

Psychological contracting and employee motivation – a literature review

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Introduction

This review gathers together recent research results concerning psychological contracting and employee motivation, the latter especially on the contractor point of view. The results are gathered from reviewed journal articles and books. This review was made possible by the funding of Tekes CLEEN -project.

A contract between employer and employee contains more than the legal words printed in the contract document. To understand the psychological aspects which the contracts also contain, many researchers have drawn attention to psychological contract, which Rousseau (1995) describes as “individual beliefs, shaped by the organization, regarding terms of an exchange agreement between individuals and their organization” i.e., what a person believes are his/her obligations *according to the contract* between the two parties. Psychological contracting focuses both on the employee as well as the employer view of the contract and more on the psychological aspects than on the legal issues. (Koh et al. 2004). Psychological contracting was first studied on employment aspect but has lately been enlarged to include also outsourcing (Koh et al. 2004).

One of the simplest descriptions of psychological contracting comes from Conway & Briner (2009) according to whom, psychological contracting is “about the exchange relationship between employee and employer. ... The relationship is based on an exchange in which each party will exchange something they can provide for something the other party can provide.” Examples of employee contributions in psychological contract are e.g., making sufficient effort, offering skills and knowledge, having a concern for quality and being flexible. Respectively, the organization is expected to provide things such as promotion, training, pay, respect and feedback. Typical areas,

where the contents of the psychological contract outcome, include job satisfaction, organizational commitment, job performance and an employee's intentions in relation to quitting. (Conway & Briner 2009)

The issue of psychological contract has become under active research over the past 15 years, especially after Rousseau's research, but the term originates earlier to social theory, back to 1960's. (Cullinane & Dundon 2006) The positive state of a psychological contract has been associated e.g., to organizational commitment, motivation and a lower intention to quit (Guest & Clinton 2005).

Psychological and legal obligations

Koh et al. (2004) stress the importance of psychological aspects of contracts. According to them, psychological contract is distinct from the legal contract, because regardless of there is a formal contract between employee and employer, individuals develop psychological contracts. And it is the individual's beliefs and perceptions of the obligations (i.e., the psychological contract), that drives the person's behavior. (Koh et al. 2004)

In practice this means that psychological contracts are not explicitly written in any formal document, yet they strongly affect the way people behave (Schein, according to Conway & Briner 2009). This means that psychological contracts are subjective and regarded on an individual level (Conway & Briner 2009).

The parties of a psychological contract is, in research, an issue of argue. The employee is usually unanimously regarded as one party, but there are different opinions of whether an organization can be the other party. Some researchers regard organization as an abstract entity, which thus cannot have a psychological contract. However, it is argued that employees regard the actions by the organization as an overall view of actions by agents (e.g., line managers) of the organization. Thus, in most theories, the organization is anyway regarded as the other party of the psychological contract. (Conway & Briner 2009)

Today, the contracts between employee and employer are diverse and increasingly difficult. One example is outsourcing of personnel: where, in employee's mind, psychological contract can reach more far than the legal contract. Cullinane & Dundon (2006) quote Cooke by giving an example of psychological contract: they describe about airport baggage handlers, who were legally employed by on outside agency contractor, but mere mentally more committed to the airline than to their actual employer.

Employment models and psychological contracting

Peel & Boxall (2005) have investigated different employment models, especially contractors, i.e., workers, who are operating as a business in their own right, who are not employing others and whose services have been retained under by a firm. The industries Peel & Boxall studied were engineering consultancy and energy supply. They quote Rousseaus' distinction of psychological contract into two categories, relational and transactional, where relational psychological contract is more open-ended and subjective whereas transactional contract is focused on simple, measurable outcomes and has very limited psychological content. In theory, they claim, contracts for services are more indicative of a transactional contract.

Peer & Boxall (2005) argue that very little research has been done about the workers', especially contractors', motivation. They have gathered together earlier research results, according to which the main advantages for working as contractor, for oneself, were autonomy, the removal of direct supervision and increased control over work hours and environment, the increased earning potential and the ability for lifestyle advantages such as varying the structure of the working week (quoting Hakim 1989, Hyman 1989 and Rainbird 1991). On the other hand, the negative aspects found were e.g., lack of security and no commitment to a long-term attachment between the firm and the individual (quoting Lewis-Epstein & Yuchtman-Yaar 1991 and Rainbird 1991).

Koh et al. (2004) have studied psychological contract perspective on IT outsourcing. According to them, mutual obligations are the essence of an IT outsourcing contract, so in this way outsourcing does not differ from contracts between employer and employee. They also claim (2004, p. 358) that successful IT outsourcing relies on a psychological contract between the customer and the supplier.

Violating the contract

Up to today, most psychological contract research has focused on contract breach, especially on the employee's perspective. Conway & Briner (2009) define contract breaches as perceived discrepancies between what has been promised and what is delivered. Violation, according to them, is the emotional reaction that may be experienced when such discrepancies are perceived.

Conway & Briner (2009) mention two streams of studies concerning the causes of breach. The first is inadequate human resource management practices and the second is the employee's feeling that he/she is unsupported either by the organization or by his/her supervisor. The consequences of breach are manifold: lower employee well-being, negative attitudes towards the organization and the job (e.g., job dissatisfaction and low organizational commitment) and increased withdrawal behaviors. (Conway & Briner 2009)

According to Rousseau (1995, p. 112), experienced violation occurs when failure to keep a commitment injures or causes damages that the contract was designed to avoid. She

defines the sources of experienced violation into three categories: inadvertent, disruption and breach of contract. Inadvertent violation occurs, when both employee and employer are able and willing to keep their bargain, but divergent interpretations lead other part to act in a way which is against the interest of another, e.g., a misunderstanding in something. Disruption occurs when both of the parties are willing to fulfill their end of the contract, but circumstances make it impossible for other party or both. Breach of contract occurs when one side, otherwise capable of performing the contract, for some reason refuses to do so (Rousseau 1995, p. 112)

Criticism towards the research psychological contract

Although being largely researched, several authors (e.g., Cullinane & Dundon 2006; Conway & Briner 2009) remark, that there is still no clear definition or analytical framework for psychological contract. According to them, different authors are describing different issues and different views, under the same term. Cullinane & Dundon mention that e.g., there are differences whether the focus is on employees' obligations or expectations towards the employer. Still, in spite of the limitations in the current research, they also admit the importance of the psychological contract and the need for further research.

Conclusions

Even though the precise definition of psychological contract is still missing and there is no unanimous view of what is the other party of the contract in addition to the employee, the issue of psychological contract is very interesting. In work life, the employees expectations based on psychological contract may affect more to his/her daily work that we already understand. As Conway & Briner (2009) remark, the number of relevant studies remains very small. Especially expectations and consequences of psychological contracts related into the different ways of working are worth research. This includes e.g., subcontractors and contingent workers, but also the new ways of work enabled by the new technologies, such as café work or home organized entrepreneurship.

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