Psychological Contract Fulfillment and Employment Relationships: A Review Article

Geda Misganu (PhD Scholar), Collage of Business and Economics, Department of Management, Jimma University, Ethiopia
Shimels Zewdie (PhD), Associate Professor, College of Business and Economics, Jimma University, Ethiopia

Abstract

Fulfilling mutual expectations are essential determinants of the relationship between employees and employers. This review article is primarily concerned with investigating the association between psychological contract fulfillment and employment relationships. Besides it assesses previous studies and presents the impact of psychological contract breach on employee motivation, performance, and intention to quit in detail. The paper evaluates past studies on the topic in depth and discovers the gaps in the literature. Finally, it states future research directions for prospective researchers in the subject.

Keywords: Psychological Contract, Psychological Contract breach, Psychological Contract fulfillment and Employment Relationships

Introduction

Literatures indicate that the relationships between employers and employees are vital in order to attract, motivate, and retain competitive, dynamic and profitable workforce in today’s extremely competitive and turbulent work environment. Organizations through creating a firm employment relationship can retain vibrant talents; reduce costs associated with employee turnover and make employees efficient, productive and committed to the overall organizational goals. This association can be referred to and scrutinized by use of the concept of the psychological contract. The psychological contract is a way of interpreting the state of the employment relationship (Armstrong, 2009). Employers, managers and human resource practitioners will be able to bring about a faithful, productive and fulfilled workforce through understanding and putting into practice the concepts of psychological contract theories. Psychological contract theory has progressively been used as a framework for understanding employment relationships in this period of workplace transitions (Anderson & Schalk, 1998; Shore et al., 2004). It has become increasingly significant in defining the modern employment relationship. The psychological contract, as defined by Armstrong (2009:277) “a system of beliefs that encompasses the actions employees believe are expected of them and what response they expect in return from their employer and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees”, has been revealed in numerous studies for it affects on the various key organizational outcomes.

Hence, this review article is aimed at examining past literatures on the topics of psychological contract and employment relationships. In addition, it presents inter-aligned topics such as the impact of psychological contract breach on employee motivation, employee performance, and employee’s intention to leave the organization in detail. It will also examine whether or not the topics were adequately studied in past. The accuracy, consistency and short comings of the past study results and the findings of those studies will be evaluated critically. Finally, under emphasized part in the topic will be revealed and suggested for prospective researchers in the area.

Methodology

This paper is a qualitative literature review and purely conceptual as it relies on published articles, books and conference proceedings. Past studies on the issues of psychological contract and employment relationship are gathered and systematically analyzed to create an understanding on the topics. Relevant literatures are congegated under headings and subheadings of the concept of psychological contract, psychological contract fulfillment, psychological contract breach, changes to the psychological contract, and developing a positive psychological contract, the concept of employment relationship, and psychological contract and the employment relationship. Finally, conclusion and prospective research direction is stated at the end.

Literature Review

The Concept Of Psychological Contract

The concept of psychological contract is described as the unwritten agreement that elucidates the expectations between the employees and employers (Argyris, 1960; Levinson et al., 1962 and Schein, 1965), it is a belief about the reciprocal obligations between two parties engaged in an exchange relationship (Schein, 1965; Rousseau, 1995). It also refers to the beliefs based upon promises expressed or implied, regarding an exchange agreement between an individual and the employing firm and its agents (Rousseau, 2004). It is therefore, an un-
written agreement between the job holder and the organization. Guest (2007) regards it as the perceptions of the reciprocal promises and obligations in an employment relationship (the relationship between employee and employer). In other words, (Onici, 2009) expresses the psychological contract as the recapped joint expectations in which both sides anticipate some benefits.

**Psychological Contract Fulfillment**

Psychological contract fulfillment, which is explained as an employee’s perception that the organization is providing what it promised has been found out by many studies for it is related to many key organizational outcomes. Literatures describe the evaluation of psychological contract fulfillment as the sense making process by the employee to ascertain the extent to which there has been a revision in what the employer provides to the employee and how to respond to these revisions. Psychological contract fulfillment is found to be positively and consistently related to employees job satisfaction, in-role performance, and organizational citizenship behaviors (Turnley & Feldman, 2000; Dabos & Rousseau, 2004; Hui, Lee, & Rousseau, 2004), affective organizational commitment in traditional employment relationships (Coyle-Shapiro & Kessler, 2000; Johnson & O’Leary-Kelly, 2003; Sturgess, Conway, Guest, & Liefgoogh, 2005; Turnley & Feldman, 2000). Flood et al (2005) found that psychological contract fulfillment has been related to a higher affective commitment and a reduced intention to leave the organization.

