

## THE IMPACT OF PERCEIVED PSYCHOLOGICAL CONTRACT AND JOB SATISFACTION

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### ABSTRACT

*This paper examines the impact of perceived psychological contract and job satisfaction. Psychological contract identifies – Employment obligations, performance, satisfaction, valuing employee contributions. All these makes an employee more satisfied with the job and organisation.*

*Constant changes in employment relationships have posed serious challenges to individuals and organizations. It is being seen that organizations which are unable maintain a psychological connect with its employees end up nurturing a dissatisfied workforce. The study sought to determine the relationship between perceived psychological contract and job satisfaction. Based on literature research a conceptual model has been developed linking psychological contract to job satisfaction.*

### INTRODUCTION

The work environment has undergone a series of changes in the recent past. With organizational flattening and downsizing, diverse workforce, the ongoing re-definition of roles and activities, limitless job opportunities, individualization of the employment relationship, the concept of talent management and talent retention is becoming a great challenge. It is even more difficult task for managers as they end up supervising more people for shorter durations and pitching in on more of the production work. It is being seen that organizations are unable maintain a psychological connect with its employees end up losing their key personnel to competition. Hence, the challenge before the management is to identify effective ways to create a bonding between employees and their places of work. Psychological contract fulfilment is suggested by literature as a means to reduce job dissatisfaction. In this study an effort is made to explore the perception of employee psychological contract on job satisfaction.

Psychological contract has now become an accepted part of the thinking and vocabulary of human resources practitioners. In the recent years there has been a great deal of interest in Job Satisfaction. Satisfied employees are those who are willing to go the extra mile, work with passion and feel a profound connection to their company. These are the people who will drive innovation and move the business forward. Getting people to turn up for work is the easy bit. Getting them to go extra mile requires effort and imagination. The organisation should be looking to generate passion and enthusiasm, and to make work a happier experience for all their employees. This can be achieved by building a positive psychological contract which results in job satisfaction.

In the new people economy, organizations cannot survive unless they have the right kind of knowledge. It is people who drive organizations to success or failure. People as a resource have gained a paramount importance. If employees truly are of company's asset then the company should care for their priorities. The satisfied employees promote continuous innovation, originality of service, leveraging all organizational capabilities. It is satisfied employees who convert knowledge into powerful activities. If you want your company to be successful understand the value of people for their operations. The organizations should respect and manage the employee's expectations.

Traditional employment contract which guaranteed a job for life, with regular promotion and good career prospects in return to loyalty and hard work are becoming rare. Now a different type of workforce is emerging. One of the crucial challenges is to create a more viable relationship between employer and employee. A major element of this relationship is "psychological contract". The psychological contract refers to unwritten mutual expectations between employer and employee. If these expectations are fulfilled it, in turn, makes an employee more satisfied and engaged and results in success for the organization.

### OBJECTIVES OF STUDY

- To study the concept of Psychological Contract.
- To study the content of Psychological Contract.
- To determine the importance of Job Satisfaction.
- To find the perceptions of Psychological Contract on Job Satisfaction.

### **1. To study the concept of Psychological Contract**

The psychological contract refers to mutual unwritten expectations that exist between an employee and employer regarding policies and practices in the organization. Argyris (1960) first referred to the psychological contract only in passing as the relationship between employer and employee. Levinson (1962) is the father of the concept and defined psychological contract as 'unwritten contract, the sum of the mutual expectations between the organization and employees'. Psychological contracts are mental models or schemas that develop through an individual's interactions and experiences. The definition given by Rousseau (1960) highlights employees perception of the existence of mutual obligations deposited with the employer.

While there is no one universally accepted definition of the psychological contract, most definitions tend to see it as the implicit understanding of the mutual obligations owed by an employee and their employing organisation to one another. It is often contrasted with the formal, legal employment contract that specifies the formal duties, responsibilities and obligations of employer and employee in the employment relationship. Commentators vary in the extent to which they see these two sorts of contracts as mutually exclusive, overlapping or interdependent. Shields (2007: 49), for example, sees the psychological contract as 'filling in the gaps' left by the formal legal contract of employment to constitute a more complete account of the entire range of mutual obligations between employer and employee.

While the terms of formal legal employment contracts have undoubtedly changed in most western economies in recent decades as deregulation of labour markets and working conditions, decentralisation of bargaining and de-unionisation have accelerated, many of the changes have occurred behind or beyond the formal employment contract. It is often observed that contemporary work arrangements offer employees a very different 'deal' than traditional work arrangements. Under the traditional deal, employees received a degree of job security, training, development, seniority and guaranteed pay increases, reasonably extensive benefits and career pathways, in exchange for working designated hours according to defined job descriptions. The 'new deal at work' (Cappelli 1999) by contrast, is based on the need to work more intensively across a broader range of tasks, using a greater variety of skills that employees need to have already acquired, and assuming greater accountability for outcomes and high performance in exchange for contingent pay without job security. The different forms of the psychological contract provide a means of interpreting the magnitude of these profound changes at work.

