

Managing the Psychological Contract

*Using the Personal Deal to
Increase Business Performance*

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GOWER

Current Use of the Psychological Contract

BACKGROUND TO THE PSYCHOLOGICAL CONTRACT

The term ‘psychological contract’ is something of a contradiction. If we have a *contract* with someone, this refers to a precise and legally binding arrangement we have with a person or an organisation involving the exchange of money for an object or a service. Examples of this are when we contract to buy a house, fly with an airline or sign up for a new credit card. This is completely different from something *psychological* which relates to our mind and therefore is intangible – such as the picture we have in our heads about an experience or a forthcoming event, or the feelings we have towards another person.

The psychological contract essentially refers to the mutual expectations people have of one another in a relationship, and how these expectations change and impact our behaviour over time. The term is currently used mainly to describe the expectations an employee has of the organisation and the expectations the organisation has of the employee. But the idea could apply to any relationship; for example to a wife’s expectations of her husband and a husband’s expectations of his wife. We will look at the different academic definitions of the psychological contract later in this chapter.

Much greater interest is now being shown in the psychological contract as demonstrated by the increasing number of HR journal articles, including those published in the UK by the Chartered Institute of Personnel Development (CIPD). This chapter explores how the idea of the psychological contract has emerged, and the form it can take in practice. Specific examples will be given of psychological contracts in different business organisations. Later in the chapter we will explore the increasingly transient nature of psychological contracts as a result of pressures from both employees and organisations.

The origins of the psychological contract go 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.¹ 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.

The notion of the social contract between the individual citizen and the state continues to be fundamental to our lives in society today. For most of us in knowledge economies, the social contract is something we largely take for granted. As citizens we expect the state to provide us with things like a democratic process for electing a government, an equitable judicial system, an army and police to protect the country both externally and internally, and social services such as education, public transport, healthcare and recreational spaces. To sustain protection by the state and other services we, for our part, have an obligation to pay taxes, abide by the laws of the land, and exercise some control over how we express our feelings and desires so that we can live in reasonable harmony with others in the community. When this arrangement breaks down, as it appears to have done in Iraq, and not so many years ago almost did in Northern Ireland, then the stability of society is threatened.

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.

One of the first writers to use the term psychological contract was Argyris² who defined it as the implicit understanding between a group of employees and their foreman. He described it as:

A relationship may be hypothesised 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).

1 'Forms of Prayer for Jewish Workshop', The Assembly of Rabbis of the Reform Synagogues of Great Britain, The Reform Synagogues of Great Britain, London 1998, P 145

2 Argyris, C. (1960), *Understanding Organisational Behaviour* (Homewood, Illinois: The Dorsey Press Inc)

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.

The psychological contract was refined by Schein³ in his seminal work on organisational psychology in the form it is used today by many human resource practitioners. He describes it as:

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

HOW SOME BUSINESS ORGANISATIONS DESCRIBE THEIR PSYCHOLOGICAL CONTRACTS

Many business organisations use Schein's approach to the psychological contract to seek to clarify understanding between employees and the company. A good example of this comes from the successful sandwich company Prêt à Manger. Their implied psychological contract, as shown in Table 2.1, is based on a summary of the jobs section of the website www.pret.com

The table shows the psychological contract for store employees in two components; 'this is what the company expects' and 'this is what you as an employee can expect'. The psychological contract is presented on the website in a much looser and less overt way – that is if you do this then this is what we will do for you – rather than as the set of up-front mutual understandings presented in the table overleaf. Reading the website does, however, allow the reader to identify each of the expectations shown in the table.

3 Schein, E. (1965), *Organisational Psychology* (Engelwood Cliffs, NJ: Prentice-Hall)

Table 2.1 Prêt à Manger's implied psychological contract

<i>What Prêt à Manger expects from people</i>	<i>What people can expect from Prêt à Manger</i>
Reasonably hard working	Get paid as much as we can afford (not as little as we can get away with)
Good sense of humour	Cosmopolitan atmosphere as a result of diverse employee backgrounds
Enjoy delicious food	Invest in people training and development (in-store trainer)
Start early and leave early	Most managers are promoted from within

The contents of the Prêt à Manger psychological contract describe important aspects of the relationship between the company and its people. While the company does not promise incredible rewards it does promise reasonable pay and a lively environment. It also places high emphasis on the provision of above average training and development compared to other retail organisations; retail is not renowned for its emphasis on training. However, the in-store trainer in each Prêt location appears to offer more than most companies. This has value for employees by helping them learn to do the job, fit in and develop themselves for the future. It also has value for the company in enabling new employees to achieve the required store performance standards faster.

