

Old and New Psychological Contracts: are they Different or the Same Wine in Different Bottles?

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Abstract

This paper explores whether there have been any shifts in Employees' and Organizations' Psychological Contract, and whether these shifts have culminated into any distinction(s) between the Old and New Psychological Contracts. The paper reports that as Employees and Organizations move through their life, their needs change just like their expectations of each other. As a result, the prevailing Psychological Contracts in Organizations have shifted from emerging, through bureaucratic, towards one characterized by adhocracy; and has consequently culminated into the existence of both the Old and New Psychological Contracts. The paper reports further that the Old and New Psychological Contracts differ very significantly in relation to, among others, the change environment, culture, rewards, motivational currency, promotion bases, mobility expectations, tenure guarantee, responsibility, status, trust, and employee development, hence, the conclusion that the Old and New Psychological Contracts do exist, the two differ very significantly, and therefore, are different "wines" in different bottles.

Key Words: Psychological Contract, Old Psychological Contract, New Psychological Contract, Company-Specific-Skills, Unwritten Expectations.

1. Overview on Psychological Contracts

There is no universally acceptable definition of the concept of Psychological Contract. This is because different scholars conceptualize and use it differently although with some similar insinuations. Sims (1994) defines it as a set of expectations held by an individual employee that specifies what the individual and the organization expect to give to, and receive from, each other in the course of their working relationship. On the other hand, Rousseau (1989) defines it as an individual's system of belief, shaped by the organization, regarding terms of an exchange agreement between him/her and the organization.

Newell & Dopson (1996), on their part, define a Psychological Contract as what employees are prepared to give by way of effort and contributions in exchange for something they value from their employer such as job security, pay and benefits or continuing training. DeMeuse & Tornow (1990), on the other hand, define it as an emotional bond between employer and employee - which is implicit, and thus, unofficial and includes mutual responsibilities and expectations.

Despite the foregoing authors' differentiations, the common theme that underlies their definitions is that a Psychological Contract entails an employee's unexpressed beliefs, expectations, promises and responsibilities with respect to what constitutes a fair exchange within the boundaries of the employment relationship.¹

It is noteworthy that, unlike formal contracts of employment, Psychological Contracts are often tacit or implicit, as they tend to be invisible, assumed, unspoken, informal or at best, only partially vocalized. Because of this, one has to make a determined effort to find out what they are.²

2. Forms of Psychological Contracts

Rousseau (1995) distinguishes between Transactional and Relational Psychological Contracts. Transactional Psychological Contracts refer to collaborations of limited duration (2 to 3 years most) with well-specified performance terms. Generally, Transactional Psychological Contracts are characterized by little organizational loyalty by the employees, employees develop marketable skills, unstable employment, flexibility and easy exit of employees, employees are less willing to take on additional responsibilities, and generally, the reward system focuses on the short term.

In contrast, Relational Psychological Contracts are open-ended collaborations with only loosely specified performance terms. Generally, Relational Psychological Contracts are characterized by high organizational loyalty, employees develop company-specific skills, there is stability in employment, employees are willing to commit themselves to one company, employees have high intent to stay with organization, and organizational members are highly socialized.

3. Historical & Theoretical Bases of Psychological Contracts

The origin of the Psychological Contract goes back thousands of years to the major world religions. One of the most important prayers in the Jewish faith, for example, the Amidah, refers to the mutual expectations (in essence the psychological contract) between God and the Jewish people (The Assembly of Rabbis of the Reform Synagogues of Great Britain, 1998:145). More recently, social and political philosophers such as Hobbes and Locke talked about a 'social contract' as an understanding between citizens and the state regarding reciprocal expectations, obligations and duties. At its core, the social contract is about mutual expectations; things that the individual can expect from the state and things the state expects from the individual. Some of these expectations may be written down and enshrined in law, such as respect for others' property, while others, such as expectations about the state's provision of recreation facilities, are mostly implied rather than laid down in statute. The implicit and typically unspoken nature of the social contract is a fundamental feature of the psychological contract.³

The first writer to use the term Psychological Contract was Argyris (1960) who defined it as the implicit understanding between a group of employees and their foreman. He described it as:

A relationship may be hypothesized to evolve between the employees and the foremen which might be called the 'psychological work contract'. The employee will maintain high production, low grievances etc. if the foreman guarantees and respects the norms of the employee informal culture (i.e. let the employees alone, make certain they make adequate wages and have secure jobs).

This early view of the psychological contract, like the social contract before it, clearly refers to mutual expectations and obligations. It differs from the social contract as it specifically relates to the workplace and what the foreman expects of their team and what team members, in turn, expect from the foreman.⁴ In 1962, Levinson deemed the psychological contract as an unwritten contract and a summation of expectations from organization and employees. Psychological contract here emphasized on the inherent, recessive, never expressive expectations, which existed before forming the relation of employers and employees. Of the expectations, some were specific, and some were inexplicit (Huiyuan and Xin, 2008).

