



## PSYCHOLOGICAL CONTRACT AND ITS CONSEQUENCES WHEN VOILATED: EMPLOYEE'S PERSPECTIVE

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### Abstract

Psychological contract refers to mutual unwritten expectations that exist between an employee and his/her employer regarding policies and practices in their organization. Psychological contract influences the job attitudes and performance of employees. This study aims to develop a deeper understanding about psychological contract and employment relationship and its consequences when violated. The study revealed that the relations between contract breach & trust and organizational Commitments were indeed stronger for younger workers, whereas the relation between contract breach and job satisfaction was stronger for older workers. Relational contract was dominant in the Education sector organizations under study. Employees' commitment/obligation to employers was higher than employers' commitment/obligation to employees. Employees' relationship with employers was also stronger than employers' relationship with employees.

**Keywords:** *Psychological Contract, Psychological Contract Breach, Consequences, Relational and Transactional Contract.*

### PSYCHOLOGICAL CONTRACT

When an individual employed in an organization, many legal contracts (Written) are signed where both the employee and the organization develop expectations with each other. What many employees do not realize is that they are also forming another contract that is not written on paper nor articulated. This contract is called a psychological contract. It plays a vital role in how employees perceive their organizations as well as how they will perform.

Psychological contract has now become an accepted part of the thinking and vocabulary of human resource practitioners. Relationships between employers and employees in many modern Indian organizations resemble a marriage under stress, characterized by poor communication and low levels of trust. Neither is getting the full benefits from the employment relationship, which has to be a top priority for organizations. Getting people to turn up for work is the easy bit. Getting them to go the extra mile requires effort and imagination

### DEFINITION OF PSYCHOLOGICAL CONTRACT

Rousseau (1989, 1995) defined the psychological contract as the employees' beliefs concerning mutual obligations between the employee and the organization (see for a comprehensive review of the concept, Conway & Briner, 2005). When the organization does not fulfill its obligations, employees may experience psychological contract breach. Contract breach is defined as the cognitions of an employee that the organization has failed to deliver its obligations (Morrison & Robinson, 1997). An affective reaction may follow, including feelings of anger and betrayal (i.e. contract violation; Robinson & Morrison, 2000). The current study follows this distinction between breach and violation, as made by Morrison and Robinson (1997). Breach refers to the cognition that the organization has failed to fulfill its obligations, whereas feelings of violations refer to the affects following breach.

### TYPES OF PSYCHOLOGICAL CONTRACTS

According to Rousseau & Wade-Benzoni, there are four distinct kinds of contract we can use to define the kind of employee-employer relationship.

1. **Relational**—long-term or open-ended employment arrangements based upon mutual trust and loyalty. Rewards are only loosely conditioned on performance, derive from membership and participation in the organization.
2. **Balanced**--dynamic and open-ended employment arrangements conditioned on economic success of firm and worker opportunities to develop career advantages. Both worker and firm contribute highly to each other's learning and development. Rewards to workers are based upon performance and contributions to firm's comparative advantages, particularly in face of changing demands due to market pressures.
3. **Transactional**—employment arrangements with a short-term or limited duration, primarily focused upon economic exchange; specific, narrow duties and limited worker involvement in organization.



4. **Transitional**—not a psychological contract form itself, but a cognitive stated reflecting the consequences of organizational change and transitions that are at odds with a previously established employment arrangement. To operationalize these four dimensions in a manner that produces scales with high convergent and discriminate validity, I elected to further sub-divide each dimension into conceptually homogeneous components

## REVIEW OF LITERATURE

- “Psychological Contract and Employment Relationship” by Harold Andrew Patrick. The article focuses on psychological contract and employment relationship amongst employees serving IT industry in India by measuring psychological contract variables. In the article the author has made the comparative study of psychological contract variables and their relationships to find out the significant differences in psychological contract variables across the demographic groups. According to author’s opinion psychological contract study has revealed that relational contract was dominant in the IT companies under study. Employees’ commitment/obligation to employers was higher than employers’ commitment/obligation to employees. Employees’ relationship with employers was also stronger than employers’ relationship with employees.
- “Psychological and Implied Contracts in Organizations” by Denise M. Rousseau. In the article the author has derived two forms of unwritten contract by studying the relation between the organization and its employees that are psychological and implied contracts. In this article the author has discussed the role of these contracts in the organization. The study mainly focuses on employee-employer relationship. In this study author suggested that if employer focuses more on the relationships with their employee then they will have a better workplace for both of them.
- “Psychological contract violation beyond an employees’ perspective: The perspective of employers” by Sara J. Nadin. In this article author studied psychological contract from employer’s point of view. Analysis is done on primary data collected by interviewing small business owners. The study reveals that much disruption and damage was caused to employers when violation done by employees and employers make continuous attempts to resolve such situation that provokes violation from employee’s side.
- “The effects of psychological contract breach on job outcomes” by Nichole Simone Ballou. In an article author studied the effect of breach of psychological contract on attitudinal and behavioral job outcomes. Along with that study also examined that there is significant effect of breach of psychological contract on these job outcomes based on the type of psychological contract an employee had (i.e., transactional or relational).

