

Effect of Human Resource Management Practices on Psychological Contract in Organizations

Waiganjo Esther Wangithi

Jomo Kenyatta University of Agriculture & Technology
School of Human Resource Development
P.O Box 62000-00200, Nairobi, Kenya.

Ng'ethe Jane Muceke

Jomo Kenyatta University of Agriculture & Technology
School of Human Resource Development
P.O BOX 62000-00200, Nairobi, Kenya.

Abstract

A psychological contract underpins the employment relationship and is viewed as a set of unwritten expectations that exist between employees and their employers. It is generally accepted that a psychological contract is concerned with an individual's subjective beliefs, shaped by the organization, regarding the terms of an exchange relationship between the individual employee and the organization. A psychological contract governs the continuing development of the employment relationship which evolves over time, with the expectations of the parties taking the form of unarticulated assumptions that calls for discussion and agreement with individuals and teams. This paper provides an overview of the concept of psychological contract with the authors also reviewing literature concerning the effect that human resource management practices have on psychological contract in the context of modern organizations.

Keywords: Psychological contract, human resource management practices

1. Concept of Psychological Contract

According to Guest (2007), a psychological contract is concerned with the perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship. It is a system of beliefs that encompasses the actions that employees believe is 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 from their employees. It is the beliefs based upon promise expressed or implied regarding an exchange agreement between an individual and, in organizations, the employing firms and its agents. These beliefs transcend the written and explicit provisions of the formal employment contract (Rousseau, 2004).

Knights et al., (2005) defines a psychological contract as a set of individual beliefs or perception regarding reciprocal obligations between the employee and the organization. Some of these obligations are recorded in the form of a written formal contract; largely they are implied and not openly discussed. For example, the employee has expectations in the areas of promotion, pay, training, job security, career development, and support with personal problems. In return, the employer expects the employee to be willing to work extra hours, be loyal, volunteer to do non-required tasks, give advance notice when quitting, be willing to accept transfer, to refuse to support competitors, to protect company information, and to spend a minimum of two years with the organization. These obligations are perceived promises that both parties believe have been made and accepted by both parties. However the employees understanding of the employment relationship may be different from that of the organization. It is this perceptual and idiosyncratic nature of the psychological contract that distinguishes it from other forms of contracts.

Schein (1965) explains that the notion of a psychological contract implies that there is an unwritten set of expectations operating at all times between every member of an organization and the various managers and others in that organization. The individual has a variety of expectations of the organization and that the organization has a variety of expectations of him. Both parties in the same organization can have different views regarding specific terms because psychological contract represents how people interpret promises and commitments.

Psychological contract refers to beliefs that individuals hold regarding promises made, accepted and relied upon between themselves and another (Rousseau & Wade-Benzoni, 1994). Guest et al., (1996) argue that a psychological contract is concerned with assumptions, promises and mutual obligations. It is implicit and also dynamic, developing over time as experience accumulates, and employment conditions change and employees evaluate their expectations.

Beardwell (2007) observes that psychological contract is somewhat concerned with an individual's subjective beliefs, shaped by the organization, regarding the terms of an exchange relationship between the individual employee and the organization. It is subjective, unwritten and often not discussed or negotiated, it goes beyond any formal contract of employment. The psychological contract is promise based, and overtime assumes the form of mental schema or models which like most schemas is relatively stable and durable.

Good psychological contract may not always result to superior performance, or indeed to satisfied employees but poor psychological contracts tends to act as de-motivators, which can be reflected in lower levels of employee commitment, higher levels of absenteeism and turnover and reduced performance (Beardwell, 2007). On the other hand, fulfillment of the psychological contract creates feelings of being valued, increases trust, leads to positive outcomes for employee and the organization. Employees who perceive that their employer has fulfilled his/her promise may feel more involved with the organization and identify more closely with its values (Shapiro, 2000).

The origins of the Psychological contract and its early development can be traced to the work of Argyis (1960). Argyis used the term psychological work contract to describe the relationship and explicit understanding between a group of employees and their foreman. Levinson *et al*, (1962) developed the concept further by defining it as a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other (Shapiro, 2000).