**Psychological Contract Breach**

The concept of breach is one of the key concerns in the theory of psychological contract. The state of psychological contract breach, defined as “the cognition that one’s organization has failed to meet one or more obligations” (Morrison and Robinson, 1997, p.230), occurs when employees believe that their organization has not fulfilled its obligations. Some literatures define psychological contract breach, as “the organizations failure to fulfill the promised obligations” (Bordia, Restubog, Bordia, & Tang, 2010, p. 1579), a situation in which the employee feels wronged or mistreated by the organization (Restubog, Zagenczyk, Bordia, & Tang, 2013), occurs when employees perceive that their employers have failed to fulfill obligations or promises implied (Morrison and Robinson, 1997; Restubog, Bordia & Tang, 2006; Turnley, Bolino, Lester & Bloodgood, 2003). According to De Ruiter, Blomme, and Schalk (2017), psychological contract breach is an important trigger of employees’ workplace dissent. Bordia et al (2008), argued and empirically demonstrated that, psychological contract breach fallouts into psychological contract violation (affective reactions of anger and frustration); it results into a desire for revenge and drives to workplace deviance. The consequences of psychological contract breach are extensively studied aspect of psychological contract.

Various past studies shown that psychological contract breach leads to negative outcomes such as reduction in trust, job satisfaction, organizational commitment and organizational citizenship behavior (Deery, et al., 2006; Tekleab, et al., 2005; Montes and Irving, 2008; Raja et al., 2004; Restubog et al., 2006; Coyle-Shapiro and Kessler, 2000). It will also result into increased turnover intentions, actual turnover and absenteeism (Guzzo et al., 1994; Bunderson, 2001 and Deery et al., 2006).

**Changes To The Psychological Contract**

‘A psychological contract creates emotions and attitudes which form and control behavior’ (Spindler, 1994). Psychological contract management is becoming a heart of employment relationship management task and valuable manner of substantiating the relationship. Many past studies revealed positive association between psychological contract and an array of outcomes within the employment relationships. The rapid and drastic changes presently taking place in the work environment (both external and internal) is compelling the changes in the nature of the psychological contract in many organizations in response (Guest and Conway 2002). In view of that, Hiltrop (1995) defined the new psychological contracts as “There is no job security. The employee will be employed as long as he or she adds value to the organization, and is personally responsible for finding new ways to add value. In return, the employee has the right to demand interesting and important work has the freedom and resources to perform it well, receives pay that reflects his or her contribution, and gets the experience and training needed to be employable here or elsewhere.”

**Developing A Positive Psychological Contract**

Psychological contract usually develops over time, it is basically implicit by nature, is not developed by means of a single transaction and it might also be developed in an unintentional way with unexpected consequences (Armstrong, 2009), anything that management does or is perceived as doing, that have an effect on the interests of employees will alter the state of the psychological contract, the actual or perceived behavior of employees and employer’s concept of the contract. The major human resource management functions such as the provision of training and development opportunities, employment security, promotions, reduced status disparities, reasonable rewards and inclusive communication and involvement processes will all makes a contribution to the development of positive psychological contract (Guest et al.,1996) they also found out that the development of a positive psychological contract is significant that, it positively contributes to higher commitment in the organization, better employee satisfaction and improved employment relations which consequently underpins the benefits of implementing a set of progressive human
resource management practices. Guest and Conway (2002) also underlined the importance of communication in determining the psychological contract during recruitments and induction stage.

The Concept Of Employment Relationship
Organizations consist of employers and employees who relate to one another through a convention named as employment relationship which when positive, indicates a trust and mutuality from which both benefits. Employment relationship might be expressed formally by its cornerstone explicitly named as the employment contract (Rubery et al 2002). Further, it might also be defined as procedure agreements and work rules. It begins with an employee verdict to provide his/her skills and effort to the employer in return for which the employer provides him/her. The functionality of the relationship will also be affected by such processes as communication, consultation, and management style prevailing throughout the organization. In the employment relationship it is the employer that has the power to dictate the conditions of the contract unless they have been fixed by collective bargaining (Armstrong, 2009), inevitably there are conflicts of interest between employers that want to control compliant and high-performing employees.

