

Psychological contract and Latent Function

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ABSTRACT

A psychological contract means the mutual beliefs, perceptions, and informal obligations between an employer and an employee. It sets the dynamics for the relationship and defines the detailed practicality of the work to be done. It is distinguishable from the formal written contract of employment which, for the most part, only identifies mutual duties and responsibilities in a generalized form. The employment relationship emerges through the interpersonal relationships formed in the workplace. How employers, supervisors and managers behave on a day-to-day basis is not determined by the legal contract. Employees slowly negotiate what they must do to satisfy their side of the bargain, and what they can expect in return. This negotiation is sometimes explicit, like in appraisal or performance review sessions, but it more often takes the form of behavioral action and reaction through which parties explore and draw the boundaries of mutual expectation. Hence, the psychological contract determines what the parties will, or will not do and how it will be done. When the parties' expectations match each other, performance is likely to be good and satisfaction levels will be high. Latent function is any function of an institution or other social phenomenon that is unintentional and often unrecognized. Latent effect is the effect or result which is unintended and unrecognized.

Keywords: psychological contract, employment relationship, latent function and effect.

INTRODUCTION

The contents of a psychological contract refer to the promises employees believe they have made to their organization and what the employees believe the organization has promised in return. In other words, it is about what is actually in the deal between the employee and their organization — what is exchanged for what, rather than the process of how the psychological contract operates. The contents of psychological contracts are important because forming certain types of deals with different sorts of contents is likely to lead to more or less positive employee and organizational outcomes, such as job satisfaction and job performance. This paper explains what is meant by, and evaluates empirical support for, the contents of the psychological contract; considers the factors that form perceptions of promises and obligations; and examines how the contents have been categorized and related to outcomes. Many perhaps overlook the exchange agreement between employee and employer but it is a crucial relationship warranting attention and consideration. In a business world heralded by insecurity and transforming at an exponential rate it is vital for employers to develop stable and effective relationships with their employees. The concept of the psychological contract pinpoints underlying processes regarding expectations within the employee-employer relationship.

LITERATURE REVIEW

The employment relationship can be described as an exchange relationship (Mowday, Porter, and Steers, 1982), which runs the entire contract spectrum from strictly legal to purely psychological (Spindler, 1994). Many aspects of the relationship between an organisation and its employees are covered by legislation, enterprise agreements or an employment contract signed by the employee detailing aspects such as hours, salary and benefit plans. However, there are always likely to be aspects of the employment relationship which are confined to the subconscious (Spindler, 1994). This 'hidden' aspect of the employment exchange (Eisenberger, Huntington, Hutchison, and Sowa, 1986; Greenberg, 1990) has come to be known as the psychological contract (Argyris, 1960; Schein, 1980; Rousseau, 1989).

The psychological contract can be described as the set of expectations held by the individual employee which specifies what the individual and the organisation expect to give to and receive from each other in the course of their working

relationship (Sims, 1994). As such, psychological contracts form an important component of the relationship between employees and their organisations.

Psychological contracts differ from other types of contracts not only because of the innumerable number of items they may contain but also because the employee and the employer may have differing expectations in respect to the employment relationship. Few items which make up the psychological contract are likely to have been specifically discussed so most items are only inferred and are subject to change as both individual and organisational expectations change (Goddard 1984; Rousseau 1990; Sims 1990; 1991; 1992). Whilst the individual employee believes in a specific type of psychological contract or reciprocal exchange agreement, members of the organisation may not share the employee's understanding of the contract (Rousseau and McLean Parks 1993).

Based on a wide range of relevant literature Maguire (2001) developed a three-tier model of the psychological contract. The model proposes that, at the most basic level, employees were assumed to contribute reasonable levels of pressure and responsibility, incorporating reasonable hours, manageable workload, moderate levels of stress, appropriate autonomy, reasonable span of control, manageable range of duties and appropriate responsibility in return for appropriate levels of rewards like appropriate level of pay, suitable working conditions, job satisfaction and the opportunity to demonstrate competence. This aspect of the psychological contract is referred to as the transactional component (Rousseau and Wade-Benzoni, 1994).

Organisational change may impact heavily upon employees' psychological contracts. When change occurs, social information processing theory suggests that employees will alter their perceptions of what they owe the employer and what they are owed in return (Salancik and Pfeffer, 1978; Robinson, Kraatz and Rousseau, 1994). As the human resource practices of an organisation respond to changing environmental conditions and as employees gain experience, they will reappraise their existing psychological contracts in order to reevaluate and renegotiate both their own and their employer's obligations (Rousseau and McLean Parks, 1993). This scanning process commonly results in a sense of employee outrage (Rousseau and Greller, 1994b) as a reaction to the fact that employees are being asked to bear risks which were previously carried by the organisation or to increase effort without reward systems compensating for such a situation. Employees' ability to predict the rewards likely to be received in return for time, effort, loyalty and commitment is decimated.

To retain balance in the effort exchange, in organisations experiencing employment market slack, employees are unlikely to decrease effort in the post restructuring work environment because of the lack of alternative employment opportunities. Hence it is likely that relational aspects of employee input are likely to be affected. Commitment is likely to feature amongst these relational aspects. Commitment can be defined as 'the relative strength of an individual's identification with and involvement in a particular organisation characterised by strong acceptance or a belief in an organisation's goals and values; willingness to exert effort on behalf of the organisation; and a strong desire to maintain membership of the organisation (Mowday, Porter, and Steers 1982). The first characteristic of commitment i.e. 'belief in an organisation's goals and values' is often operationalised in terms of attachment or pride in the organisation (Cook and Wall, 1980) and is commonly referred to as affective commitment. The desire to maintain membership of the organisation can be operationalised in terms of past and future tenure intentions and is referred to as continuance commitment (Meyer and Allen 1984). Continuance commitment can often be maintained by a lack of alternatives to the employees' current jobs (Newell and Dopson 1996). Newell and Dopson refer to this situation as negative attachment. They suggest that in times of rationalisation, managers in particular are likely to move from affective to continuance commitment and possibly negative attachment.

Research has shown that organisations can reduce any negative impact on the psychological contract of organisational change. An empirical study of organisational change and the impact on the psychological contract conducted by Maguire (1999) found that it is not so much the change in employees' jobs or career prospects which destroy commitment, loyalty and trust in management but rather the opportunity employees have had for input into the process, their perceptions of management competence and their sense of belonging to the organisation together with their commitment to and satisfaction with the change process itself.

OBJECTIVES

- To study psychological contract as latent effect of legal contract.
- To study how psychological contract is different from other contracts.
- To study the contents, aspects and impact of psychological contracts.

CONCLUSION

The relationship between organisations and their employees has undoubtedly undergone dramatic change in recent decades. Careful research may be needed by organisations into the types of rewards that will attract employee loyalty and both affective and continuance commitment, and into the content, operation and organisational advantages offered by the psychological contract. The legal contract entered upon by an employer and an employee has its consequences and effects that are manifest, however there is a latent effect to that, i.e. psychological contract.

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