Researchers have categorized psychological contracts into two forms: transactional and relational contracts (Shapiro, 2000; Rousseau, 2004). Relational psychological contracts include such terms as loyalty and stability. Workers with relational contracts tend to be more willing to work overtime whether paid or not, to help coworkers on the job, and to support organizational changes that their employee deems necessary. Although workers with a relational contract are likely to be particularly upset when it is violated, the commitment embedded in such contracts often causes workers to seek remedies that will maintain the relationship with the employer. Failure to remedy the situation typically leads to turnover or if the employee remains, to reduced contributions and further erosion of the employment relationship. Chew (2004) observes that relational include long term job security, career development, training and development opportunities and support with personal problems.

On the other side of the coin, employers with relational contracts absorb more of the risk from economic downturns. Rousseau (2004) argues that workers favour employers who offer them a relational psychological contract as opposed to the more limited transactional type. In turn, employers are likely to offer relational contracts to particularly valued workers than to workers who contribute less.

Transactional psychological contracts refer to specific, monetizable exchanges over a limited period of time. In operationalising transactional obligations in the context of psychological contract, the following have been included: rapid advancement, high pay and merit pay (Robinson *et al*, 1994; Shapiro, 2000). In addition, Rousseau (2004) observes that transactional psychological contracts include such terms as narrow duties and a limited short term duration. Workers with transactional contracts tend to adhere to its specific terms and to seek employment elsewhere when conditions change or when employers fail to live up to their agreement. Transactional contracts shift the risk associated with economic uncertainties from the employer to workers.

Hybrid or balanced psychological contracts have emerged in recent years and combines the open-ended time frame and mutual concern of relational agreements with the performance demands and renegotiation of transactional contracts.

Balanced contracts combine commitments on the part of the employer to develop workers, while anticipating that the workers will be flexible and willing to adjust if economic conditions change. Such contracts entail risk between worker and employer. Moreover, such contracts anticipate renegotiation over time as economic conditions and workers needs change (Rousseau, 2004).

2. Human Resource Management Practices and Psychological Contract

Increased competition has led to recent changes in business environment which has signified the need for organizations to search for new ways to survive and enhance their performance. One of the possible solutions for organizations to respond effectively and efficiently to these changes is to embrace the use of human resource management (HRM) practices and develop a psychological contract to improve on their performance. It is commonly accepted that the people working for an organization are one of its main assets and one of the factors in determining its performance. Workers qualities, attitudes and behavior in the workplace together with other factors such as psychological contract play an important role in determining an organizations performance hence success or lack of it (Stoner et al., 2002). Although this type of resource is one in which organizations do not have complete control, there do exist certain strategies to enable them exert their influence on the quality and performance of the human capital on which they rely. The kind of psychological contract that organizations build with the employees will have a vital influence in this area and thereby on the performance achieved by the organization.

The Michigan model also referred to as the matching model for the development of HRM forms the basis of the HRM practices addressed in this paper. According to Armstrong (2006) the matching aspect is because of the dynamic context the organization exists in. This model acknowledges four generic sub- strategies: recruitment and selection, training and development, appraisal and reward. Human resource management practices like recruitment, training and development, performance appraisal and remuneration determine the state of psychological contract. These practices send a strong message about what organizations expect and what employee can anticipate in return. (Sheepers, 2011). They are the major mechanisms employees use to understand the terms of their employment. HRM practices create contractual and future intentions through hiring practices, reward practices and developmental activities.

2.1 Recruitment, Selection and orientation

The recruitment and selection process is concerned with identifying, attracting and choosing suitable people to meet an organization's HR requirements. They are integrated activities, and 'where recruitment stops and selection begins is a moot point' (Anderson, 1994). The basis of recruitment and selection are the human resource requirements that the organization strategies require. It matches available HR to jobs. The contribution of effective recruitment and selection to enhanced organizational performance has been illustrated by the findings of empirical studies which found out that the acquisition and development of employee skills through use of sophisticated selection, induction, training and appraisals have a positive impact on organization's productivity and profitability (Patterson et al., 1997).

During recruitment interviews and orientation, HRM personnel should clearly and honestly communicate the responsibilities and expectations of the employee, as well those the organization will give in exchange. As the psychological contract begins its formation during the hiring process, it is important that the organization does not oversell the job, thereby setting unrealistic expectations which when violated may result in dissatisfaction and lowered commitment (Makin, Cooper & Fox, 1996; Rousseau 1995; Knights, 2005). Once the new employee enters the organization, it is important that they do not misinterpret obligations and entitlements. Incongruence is one of the major contributors to psychological contract violation. Ambiguously worded passages in human resource manuals and policy documents may widen the interpretation of obligations and entitlements, creating greater potential for misunderstanding and perceived violation. Realistic job previews that contain a detailed description of relevant job aspects, including negative as well as positive features, will contribute to the formation of pragmatic psychological contract and reduce turnover (Knights, 2005)

2.2 Training and development

It matches skills and competences with situational demands and changes. Training and development of employees is an issue that has to be faced by every organization.