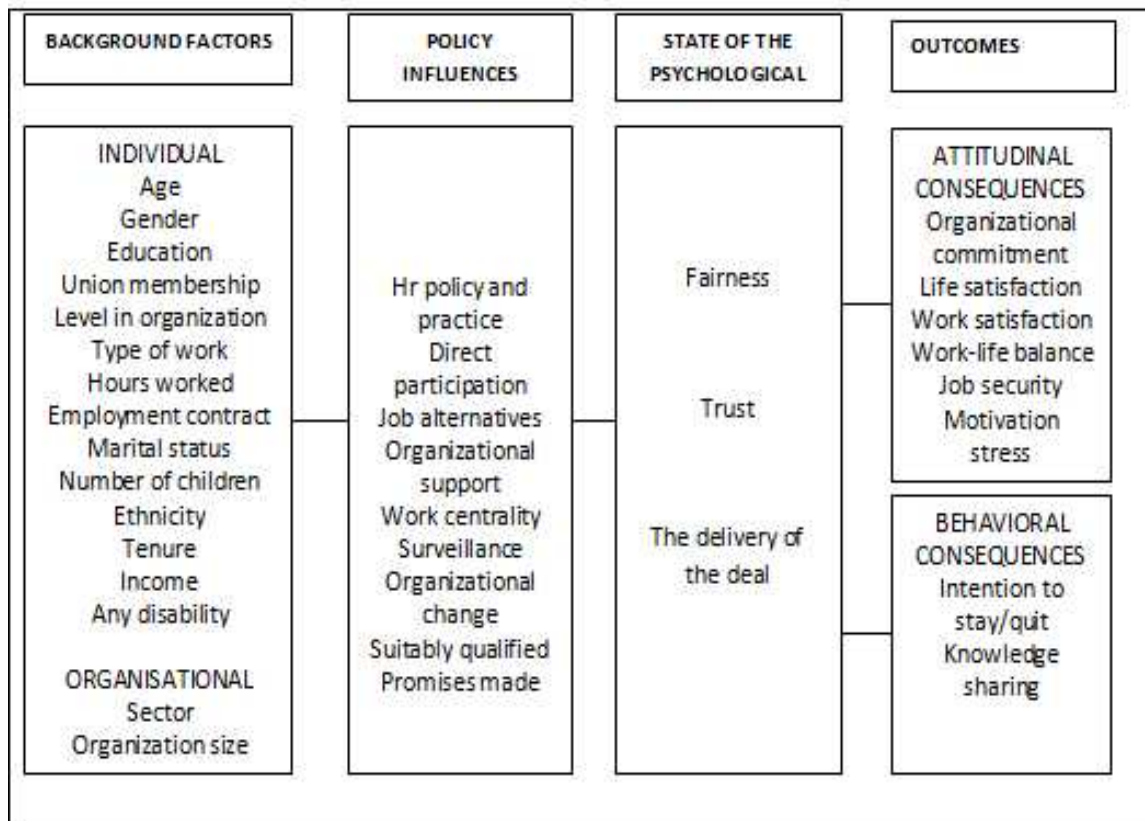
From a different perspective the psychological contract signals a new ground of contestation at work and over work. The fundamental contradiction of contemporary work is the incompatibility of flexibility and commitment (Bratton 2007: 43). Employers, facing intensified competition, have increasingly called for increased productivity and performance from employees. Under the influence of ideas associated with strategic HRM they have sought to achieve this through increasing employee commitment to the job and the organisation as a way of driving and sustaining greater work intensity and high performance. However at the same time they have sought to drive down costs through, amongst other things, greater labour flexibility that has tended to result in harsher working conditions for most employees. The lens of the psychological contract magnifies the ways in which employers are demanding more for less in the contemporary workplace.

The strength of the psychological contract depends on how fair the individual believes the organization is in fulfilling its perceived obligations above and beyond the formal written contract of employment. This in turn determines individual's commitment and engagement to the organization, motivation, job satisfaction, job security. It leads to positive attitudes and high level of commitment.

The concept of psychological contract addresses those relationship that are very hard to define clearly in a formal employment contract, such as knowledge and skills development, one's work and motivation, relationships with one's boss and co-workers, the role one is expected to fulfil, the ethical code by which the employee and the organization will act, the support from the organization and vice versa, and so on.