By making a feature of diversity and employing people from different backgrounds Prêt à Manger is able to make its shops feel more interesting both for customers as well as employees. Prêt à Manger is therefore simultaneously fulfilling the two goals of being a socially responsible and equal-opportunity employer, while also creating a differentiator in its marketplace compared to other sandwich shops. One of the other features of working in Prêt à Manger is that, because sandwiches are freshly made on site on the day of sale, employees have to come to work early to make these: therefore the conventional 9.00 a.m. retail start is replaced in Prêt à Manger with a 6.00 or 6.30 a.m. start.

A very different psychological contract is provided by Ernst & Young, one of the 'big four' accounting organisations, based on its People First principles.⁴ People First is based on the idea that the organisation can only create value and confidence for clients through outstanding solutions and services by giving the highest attention to people's growth and satisfaction. By showing its

⁴ People First – 2006, www.ey.com

commitment to people's careers Ernst & Young hopes people will stay longer with the organisation. Some ways the organisation seeks to do this is through:

- fostering leadership and innovation;
- stressing teamwork as a firm value;
- providing continuous learning opportunities and access to knowledge;
- listening and responding to people's ideas and concerns;
- developing lifelong relationships with people;
- ensuring Ernst & Young is an enjoyable place to work.

The Ernst & Young psychological contract with employees can therefore be summarised as in Table 2.2.

Table 2.2 Ernst & Young's implied psychological contract

<i>What Ernst & Young expects from its people</i>	<i>What employees can expect from Ernst & Young</i>
Do the right thing and succeed for clients	Recognise and reward individual's contribution
Energy, enthusiasm, stretch and excel yourself	Enjoyable place to work
Build relationships, teamwork and the courage to lead	Care, listen and respond to people's ideas and concerns
Take charge and personal responsibility for your career	Continuous learning opportunities, access to knowledge and support for personal and career growth, and achieving your potential

The above table implies a very different relationship between employees and the organisation compared to Prêt à Manger. Whereas Prêt à Manger refers to working hard, Ernst & Young instead emphasises success achieved by the individual. The implicit assumption here is that working hard on its own is not enough – and it is something that is taken for granted by Ernst & Young. What the organisation emphasises and expects is that people will achieve high-level business outputs and results.

Other clear differences occur with regard to career development and living the values of the organisation. While Prêt implies few expectations about employees having a desire for long-term careers or more demanding

roles, Ernst & Young takes this for granted in its offer to provide 'continuous learning opportunities, access to knowledge and support for personal and career growth and achieving your potential'. The organisation expects its people to want to develop their careers; however, responsibility for this is clearly placed on the individual themselves. This differs significantly from the implied contract in more traditional organisations where the implicit assumption is often that the company will take on significant, if not total, responsibility for individuals' careers. What Ernst and Young does promise is that, as a result of working there, individuals will have an opportunity to achieve their potential.

Ernst & Young undertakes to reward and remunerate individuals according to their contribution – the more you achieve the more you will be rewarded. Prêt à Manger makes no promises about this – it simply states that it will reward people as much as it can afford. It does, however, offer a carrot for effective performance by stating that most promotions to management occur from within.

The psychological contract of a totally different organisation, a mining company, has some interesting similarities and contrasts with Ernst & Young and Prêt à Manger. In recent years the company has very consciously shifted from being supply led to become customer led. One of its strategies to stay the best is through developing diverse talent. The psychological contract between the mining company and its employees, as shown in Table 2.3.

Table 2.3 Mining Company's implied psychological contract

<i>What the mining company expects</i>	<i>What people can expect from the mining company</i>
Commits to company values and purpose	Jobs and careers that create the opportunity to add increasing value
Focus on delivery excellence	Clarity of purpose
Continuous self-improvement and self-mastery	Pursues a well-defined vision
Responsible for own career planning	Consistent learning opportunities
Networking and building effective relationships	Enables high performance

The mining company's psychological contract has a number of similarities to that of Ernst & Young. Individuals can expect to be developed by the company

but are personally responsible for their careers. The mining company, like Ernst & Young, expects individuals to display passion for what the company does.

The mining company's psychological contract differs in a fundamental way from Ernst & Young and Prêt à Manger in that it makes no reference to financial rewards. This is somewhat of a surprise as money is an important reason why most of us go to work – even if it is not what excites people about their work. The implicit thinking presumably is that for the company to offer meaningful careers it must include at least competitive financial rewards, and therefore direct reference to financial reward is not required.