Psychological Contract And The Employment Relationship
A fulfilled psychological contract plays a significant role in maintaining the job satisfaction of employees. This drawn the attention of the academicians to focus on the issue of the mutual obligations and expectations in the employer/employee relationships (Bacili, 2003). Rousseau (1989) categorized the components of psychological contract into the transactional and relational, describing that the transactional element provides the employee with the key technical paybacks of the job such as work hours, remuneration, leaves, and other related issues of the contract. Among the primary role players in the organization such as recruiters, managers and mentors, the line managers are the particular ones in communicating the reciprocal obligations to the employees (Guest & Conway, 2004). The relational component of the psychological contract is referred to the trust and loyalty issue resulting from the connection developed among both parties (the employer and the employee), and the transparent and implicit prospection that exists between the two (Rousseau & Wade-Benzoni, 1995). This relational component specifically is an essential feature in understanding the concept of psychological contract. Rousseau (1989) centered an attention on the inter-connection between employee and employer and managed to unambiguously differentiate between the individual’s personal perceptions and extricating these from the objective agreements attained in the relationship itself. Remarkably, the occurrence of misunderstandings between the employer and employees might lead to feelings that the psychological contract has been violated by one or the other (Rousseau, 2001). Rousseau (1989) also contended that the psychological contract develops through time and becomes more stable and stronger as the level of mutual trust boosts. He says trust results as of the promises entered and eventually kept among the parties to the contract.

Despite the organizational factors, individual aspects like personality shapes the way individuals build the psychological contract and the way they consequently behave. Raja and his colleagues (2004) found personality as a precursor to the type of psychological contract formed; Coyle-Shapiro and Neuman (2004) found that exchange related dispositions prejudiced employee reciprocation; Robinson et al. (1994) says that self-serving predisposition results into individual’s overestimation of their contributions and underestimation of organizational expenses. Employees’ perception of sufficiently executing of what is expected of them to their employer would result into the likely feeling of the organization’s failure to reciprocate its obligations from its side. This might result into an inclination to take actions to rebalance the relationship (Rousseau, 1995) by dropping the amount of their contributions to the organization. In other cases, employees may occasionally perceive that their organization has eventually provided the surplus of what it promised or contracted to provide. In this case, employees possibly will perceive a positive imbalance in the agreement which might result into a broadened and strengthened social exchange relationship. Furthermore, when a positive imbalance is perceived in the relationship employees may effort to reciprocate by escalating their contributions to the organization (Wayne, Shore & Liden, 1997). Studies in this area implies that the possibility of perceiving under fulfillment by the employees have a tendency to be greater than the possibility of perceiving over fulfillment (Carrell & Dittrich, 1978; Goodman & Friedman, 1971) and points out that the inspiration to increase contributions in reciprocation to over fulfillment is likely to be less compelling than the inspiration to reduce contributions in response to under fulfillment. Recent studies focusing employment relationships put forward suggestions saying, organizations might be privileged from over fulfilling psychological contracts (Tsui, Pearce, Porter & Tripoli, 1997; Shore & Barksdale, 1998). According to these researches and the predictions of the equity and social exchange theories, employees’ contributions to the organization might increase as firms provide in excess of what they originally agreed to offer.

Placing a negative impact on the psychological contract possibly will have a detrimental negative consequences on the employees work performance and productivity.
(Guest and Conway 2004), affective commitment (Lester et al., 2002; Raja et al., 2004 and Bunderson, 2001). On the other hand, negatively affecting the psychological contract will result into employees’ intention to leave the organization (Bunderson, 2001; Raja et al., 2004). Prior researches also suggested that psychological contract breach creates a question in the minds of the employees on whether staying any longer in the employment relationship is mutually beneficial (Turnley & Feldman, 1999). In some cases, employees perceive that the likely imbalance in the relationship is high enough or the likelihood of the potential ill-treatment in the future to be higher and decide to look for employment somewhere else. Consequently, psychological contract breach is likely to result into the ultimate ending of employment relationships. Though past studies unnoticed examining directly the relationship between the psychological contract breach and professional commitment, here it is hypothesized that psychological contract breach might trigger employees to reduce their commitment to their profession as a whole (Andersson, 1996; Johnson & O’Leary-Kelly, 2003).

Conclusion & Future Research

Conclusion

Studies on the topics of psychological contract and employment relationships recurrently found out that psychological contract fulfillment has been consistently and positively related to affective organizational commitment, and a reduced intention to leave the organization. Psychological contract breach on the other hand is found to be an essential trigger for employee dissent at workplace. It was found that breaching leads to negative outcomes such as reductions in trust, job satisfaction, commitment and organizational citizenship behavior. In addition, it was consistently confirmed that psychological contract breach will result into a significant increase in absenteeism, turnover intentions, actual turnover and ultimately ending employment relationships.

The rigorous literature analysis made in this review article pointed out that the studies in this particular area noticeably centered on the issues of psychological contract breach and its consequences. However, the interconnections between psychological contract breach and the professional commitment, the essential motives of the employment relationships, the institutional and managerial interventions on the development and maintenance of positive psychological contract and the legal context of the psychological contract were not sufficiently explored. Consequently this review paper sets future direction and calls for prospective researchers to further study and elaborate the concepts as suggested below.

Future Research