It is in one of the ways of overcoming deficiencies in human performance at work. One of the sources of training and development needs in an organization is derived from manpower wastage associated with poor recruitment, induction and training. Training is any learning activity which is directed towards the acquisition of specific knowledge and skills for the purposes of an occupation and task. Training programs are directed toward maintaining and improving current job performance. Training has the important dual function of utilization and motivation. By improving employees' ability to perform the tasks required by the organization, training allows better use to be made of human resources; by giving employees a feeling of mystery over their work and of recognition by management their job satisfaction is increased (Graham et al, 1998). Some of the gains which training brings are greater productivity and quality, less scrap or spoiled work and fewer accidents. More often training is given as a response to some event like a realization that performance is inadequate.

Development is any learning activity which is directed towards future needs rather than present needs, and which is concerned more with career growth than immediate performance. Harrison (1992) defines employee development as the skilful provision and organization of learning experiences in the workplace so that performance can be improved, work goals can be achieved and that, through enhancing the skills, knowledge, learning ability and enthusiasm at every level, there can be continuous organizational as well as individual growth. Employee development must, therefore, be part of a wider strategy for the organization, aligned with the organization's corporate mission and goals. The focus of development tends to be primarily on an organizations future manpower requirement, and secondly on the growth needs of individuals in the workplace.

Developmental programs seek to develop skills for future jobs.

The organization should ensure that employees have the opportunity for on-going training and development. The provision of training and development sends a message to employees that the organization cares about them and supports them. In particular the quality of training shapes whether workers believe commitments have been made, and kept regarding career development. So too do broader practices like promotion from within and informal mentoring shape the climate of the organization as developmentally focused and supportive (Rousseau, 1995). Any unmet promises in this area will reduce management credibility and lower the trust that the employees has in the organization (Robinson, 1996; Knights, 2005)

2.3 Performance Appraisal

Appraisal is the judgment of an employee's performance in a job, based on considerations other than productivity alone (Graham et al., 1998). It aims to ascertain whether actual performance matches performance targets. One of its principal uses is to indicate training needs in areas of performance where improvements would occur if appropriate training could be given. An integrated and effective appraisal process can lead to increased organizational performance and employee motivation. It provides recognition for successful performance and provides guidance on what skills, competences and behavior are required to meet expectations (Beardwell et al., 2001).

Performance reviews are important as they offer an opportunity for the employee to receive accurate feedback on their performance and may help dispel any false beliefs, of either party, that they have fulfilled their part of the psychological contract (Rousseau, 2004). Unrealistic self assessment by the employee will impact on the comparison process because, without accurate feedback, there is the potential for the employee to misperceive the balance between fulfillment of their obligations against those of the organization (Robinson *et al*, 1997 ; Shapiro, 2000). In addition, the performance reviews offers an opportunity for the organization and employee to review and agree upon future opportunities for responsibility and challenge, and any prospective involvement in the management of change. Reviewing and renegotiating such aspects of the psychological contract on regular basis will reduce psychological contract violations that are caused by incongruence or misunderstanding between both parties (Rousseau, 2004).

2.4 Reward

Rewards / compensation matches efforts in an equitable and just manner and organizations must reward short as well as long-term achievements; bearing in mind that business must perform in the present to succeed in the future. Total reward includes all types of rewards-indirect as well as direct, and intrinsic as well as extrinsic.

Each aspect of reward such as base pay, contingent pay, employee benefits and non-financial rewards which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole (Armstrong, 2006).

According to Cole (2004), total reward combines two major categories of reward: transactional and relational. Transactional rewards are tangible rewards arising from the transactions between the employer and the employees concerning pay and benefits such as base pay, contingent pay, shares, pensions and holidays. Relational rewards are those intangible rewards concerned with learning and development and the work experience, like training, career development, performance management, employee voice and recognition.

The approach towards total reward is holistic. Account is taken of every way in which people can be rewarded and obtain satisfaction through their work. The aim is to maximize the combined impact of a wide range of reward initiatives on motivation, commitment and job engagement. Total reward embraces everything that employee's value in the employment relationship (Armstrong, 2006). Total rewards are all of the employees' available tools that may be used to attract, retain, motivate and satisfy employees.

