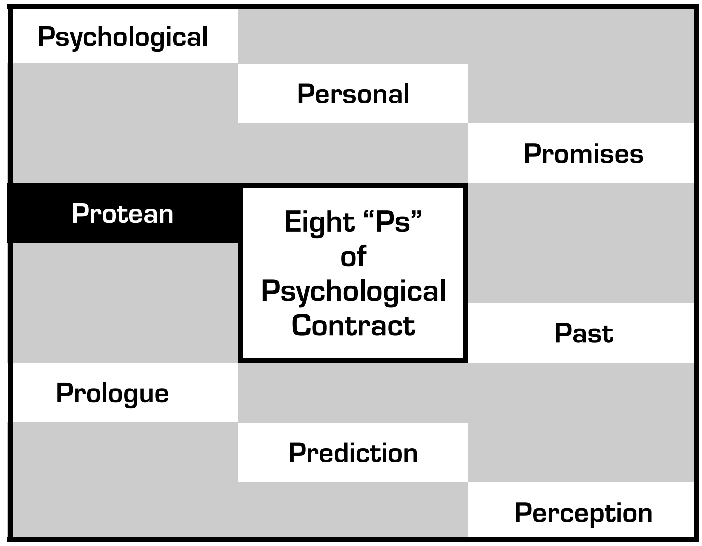
1. **Benefits**
   (e.g., vacation, sick days, health, retirement, and tuition reimbursement).
2. **Opportunities and Recognition**
   (e.g., promotion, training, advancement, pay, bonuses, and rewards).
3. **Work Assistance**
   (e.g., sufficient resources and adequate equipment).
4. **Job Definition**
   (e.g., reasonable work and hours, security, and well-defined responsibilities).
5. **Career Enhancement**
   (e.g., challenging, meaningful, and interesting work; mentors and career guidance counselors; opportunities to be innovative, creative, have control, and exercise responsibility).

Elements of the Psychological Contract

The visual diagram in the next column illustrates eight key considerations for the Psychological Contract that are outlined and discussed below.

Start at the upper left **psychological** block and proceed clockwise. How items on this menu are valued and interpreted by the employee is **personal**. His or her employer may not recognize the same responsibilities. The Psychological Contract is based upon both actual **promises** and **past** experiences and expectation of each person. As such, the Psychological Contract is a **perception** on the part of employees. It may or may not be a shared view of the employer. It is an anticipated **prediction** of how we will be treated in the future. We feel unfairly treated when our expectations are violated. When we feel wronged, it is considered a **prologue** to future betrayal by our employer.

Protean employees have been suggested. A protean person, however, is devoted to his or her own personal change and does not buy into the long-term stability and security aspects of a single lifetime employer. This may be a difficult cultural change for organizations to accept.



Considerations for Leaders and Managers

The history of restructuring has not been good. Many examples show further decline after corporate restructuring. A success rate of 50 percent, even less, has been reported. The much repeated lesson from business history is that one group's solution cannot be arbitrarily plugged into another organization.

Organizations that are considering "reengineering" because of a changing business environment might reconsider the value of downsizing. Long-term company survival and health, and not just short-term stock prices, require considering all alternatives.

If a company is not going to assume lifetime responsibility for its constituents, it must allow them to look out for themselves. Keeping secrets will have to be carefully considered, for most fair exchanges are aboveboard.

When a work environment is good, few people will leave. I have worked with "job shoppers" (i.e., temporary employees), who spoke of leaving a place for a nickel an hour more, and tenaciously hung onto their present job. When large numbers of people leave, it is usually because of pervasive and persistent negative conditions.

Successful reorganizations have incorporated some basic approaches to all staff. Communication, rapport, trust, fairness, and truth are common characteristics. Employees need substantial and adequate information.

To assist management, evaluation tools exist. Employees' attitudes can be surveyed with existing questionnaires that measure job insecurity, organizational and career loyalty, job search behavior, organizational citizenship behavior, effort, and job security attitudes. Some of these were designed for outside independent research, but instruments and other methods can be modified for in-house surveys with some success.