Another unique feature of the mining company's psychological contract is that it makes explicit reference to provide jobs that offer the opportunity to add increasing value. This could be interpreted to mean offering larger and more responsible roles – something which neither Ernst & Young nor Prêt à Manger offer as part of their explicit psychological contract.

The information contained in the tables has been pulled together from different documents created by these three organisations. In practice, however, the psychological contracts in each of these businesses are to the author's knowledge not presented in such an explicit tabular way to employees. Obviously, there may be an up-front discussion about two-way expectations between a new employee and their boss when they join one of these organisations. Because of this the psychological contract is very much as Schein said, subtly communicated, rather than stated explicitly.

The majority of organisations today typically make their psychological contracts less explicit than the three organisations considered. Instead organisations rely on hints that may be dropped at different stages of the recruitment and induction process, or discussions at performance review time, to shape mutual expectations and the psychological contract between the organisation and its people. The psychological contract therefore typically operates at an unconscious or at least semi-conscious level. People pick up informally what is expected from them and what they can expect from the company through discussions and the occasional direct comment, for example when an employee is given specific directions or when they receive critical performance feedback. An employee will learn what they can expect in return from the organisation from the responses to requests made of the company or, more generally, through the organisation's socialisation processes. The important point is that the psychological contract in the majority of organisations is rarely directly articulated or communicated.

A fundamental feature of all three psychological contracts referred to above is that they refer to employee effort and work; Prêt à Manger refers to being 'reasonably hard working'; Ernst & Young refers to 'succeeding for clients'; and the mining company refers to 'focusing on delivery excellence'. This reference to employee outputs is not surprising, as the primary reason any commercial organisation employs people is to get work done and produce results. Despite the reference to work effort it is interesting to note how each company frames its expectations about this somewhat differently.

Another common feature of all three organisations' psychological contracts is their reference to development. While each contract treats it slightly differently, they all refer to it. Prêt à Manger does not claim to offer long-term careers; it does however offer training and development for all, some of which goes beyond the requirements for job performance. Ernst & Young offers the opportunity to realise your fullest potential, which implies career development; and the mining company makes explicit reference to offering more responsible jobs and careers.

Having looked at the psychological contracts from three different organisations, the most obvious conclusion is how different they are, even with regard to common features all three contain – like work output and career development. Viewed in the context of the very different activities they are involved in – making and selling sandwiches, professional services, and mining – this may not be altogether surprising. These examples hopefully bring to life the very real differences in the psychological contract that can exist in different organisations both in terms of what they expect from their people, and also what people can expect from working for these organisations. These examples of the psychological contract also illustrate how Schein's definition of the psychological contract can be seen in practice by three very different organisations.

Useful as these three descriptions of the psychological contract are, they are not intended in themselves to actively change behaviour. It could therefore be argued that these applications are relatively passive in that they provide a description of mutual expectations rather than seek to actively change people's thinking, behaviour or performance. In the next section we will consider an example where a very different psychological contract exists and which appears to seek to drive behaviour and performance a bit more directly.

A DIFFERENT PSYCHOLOGICAL CONTRACT

The core proposition of this book is that the psychological contract can be used as a powerful vehicle to drive behaviour and, more importantly, business performance. The notion that the psychological contract can influence behaviour was proposed by Schein:

Though it remains unwritten the psychological contract is a powerful determiner of behaviour in organisations.

Schein almost certainly made this comment based more on his personal observation and intuition than empirical data. Since then dozens of academic research studies have provided empirical data which support Schein's view about the impact of the psychological contract on behaviour and performance. Some of this research will be considered in more detail in Chapter 6.

While Schein acknowledged that the psychological contract can influence behaviour he did not anticipate how it could be leveraged to enhance performance. A small number of business organisations now implicitly use the psychological contract to influence and shape organisation behaviour and, in turn, business performance. One example of how a retail organisation uses the psychological contract to drive competitive advantage will be considered below, and other more detailed examples will be given in Chapter 7.

One of the best known UK retail organisations is John Lewis, which is also one of the country's most sustainable business success stories. A special feature of John Lewis is that instead of being owned by shareholders it is a partnership owned by all its long-service employees. Despite the recent crisis faced by the UK's other major high-street name Marks and Spencer, John Lewis continues to grow and increase its sales year on year.

Information on their implied psychological contract can be obtained from the company's web site⁵ and suggests it looks something like Table 2.4.