The psychological contract was refined by Schein (1965) in his seminal work on organizational psychology in which he describes it as:

The unwritten expectations operating at all times between every member of an organization and the various managers and others in that organization... Each employee has expectations about such things as salary or pay rate, working hours, benefits and privileges that go with a job... the organization also has more implicit, subtle expectations that the employee will enhance the image of the organization, will be loyal, will keep organizational secrets and will do his or her best.

While Argyris refers to a specific understanding between the workgroup and the individual foreman or team leader, Schein's definition focuses on the high-level collective relationship, between the individual employee on the one hand, and management of the company on the other hand – in other words the organization.⁵

4. How is a Psychological Contract Formed?

It is generally believed that mostly, Psychological Contract begins its formation at the recruitment and selection stages. During the recruitment process, the employer and interviewee will discuss what they each can offer in the prospective relationship. If an agreement is reached, most employers will impose a standard form contract, leaving the detail of the employee's duties to be clarified "on the job". But some of the initial statements, no matter how informal and imprecise, may later be remembered as promises and give rise to expectations. Whether they are incorporated into the parallel psychological contract will depend on whether both parties believe that they should be treated as part of the relationship. The better organized employers are careful to document offers to reduce the risk of raising false expectations followed by disappointment.⁶

According to De Vos, Buyens and Schalk (2001), during the Psychological Contract formation and/or development process, both the Organization and Employee make several promises (either implicitly or explicitly) to each other as follows.

The Organization promises:

- a) Career development - offering possibilities for development and/or promotion within the organization (such as possibilities for development, chances of promotion);
- b) Job content - offering challenging, interesting job content (such as work in which employees can use their capacities, challenging tasks);
- c) Social environment - offering a pleasant and cooperative working environment (such as good communication among co-workers, good cooperation within the group);
- d) Financial compensation - offering appropriate compensation (such as remuneration commensurate with the work, conditions of employment that have favorable tax consequences); and
- e) Work-private life balance - offering respect and understanding for the personal situation of the employee (for example, flexibility in working hours, understanding of personal circumstances).

On the other hand, the Employee promises:

- a) Effort and performance - willingness to make efforts to perform well for the organization (for example, making efforts for the benefit of the organization, doing good work both quantitatively and qualitatively, working well with co-workers);
- b) Flexibility - willingness to be flexible in carrying out the work that needs to be done (for example, working overtime, taking work home);
- c) Loyalty - willingness to continue working longer for the organization (for example, not accepting every job offer that comes along, working for the organization for at least several years);
- d) Ethical conduct - willingness to conduct oneself ethically towards the organization (for example, not making confidential information public, dealing honestly with resources and budgets); and
- e) Availability - willingness to keep one's availability status at an acceptable level (for example, taking training courses that become available, keeping up with trade literature).

5. Are there any Distinctions between the Old and New Employee Psychological Contracts?

According to Rousseau (1995), there have been far-reaching changes in business which have brought about major shifts in both organizations and the psychological contracts that exist in them. Rousseau believes that the psychological contract has evolved over time, through three distinct successive stages as follows:⁷

Emerging Phase. This occurred in the late eighteenth century during early industrial production and was characterized by a central workplace with high levels of manager/owner control. Organizations in the UK that have survived since that stage include Royal Doulton (china manufacturers) and Twinings (tea growers and importers).

Bureaucratic Phase. This emerged in the 1930s epitomized by Whyte's *The Organization Man* in companies such as Ford. It was characterized by an internal labour market, organization hierarchies which controlled behaviour, with spare resources being allocated to allow for unpredictability. Organization life was characterized by a paternalistic psychological contract where the company took care of its loyal servants and implied lifetime employment in return for employee loyalty.

Adhocracy Phase. This has emerged since the early 1990s, epitomized by companies such as Apple and the successful dotcom companies. These are boundary-less organizations which emphasize the use of knowledge and are characterized by horizontal career moves, with a diversity of employer–employee relations. Companies in the adhocracy phase typically operate a range of psychological contracts for different employee groups.

An increasing number of people find that the career path they moved into earlier in life has either disappeared or the opportunities have far reduced. One very obvious recent example is the large numbers of clerical office roles which have been replaced by call-centre operators who talk to customers directly and input changes as they speak to customers directly into the company systems. The need for processing customer requirements based on paper documents is fast disappearing, as is the need to write letters as correspondence is now increasingly generated automatically by IT systems. The concept of change has caused the psychological contract to shift significantly away from the Old (Bureaucratic) Psychological Contract to the New (Adhocracy) Psychological Contract which, in many countries, is now the most prevalent type.⁸

The Old (Bureaucratic) Psychological Contracts are generally less formalized than employment contracts, and contain an element of employee expectations as well. They are usually presumed to be relatively fixed, and continue to reflect an assumption of ‘permanent’ employment, and a long-term career within a single employing organization or sector.⁹

On the other hand, New (Adhocracy) Psychological Contracts are potentially more unstable, since they can be more temporary or ad hoc. They assume a greater sense of ‘partnership’ between employer and employee, usually on the expectation of a less permanent period of salaried ‘employment’. There is a growing trend towards employment arrangements with ‘interim workers’, contract workers, portfolio or knowledge workers, or ‘interim managers’. Such people may work with an organization for a limited period, or on an agency or freelance basis. The psychological contract of interim workers is even more complex, because it is negotiated – consciously or unconsciously – as a tripartite relationship between the placement agency, the temporary worker and the temporary ‘employer’.¹⁰

Focusing on the foregoing, therefore, the Old and New Psychological Contracts are conceptually different. On his part, Kissler (1994) identified five elements that distinguish Old and New Psychological Contracts as follows.