## OBJECTIVES OF THE STUDY

1. To study the concept of Psychological contract.
2. To observe the consequences of violation of psychological contract between employer and employee.
3. To find out the employee’s perspective in this regard.

## RESEARCH METHODOLOGY

### Collection of data

In present study the first two objectives were fulfilled through secondary data collected from various websites, Magazines, text books and Journals and are descriptive in nature. Last objective is accomplished through survey method. The primary data was collected through structured questionnaire. Questionnaire was adapted from Psychological Contract Scale (Millward & Hopkins, 1998) and Psychological Contract Inventory (Rousseau, 1995).

### Area and time of Survey

Study aimed at developing a deeper understanding about psychological contract and employment relationship amongst employees serving in Education industry of Lucknow region. The time of survey execution was January 2015 to April 2015.

### Size of the Sample & Sampling Procedure

The researcher had administered 190 questionnaires out of which 175 responses were received. 5 Different educational institutes has been taken as a stratification variable to form a stratum (location-wise) and by using stratified random sampling a sample was drawn from each branch to acquire information for (a) measurement of psychological contract variables, (b) studying the relationships among psychological contract variables; (c) finding out the significant differences in psychological contract variables across the demographic groups.

## PSYCHOLOGICAL CONTRACT BREACH AND ITS CONSEQUENCES

A violation occurs when one party in a relationship perceives another to have failed to fulfill promised obligation(s). Since



contracts emerge under assumptions of good faith and fair dealing (MacNeil, 1985) and involve reliance by parties on the promises of the other, violations can lead to serious consequences for the parties involved.

Psychological contract breach is a subjective concept (Rousseau, 1995), individual traits can exacerbate or buffer the negative effects of contract breach on outcome Morrison & Robinson, 1997; Rousseau, 1995). While results of another study (Agarwal, Upasna A. "Examining Psychological Contract Breach-Outcomes Relationship: Moderating Role of Individualism." *Vikalpa* 39.2 (2014): 99.) found moderating effects of education and tenure on Psychological Contract Breach-Outcome relationship. Contrary to Bellou (2007), who found that employees with shorter tenure are less demanding of employment relationship, the results of this study suggests that the negative effects of Psychological Contract Breach on employee's affective commitment were stronger and more intense for employees with shorter tenure in the organization. This is in line with the social impact theory (Latane, 1981), which suggests that the extent of social influence that any individual has over others is a function of, among other factors, the proximity in time and space between the relevant parties, which has been labeled "immediacy." The longer member remains in an organization, the more he/she gets attached to it and this continuity and long tenure in the organization dampens the intensity of employee's negative reaction to incidences Affective Commitment to ignore the situation but to approach it proactively.

This study (Agarwal, Upasna A. "Examining Psychological Contract Breach-Outcomes Relationship: Moderating Role of Individualism." *Vikalpa* 39.2 (2014): 99.) also found that education level of employees significantly influences their response to psychological contract breach. Employees with higher education respond more emotionally to their incidences of breach in terms of affective commitment and work engagement.

#### Methodology for last objective

##### The Sample and Respondent Profile

5 educational institutes were selected for the study. The sample consisted of 175 randomly selected employees at different hierarchical levels. They are categorized as below:

##### On the basis of joining in the organization

YEAR OF JOINING	% OF EMPLOYEES
Joined before 2009	15
Joined in between 2009-2012	10
Joined after 2012	75

##### On the basis of work experience

YEAR OF EXPERIENCE	% OF EMPLOYEES
More than 5 year	10
3-5 years	13
1-3 years	50
upto 1 year	27

##### On the basis of Gender

GENDER	% OF EMPLOYEES
Male	61
Female	39

##### On the basis of marital status

MARITAL STATUS	% OF EMPLOYEES
Married	80
Unmarried	20



**On the basis of Educational qualification:**

LEVEL OF QUALIFICATON	% OF EMPLOYEES
Graduate	70
Post Graduate	30

**On the basis of working level in the organization:**

WORKING LEVEL	% OF EMPLOYEES
Entry level cadre	81
Executive level	05
Junior level management	05
Middle level management	07
Top level management	02

A four part Psychological Contract Questionnaire (PCQ) as detailed below was constructed to measure the psychological contract variables, viz., (i) strength of relational contract, (ii) strength of transactional contract, (iii) employee's commitment/obligation to employer, and (iv) employee's relationship with employer. (Millward & Hopkins, 1998; Rousseau, 1995 and Harold Andrew Patrick, 2008)

Part I: Respondents' biographic data.

Part II: 12 statements for measuring the strength of relational and transactional contract.