John Lewis is unique on the high street in operating a psychological contract where all 63 000 permanent employees are themselves owners of the business. As it says on the John Lewis website:

Commitment of partners to the business at John Lewis is a unique source of competitive advantage which has fuelled 75 years of profitable growth and a reputation amongst customers and supporters unparalleled in UK retail industry.

5 www.johnlewispartnership.co.uk

Table 2.4 John Lewis's implied psychological contract

<i>What John Lewis expects from partners</i>	<i>What partners can expect from John Lewis</i>
Exceptional quality of customer service	Competitive pay, bonus based on business success and discounts for staff purchases
Collective Responsibility – treat colleagues fairly and with respect	Work as a co-owner of the business – with staff committees involved in key decisions
Propose new ideas and use skills and knowledge to assist the organisation	Fair and equal opportunities, and wherever practicable promote from within
Honesty and integrity towards colleagues and customers	Loyalty holiday and leisure facilities in Lake District, Poole Harbour, and so on

The implication of the partners owning John Lewis is that the psychological contract is not between employees and the business, as occurs with most other business organisations; rather, their psychological contract is between each individual partner and all the other partners. This therefore creates an altogether different quality of relationship than the one between an employee and their employer. It is manifested by the organisation's expectation of collective responsibility, treating colleagues with respect and behaving as a co-owner. This is a significant departure from the psychological contracts operated in most other commercial organisations.

Another feature of John Lewis's psychological contract is that partners (equivalent to employees) are expected to focus specifically on serving customers and they can expect to share in the success of the business which arises from this. The important feature of the psychological contracts operated by John Lewis is that there is a clear commitment to provide a payback to employees when their focus on the customer bears fruit.

While there is no concrete proof that the success of the businesses is based on its unique psychological contract, there is a strong belief among managers in John Lewis that the employee care and sharing of profit with employees as a result of their contribution to customer service make a real difference to business performance.

The author believes the John Lewis psychological contract is quite special and differs significantly from those in the vast majority of profit and not-for-profit organisations – even those few where the psychological contract has been made quite explicit.

There is now an increasing body of academic research which shows how the psychological contract can impact on behaviour and, in turn, performance of employees, and some of this will be considered later in Chapter 8. The evidence from this research viewed together with the results of companies such as John Lewis makes a convincing case about the importance of the psychological contract for influencing and driving business behaviour and performance.

REDEFINED VIEW OF THE PSYCHOLOGICAL CONTRACT

The definition of the psychological contract provided earlier by Schein, while clear, implies that the psychological contract is what management as a group expect from all individual employees. This approach raises many complex questions, including the definition of who is a manager, and how to take best account of the different views of different managers. Very importantly if the psychological contract is made up of all managers' views then how can a decision be made that the psychological contract has been fulfilled or broken? These and similar questions create a significant challenge about how we can measure and define the psychological contract that is prevalent in an organisation.

To address these and similar issues Denise Rousseau redefined the psychological contract as something which essentially exists in each individual's head. Rousseau defined the psychological contract as:⁶

... individual beliefs, shaped by the organisation, regarding terms of an exchange agreement between individuals and their organisation.

A more straightforward way of saying this was formulated by Rousseau and Greller:⁷

In simple terms, the psychological contract encompasses the actions employees believe are expected of them and what response they expect in return from the employer.

The importance of these revised definitions is that they refer to individual employees' expectations of the organisation and also what they believe the organisation's expectations are of them. In practice of course an individual's beliefs about what the organisation expects of them may or may not have much bearing on what their managers actually expect from them! An employee might for example believe that their manager really values quality – in practice the

⁶ Rousseau, D. (1995), *Psychological Contracts in Organisations* (California: Sage)

⁷ Rousseau, D. and Greller, M. (1994), 'Human Resource Practices: administrative contract makers', *Human Resources Management* 33:3, 385–401

manager might put far more emphasis on volume, and not care much about quality. Rousseau's definition focuses on what each individual perceives and believes in their head about their own and the organisation's expectations. Rousseau's definition has now become widely adopted by the majority of researchers into the cause-effect relationship between psychological contract, its violation and the impact of this on attitudes to work and organisation behaviour.

While two people involved in a work relationship will have expectations about each other, Rousseau's definition implies that there may be two entirely different psychological contracts in operation: one set of beliefs about the exchange agreement between them in the employee's head (Person One) and another and separate set of beliefs about the exchange agreement between them in the manager's head (Person Two). The manager and the employee each have a perception of their psychological contract, whether or not their perceptions refer to the same issues or are consistent.