- a) Under the Old Bureaucratic Psychological Contract (OBPC), the Organization is a ‘parent’ to the employee ‘child’ while under the New Adhocracy Psychological Contract (NAPC), the Organization and employee are both ‘adults’.
- b) Under the OBPC, the Organization defines employees’ worth and identity, unlike in the NAPC where employees define their own worth and identity.
- c) Under the OBPC, those who stay in the Organization are good and loyal, others are disloyal. Under the NAPC, on the other hand, regular flow of people in and out of the organization is healthy.
- d) Under the OBPC, employees who do as they are told will work until they retire. Under the NAPC, long-term employment is unlikely– expect and prepare for multiple employments.
- e) Lastly, promotion of employees is the primary route for growth under the OBPC. This sharply contrasts with the NAPC where employees’ growth is through personal accomplishment.

In addition to the foregoing, and to further augment the distinctions, Sparrow’s (1996) came up with a variety of Nine Parameters upon which the Old and New Psychological Contracts can be distinguished from one another as follows.

- a) *Change environment.* Arguably, the environment in the Old Psychological Contract (OPC) is stable with short term focus. On the other hand, the environment under the New Psychological Contract (NPC) is characterized by continuous change.
- b) *Culture.* Under the OPC, the culture tends to be paternalism, time-served, and there is usually exchange of security for commitment. On the side of the NPC, however, the culture is that, those who perform get rewarded and normally have their contract developed.
- c) *Rewards.* Under the OPC, employees are rewarded/paid on the bases of their level in the organizational hierarchy, position and status. This is distinct from the NPC where remuneration is based on the contribution of employees to the organization.
- d) *Motivational currency.* Under the OPC, motivation of employees is mainly promotion-based while the motivational currency under NPC is attained through job enrichment and competency development.

- e) *Promotion basis.* Under the OPC, promotion is expected, time served, and is based on technical competence. Under the NPC, however, there are fewer opportunities for promotion, and even for the few who deserve and/or get it, new criteria for their selection is used.
- f) *Mobility expectations.* Under the OPC, there is infrequent mobility expectations, and if any, they are premised on employee's terms. Under the NPC, however, horizontal mobility, in a managed manner – mainly propagated by the organization, is used to rejuvenate organization.
- g) *Redundancy/tenure guarantee.* Under the OPC, employees are assured of their jobs for life (permanently) as long as they can perform. Under the NPC, however, an employee is lucky to have a job as there is no guarantee. Besides, employees mainly work on contracts which may or may not be renewed basing on employees performance and the relationship between them and their employers.
- h) *Responsibility.* The responsibility under the OPC is instrumental, as employees exchange promotion for more responsibility. Under the NPC, however, employees have to be encouraged to take on responsibility, balanced with more accountability, and linked to innovation.
- i) *Status.* Under the OPC, status is very much valued and sought for. Under the NPC, however, status is to be earned by competence and credibility of the employee.
- j) *Trust.* Under the OPC, high trust is possible, but under the NPC, trusts is desirable, but employees are expected and required to be more committed to project or profession.
- k) *Personal development.* Under the OPC, personal development of employees is organization's responsibility compared to the NPC under which it is the individual's responsibility to improve his/her employability.

6. Conclusion

As already noted, the Old and New Psychological Contracts do exist, and the two differ very significantly in relation to, among others, the change environment, culture, rewards, motivational currency, promotion bases, mobility expectations, tenure guarantee, responsibility, status, trust, and employee development. And so, since the Old and New Psychological Contracts exist, and the two differ very significantly, they are two different types of wine in two different bottles.

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Notes

- ¹ See http://eprints.usq.edu.au/3749/1/Maguire_Book_chapter.pdf, p.3.
- ² See <http://www.alchemyformanagers.co.uk/topics/6ixdhhPwDvZFjsZc.html>
- ³ See http://www.ashgate.com/pdf/SamplePages/Managing_the_Psychological_Contract_Ch2.pdf, p.18.
- ⁴ Ibid
- ⁵ Ibid
- ⁶ See <http://www.laboursolutions.com/psychological%20contract.htm>
- ⁷ See http://www.ashgate.com/pdf/SamplePages/Managing_the_Psychological_Contract_Ch2.pdf, pp.30-32.
- ⁸ Ibid, pp.31-32.
- ⁹ See <http://www.alchemyformanagers.co.uk/topics/6ixdhhPwDvZFjsZc.html>
- ¹⁰ Ibid