Psychological contract are voluntary commitments that limit one's future action. They are open-ended and need to be flexible enough to accommodate changes without breaking. It is observed that potential employees can be more engaged and committed when they are valued and recognised. Now a different type of workforce is emerging. People are required to take charge of their own careers, instead of relying on organizations to provide them with a clearly defined career path.

**Figure 2.1- Guest and Conway model of causes and consequences of the psychological contract (Guest & Conway 2000)**



**Why psychological contract is taken seriously**

The changes currently affecting the work force like

- Organizations downsizing and delayering meaning employees have to do more.
- Markets, technology and products constantly changing.
- Technology and finance becoming less importance than human resources as sources of competitive advantage.
- The lens of the psychological contract magnifies the ways in which employers are demanding more for less in the contemporary workplace.

Employees are increasingly recognised as the key business drivers. The ability of the business depends on the employees. The organization has to get the most out of this resource. In order to do these employers have to know what employee expect from their work. The psychological contract offers a framework for monitoring employee attitudes, priorities, need, expectations which will have influence over job satisfaction.

**2. To study the content of Psychological Contract:**

The content of the psychological contract refers broadly to an employee’s perception of the contributions they promise to give to their employer and what they believe the organization promises in return (Conway & Briner, 2005). In today’s workforce employees are not satisfied with pay check, holidays, promotion, career development etc, but there are certain expectations which are hard to define in formal contract. They are as follows: first **Work to be Meaningful** -“Engage employees with meaningful work or watch them walk out the door”. In today’s workforce many have been seeking new employment because they believe their job does not make good use of their skills and abilities. Employees accept career progress and challenge in their jobs. Second **Effective Communication** in recent research into the psychological contract is that this contract is a powerful determinant of behavior in the workplace. However, most people do not communicate their expectations clearly, to the appropriate person, and at the most effective times. Broken psychological contracts between employers and employees are at the root of many workplace conflicts, absenteeism, poor performance, and costly employee turnover.

Third **Relationship with Co-workers** Research shows that employee's relationship with co-workers & supervisors will increase the psychological meaning fullness & employee engagement in the workplace. Positive relationships with co-workers can create a sense of loyalty and moral support and engagement among the staff which leads to job satisfaction. Fourth **Trust** when there is high level of trust in their management the employees tend to stay with the organisation. When will an employee have trust in the organization when they feel the organization is

1. Fulfilling its perceived obligations above & beyond formal written contract.
2. Considering their visions, ideas & values.
3. When their work is recognised, appreciated and reward.

“As organizations become more transparent they will also become more trusted”.

Research evidence shows that, where employees believe that management have broken promises or failed to deliver on commitments, this has a negative effect on job satisfaction and commitment, engagement and on the psychological contract as a whole.

Fifth **Valuing Employee Contributions**- Employees are satisfied when they feel their contributions are valued & efforts are recognised. Employees like to be appreciated for what they do and they like to feel they are part of a team & family. Recognising contributions employees make to an organisation helps solidify relationship, foster job satisfaction & loyalty to the organisation. Sixth **Work-life balance** refers to the respect and understanding of the employer for the employee's personal situation (e.g. determine holidays).

### 3. To explore the importance of Job Satisfaction:

Job satisfaction is an emotion, a feeling, an attitude and a matter of perception that result from an employee appraisal at work (Robbins, 1998). It is also defined as an emotional situation related to the positive or negative judgment of job experiences. Armstrong (2001) states that the level of job satisfaction is affected by intrinsic and extrinsic motivating factors, the quality of supervision, social relationships with work groups and the degree to which individuals succeed or fail in their work. People are motivated to achieve certain goals and will be satisfied if they achieve these goals. They may be even more satisfied if they are then rewarded by extrinsic recognition. It is the extent to which one feels positively or negatively about different aspects of the job, e.g., work conditions, co-workers and working hours and includes a complex set of interrelationships of tasks, roles, responsibilities, interactions, incentives and rewards.

High levels of job satisfaction suggest the likelihood of a correspondingly high commitment to the employment relationship. When employees are satisfied they become more engaged with the organisation and this will reduce absenteeism, voluntary turnover, lack of interest in the job etc. Satisfied employees are the ones who will walk extra mile. Job satisfaction is very important as it results in overall success of the organisation.