Despite this multiplicity of psychological contracts Rousseau's definition does have the great benefit of making measurement more straightforward. Each individual's psychological contract can be measured, analysed and interpreted – the individual's expectations about the organisation, as well as the individual's beliefs about what management expect from them as employees. If the perceptions of employees are aggregated they then provide a picture of the state of psychological contracts in the organisation. This definition also avoids the need for a rigorous definition of what constitutes management – management is simply what people understand it to be!

The importance of Rousseau's individual-based definition of the psychological contract is demonstrated by the very considerable increase in academic research into the psychological contract that has occurred since it was published. Despite its appeal to academics, practitioners mostly prefer to use Schein's definition of the psychological contract as a broad single set of expectations between the organisation and its employees.

CHANGE AND THE PSYCHOLOGICAL CONTRACT

One of the fundamental issues raised by Schein in his writing about the psychological contract was that it inevitably changes over time. As Schein put it:

... the psychological contract changes over time as the organisation's needs and the employees' needs change... What the employee is looking for in a job at age 25 may be completely different from what the same employee is looking for at age 50. Similarly what the organisation expects of a person during a period of rapid growth may be completely different from what that same organisation expects when it has levelled off or is experiencing economic decline... As needs and the external forces change, so do these expectations making the psychological contract a dynamic one which must be constantly renegotiated.

Schein's view was that the expectations of employees gradually change as they progress through their life. At a very simple level, employees' needs from employment could be viewed as falling into three stages:

1. *Early work life* During their 20s many people try out, experiment and explore alternative job and career options. This is done in an effort to seek and identify job and career options and paths which are most appealing and personally fulfilling, so that the individual can pursue the paths which are most in their future interests.
2. *Development* This occurs once the individual has identified a positive path from a work content, lifestyle and reward perspective. It occurs after exploring alternatives, and they then decide to develop and increase their skills and expertise in the chosen area of work, and develop their careers in the area.
3. *Maturity* Having found and developed their work niche, the individual typically seeks stability so that they can provide for their increased and continuing family responsibilities. The goal is essentially one of sustaining the chosen direction.

While this view of careers was valid in the latter part of the twentieth century there is now very considerable evidence that this perspective of an individual searching until they find a niche which they stay in for the duration of their career is no longer valid. Far-reaching changes in society, as well as the global economy, are creating dramatic changes in the psychological contracts in many business organisations.

One example of this comes from changes in society. As increasing numbers of people go through divorce their economic requirements change significantly. Many of those over 40 who divorce find that instead of moving into the maturity phase, they decide to return to the development phase to increase their income to regain the level of assets they had prior to breaking up with their partner. Similarly, many people who have passed the development phase find they are

bored. Instead of passing into the maturity phase they return again into the early-work-life stage.

More significant still are employees who having found what they believed was their career niche – whether at management, professional or operator level – find that their future becomes totally insecure. This may be because the jobs or career path they pursued are no longer appropriate or even exist in the economy. Examples in the UK are jobs such as printer or coal miner: changing technology or fuel economics have eliminated these jobs, and in the second case even the organisations where these jobs existed have disappeared. The demise of Rover in 2005 as the last UK-owned mass car manufacturer has seen the elimination of what 40 years ago was a major employment sector in the UK.

Changes to the psychological contracts of hurricane proportions are arising as a result of business pressures. Dramatic changes in the global economy, including the development of low-cost, high-quality manufacturing and now also services in China and India, are accompanied by ever-faster changes in technology, liberalisation of markets and changing consumer expectations. As organisations are pushed to innovate, increase market and customer responsiveness and reduce costs, they are being forced to bring about equally dramatic changes in work practices and in turn employee behaviour. The impact and nature of the changes are described well by Hamel⁸ when he says:

We now stand on the threshold of a new age – the age of revolution. In our minds we know the new age has already arrived; in our bellies we're not sure we like it.... For change has changed. No longer is it additive. No longer does it move in straight lines. In the twenty-first century change is discontinuous, abrupt, seditious... Today we live in a world that is all punctuation and no equilibrium.

SHIFTS IN THE PREVAILING PSYCHOLOGICAL CONTRACT OVER TIME

The far-reaching changes in business are according to Rousseau (1995) bringing about major shifts in both organisations and the psychological contracts that exist in them. She believes that the psychological contract has evolved over three distinct stages:

- *Emerging phase* This occurred in the late eighteenth century during early industrial production and was characterised by a

8 Hamel, G. (2000), *Leading the Revolution* (Boston, Mass.: Harvard Business School Press)

central workplace with high levels of manager/owner control. Organisations 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 epitomised by Whyte's *The Organisation Man*⁹ in companies such as Ford. It was characterised by an internal labour market, organisation hierarchies which controlled behaviour, with spare resources being allocated to allow for unpredictability. Organisation life was characterised 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, epitomised by companies such as Apple and the successful dotcom companies. These are boundary-less organisations which emphasise the use of knowledge and are characterised 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.