A total reward strategy is critical to addressing the issues created by recruitment and retention as well as providing a means of influencing behavior (O'Neal, 1998). It can help create a work experience that meets the needs of employees even unwritten needs and encourages them to contribute extra effort. This is by developing a psychological contract that addresses a broad range of issues concerning rewards especially where they will be most effective in addressing worker's shifting values.

It is worth noting that Beardwell and Claydon (2007) state that the significance of the psychological contract in relation to performance management is that it highlights how easy it is for organizations to assume that employees seek primary monetary rewards, and this is not necessarily the case. Empirical evidence suggest that effective performance management and reward structures in organizations must attend to the quality of the relationships employees experience while at work which are an integral aspect of the psychological contract. Improved performance is affected by more than money.

3. Conclusion

Modern organizations can't succeed unless the people they employ agree to contribute to their mission and survival hence workers and employers need to agree on the contributions that workers will make to the firm and vice versa. Understanding and effectively managing these psychological contracts can help organizations thrive. Organizations are thus increasingly acknowledging psychological contract as a significant aspect of employment relationship. The concept of mutuality is a major feature of psychological contract, implying that there is a common and agreed understanding of promises and obligations the respective parties have made to each other about work, pay, loyalty, commitment, flexibility, security and career advancement. To ensure a sense of personal achievement, enhance employability and engender relationship values in an effort to maintain a healthy psychological contract which will stimulate commitment and loyalty, organizations need to change work patterns. For a continuing and harmonious relationship to exist between the employee and the organization, a balanced psychological contract is necessary. However, its violation can signal to the participants that the parties no longer share or shared a common set of values and goals since as a psychological contract creates emotions and attitudes that form and control behavior. Management of organizations has the core task towards the management of a psychological contract which has a positive association with a range of outcomes within the employment relationship and this is a useful way of conceptualizing that relationship.

References

- Armstrong, M. (2006). *A Handbook of Human Resource Management Practice*. (10th ed.). London: Kogan Page Ltd.
- Beardwell, J., & Claydon, T. *Human Resource Management. A Contemporary Approach*. (5th ed.). Harlow : Prentice Hall.
- Cole, G. (2004). *Management Theory and Practice*. (6th ed.). London: Thomas Learning.
- Guest, D. (2007). *Human Resource Management: Towards a new psychological contract*. Oxford: Oxford University Press.
- Guest, P., & Conway, N. (2002). Communicating the Psychological Contract: an employee perspective. *Human Resource management journal*. 12(2).22-39.
- Graham, H.T., & Roger, B. (1998). *Human Resources Management*. (9th ed.). London: Pearson Education.
- Harrison, R. (2000). *Employee Development*. (2nd ed.) London. IPM.
- Guest, D., Conway N., & Briner, T. (1996). *The State of the Psychological Contract in Employment*. London: IPD.
- Knights J & Kennedy B (2005). Psychological Contract Violation: Impacts on Job Satisfaction and Organisational Commitment among Australian Senior Public servants. *Applied HRM Research*. 10(2).57-72.
- O'Neal, S. (1998). The Phenomenon of Total Rewards. *ACA Journal*. 7(3). 8-12.
- Patterson, J., & West, M. (1997). *Impact of People Management Practices on Performance*. London: IOPD.
- Restubog, S., Hornsey, M., Bordia, P., & Esposito, S. (2008). Effects of Psychological contract Breach on Organisational Citizenship behaviour: Insights from the Group Value Model. *Journal of Management studies*. 45(8).1378-1400.
- Rousseau D. (2004). Psychological Contracts in the Workplace: Understanding the Ties that Motivate. *The Academy of Management Executive*. 18(1).120-127.
- Rousseau, D. & Wade-Benzoni, K. (1994). Linking Strategy and HR practices: how employee and customer contracts are created. *Human Resource Management*. 33 (3). 463-89.
- Schein, E. (1965). *Organizational Psychology*. Eglewood Cliffs : Prentice Hall.
- Shapiro J. (2000). Consequences of the Psychological contract for the employment relationship: A large Scale Survey. *Journal of Management studies*. 37(7). 904- 930.
- Sheepers, C., & Shuping, J. (2011). The effect of Human resource practices on psychological contracts at an iron ore mining company in South Africa. *SA Journal of Human Resource Management* 9 (1). 1-19.
- Stoner, J., Freeman, R., & Gilbert, D. (2002). *Management*. (6th ed.). New Delhi: Prentice Hall.