### 4. To find the perceptions of Psychological Contract on Job Satisfaction:

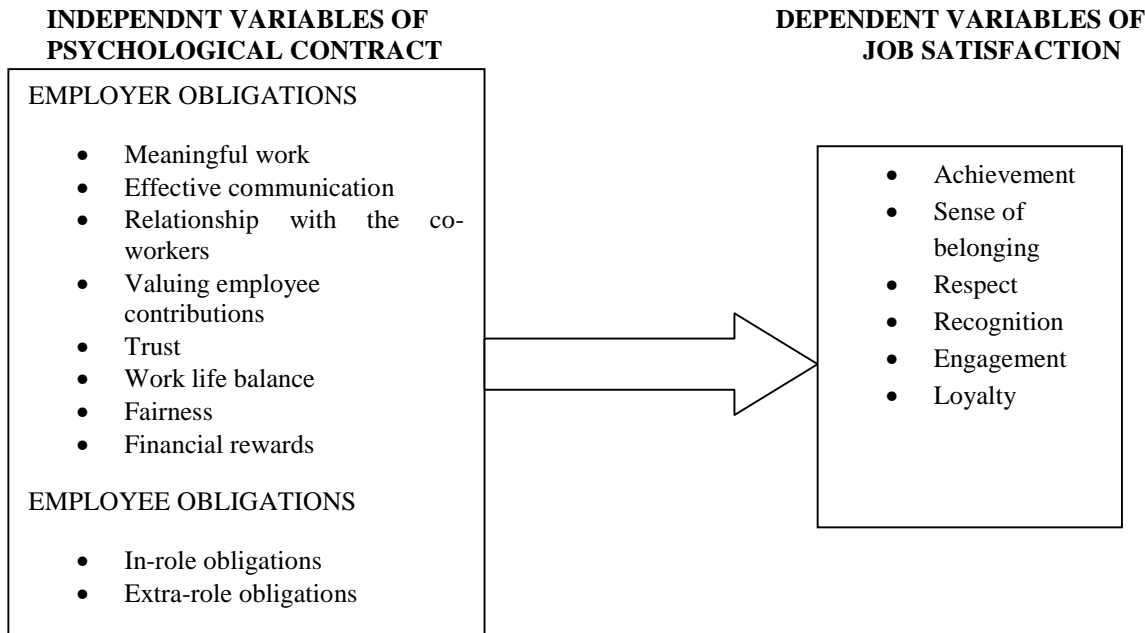
There is growing empirical evidence, which reflects a positive relationship between Psychological Contract and Job Satisfaction. Job satisfaction reflects immediate affective reactions to the job and job facets and forms soon after organizational entry. Theoretical model of psychological contract violation (Morrison and Robinson, 1997) proposes that when an employee perceives a discrepancy in the reciprocal promises made between the employee and the organization, their response may manifest as job dissatisfaction, with resultant increase in absenteeism and turnover. If dissatisfied employees remain in the organization, they may engage in counterproductive behaviors such as poor service, destructive rumours, theft and sabotage of equipment, absenteeism and turnover. These counterproductive behaviors result in financial costs to the organization in terms of lost productivity and replacement costs.

Dissatisfied employees have also been found to report such symptoms as tension, anxiety, disturbed sleep patterns, tiredness, depression and stiffness in muscles and joints (Spector, 1997). These represents a very significant cost to the psychological and physical well being of the employee, indirect financial cost to the organization and sub optimal performance.

When a company is not fulfilling its obligations and expectations of the employees above & beyond formal written contract, it will lead to job dissatisfaction. Violation of the transactional obligation of the psychological contract (Pay, benefits and promotion) result in a decrease in job satisfaction while violation of relational obligations (Loyalty and support) results in lowering of organizational commitment. By delivering the expectations of the employees like meaningful work, effective communication, valuing employee contributions, trust, relationship with the co-workers will lead to job satisfaction and employee engagement. In the changing environment employees are not just satisfied with the pay cheques, allowances etc. They expect above and beyond the formal contract. This can be achieved by understanding psychological contract and fulfilling it which in turn results in job satisfaction.

### Conceptual Model

Figure-2: Conceptual Model Showing the Relationship between Employee Psychological Contract and Job Satisfaction



### Conclusion

The concept of the psychological contract is built around an employee's perception on obligations they have towards the organization and the obligations organizations have towards them. If employees are satisfied with their job, they are more likely to believe that they are more obligated to the organization, than they are to believe that the organization is more obligated to them, under the terms of psychological contract. Developing a positive psychological contract is not instantaneous – it is a journey that requires support from all levels.

The study sought to determine the relationship between perceived psychological contract and job satisfaction. It's found that there is a relationship between psychological contract and job satisfaction. When a company is fulfilling its obligations and expectations of the employees above & beyond formal written contract, it will lead to job satisfaction. When an employee does meaningful job, recognised, satisfied and valued they become more attached to the job & the organization. When the expectations of the employees are fulfilled it leads to job satisfaction, which in turn would lead to increased productivity and intention to stay with the employer.

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