Part III: 05 statements for measuring employee's commitment to employer.

Part IV: 05 statements for measuring employee's relationship with employer.

Part II was adopted from Psychological Contract Scale (PCS), developed by Millward and Hopkins (1998).

It employs seven-point Likert scales. It measures: (i) strength of relational contract, and (ii) strength of transactional contract. Part III and IV were adopted from Psychological Contract Inventory (PCI), developed by Rousseau (1995). It makes use of five-point Likert scales. It measures: (i) employee's commitment/obligation to employer, (ii) employee's relationship with employer.

### DATA ANALYSIS

Means were calculated for the psychological contract variables to determine the dominating psychological contract dimensions for education sector employees in three categories, Firstly, the type of contract held (relational/transactional), secondly, employee's commitment/obligation and thirdly, employee's relationship with employers. Means were also calculated for individual statements to determine the most prominent and least prominent contributors for employee's commitment/obligation to each other and the relationship shared between them. (Millward & Hopkins, 1998; Rousseau, 1995 and Harold Andrew Patrick, 2008).

### RESULTS AND DISCUSSIONS

Table – 1 shows the means for psychological contract variables. It can be seen that relational contract is stronger than transactional contract. This indicates that long-term employment arrangements are based upon mutual trust and loyalty; growth in career and remuneration come mainly from seniority; and other benefits and rewards are only loosely related to work performance. Employees prefer long term relationship and participation in the organization. This type of contract is common in Indian companies where 'trusted and loyal' employees manage most of the senior managerial/supervisory work in the organization as opposed to the transactional contract where the employment arrangement is of a short-term or limited duration, primarily focusing on exchange of work and focuses on money, with a specific and definite description of duties and responsibilities. Their involvement is limited in organization.

#### Commitment/Obligation

1. Table 1 indicates that employees' commitment/obligation is higher than that of employers.
2. As shown in Table 2, employees keep their commitment/obligation to their employers, most prominently by 'feeling proud to be part of the organisation', followed by 'being loyal to the organisation' and 'not doing just what they are paid for'. Contribution from 'not leaving work at the time of choice' and from 'making personal sacrifice for the organisation' are minimal.



- Employee's commitment/obligation to employer is high on 'feeling proud to be part of the organisation' and 'being loyal to the organisation'. It is moderate on all other dimensions.
- Employee's perceive that their employer's commitment/obligations towards them are not commensurate with their own commitment/obligations towards their employers. There is inequity in exchange of commitment/obligations between the employees and their employers. The inequity perceived is based on education sector employee's referent point that is normally based on the outside rather than inside the organization.

### CONCLUSION AND SUGGESTION

Education industry truly symbolizes India's strength in the knowledge based economy. Highly skilled human resources coupled with low wage structure and world class quality have transformed India into a hub of global intellectuals. As the employees are the most important and costly resource any industry, their utilization has a direct influence on productivity and profitability. In order to continue the success story, the employers need to understand the expectations and obligations of their employees and vice versa, thus maintaining good employment relationship. Education industry holds the potential to change the face of India and much more research needs to be done thereupon.

The concept of the psychological contract focuses on the 'soft issues' that have hard implications for today's organizations. It also focuses on the major shifts that organizations are undergoing in their relationships with employees. Organizational ability to get the best from employees' (their energies, knowledge and creativity) and harnessing them for competitive advantage lies in the strength of the psychological contract. Understanding and strengthening the psychological contract, therefore, is of pivotal importance for Education industry. Employees' contribution can no longer be extracted by coercion. Issues about motivation, assistance in relocation, choice of work location, flexi-time options, involvement in decision making, trust, pay-performance relationship, opportunities for advancement, fair treatment, fair pay, job variety, loyalty and commitment are a few critical factors that influence the relationship and commitment of education sector employees.

### ANNEXURE

**Table 1: Psychological Contract Variables –Means and Standard Deviations**

S. No.	Variable	Mean
	Strength of Relational Contract	3.897
	Strength of Transactional Contract	3.452
	Employee's Commitment/Obligation to Employer	3.154
	Employee's Relationship with Employer	2.121

**Table 2: Items Measuring Employee's Commitment/Obligation to Employer –Mean and Rank**

S. No.	Statement	Mean	Rank
	Proud to be a part of the organization	3.91	1
	How loyal are you to your present organisation	3.88	2
	Do only what you are paid for	3.65	3
	To seek job assignments that would enhance your career	3.48	4
	Increase your participation in the decision making	3.25	5

**Table 3: Items Measuring Employee's Relationship with Employer –Mean and Rank**

S. No.	Statement	Mean	Rank
	I do not trust this employer	3.91	1
	Difficult to ascertain my future with this employer	3.65	2
	My commitment towards the employer is uncertain	3.53	3
	Plan your work	3.36	4
	Lot of difference in what the employer says and practices	3.27	5

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