As a result of economic pressures the bureaucratic style of organisation with (almost) lifetime employment, defined career structures and pay increases for continuing to serve the organisation is rapidly becoming history. In its place we have to think of our psychological contracts as being almost in a constant state of flux, influenced by ever-evolving business strategies with current business management approaches including performance management, employability and performance-related pay.

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 bureaucratic to the new adhocracy which, in many

9 Whyte, W. (1956), *The Organisation Man* (Simon & Schuster)

countries, is now the most prevalent type. The changes in the psychological contract between the bureaucratic and adhocracy have been summarised by Kissler in Table 2.5.¹⁰

Table 2.5 Changes in the psychological contract

<i>Old bureaucratic psychological contract</i>	<i>New adhocracy psychological contract</i>
Organisation is 'parent' to employee 'child'	Organisation and employee are both 'adult'
Organisation defines employees worth and identity	Employee defines their own worth and identity
Those who stay are good and loyal, others are disloyal	Regular flow of people in and out of the organisation is healthy
Employees who do as they are told will work until they retire	Long-term employment is unlikely – expect and prepare for multiple employments
Promotion is the primary route for growth	Growth is through personal accomplishment

As we can see from the table, the difference between the two psychological contracts is quite fundamental. The changes place increasing responsibility for individual's lives in their own hands, rather than in the hands of the employer, as occurred in the bureaucratic psychological contract. (The terms 'parent', 'adult' and 'child' are used in transactional analysis, which is discussed in Chapter 12.)

Recent research by the UK Chartered Institute of Personnel Development¹¹ adds weight to the conclusion that broad changes are taking place in the psychological contracts operated across different organisations in the UK. At a headline level the research suggests that organisations are now more successful in delivering against the broad expectations they encourage employees to believe: they are fulfilling their side of the psychological contract more than before. CIPD concluded that employees today seek one of three types of psychological contracts with their employer:

- traditional – those who seek long-term tenure and work long hours;
- disengaged – those for whom work is not a central life interest and seek no emotional tie to their employer;

¹⁰ Kissler, G. (1994), 'The New Employment Contract', *Human Resource Management* 33, 335–352

¹¹ Guest, D. and Conway, N. (2004), *Employee Well-Being and the Psychological Contract*, Research Report (London: CIPD)

- independent – those who are well qualified, and seek short tenure and high rewards.

The far-reaching changes in the psychological contracts that are taking place in organisations provide one of the important rationales for this book. When the psychological contract was relatively straightforward and stable, as in bureaucratic organisations, it was less important to understand others' expectations, as these became apparent over time and any misunderstanding could be dealt with gradually. With increasingly dramatic changes in psychological contracts, brought about by ever-faster and vigorous economic and social forces, the need to be clear about our psychological contracts becomes more and more important if we are to cope and thrive in business.

CHAPTER SUMMARY

- The psychological contract refers to the expectations, many of which are unspoken, between an employee and the organisation which employs them. The origins of the concept can be traced back thousands of years to major religions which refer to mutual expectations between members of the faith and God.
- The psychological contract is most commonly defined as 'unwritten expectations operating at all times between every member of an organisation and the various managers and others in that organisation'. Employee expectations may include obvious things such as pay, as well as softer issues such as personal support or development. Organisation expectations may refer to working hard or results, as well as more subtle expectations such as loyalty or enhancing the reputation of the organisation.
- Many organisations articulate their psychological contracts indirectly through their websites, recruitment literature and so on which describe what they expect from an employee, and what the employee can expect from them. Prêt à Manger's website suggests that the company expects its people to be reasonably hard working, have a good sense of humour, enjoy delicious food and start and leave work early. Employees for their part get paid as much as the company can afford, join a cosmopolitan atmosphere, receive training and development, and internal promotion opportunities.
- The psychological contracts of many organisations typically make reference to the efforts/results employees are expected to deliver, and also to the way the organisation will contribute to their

development. Importantly even these common components of the psychological contract are treated subtly but quite differently by different organisations.

- John Lewis' one of the UK's most successful organisations' has a psychological contract which focuses employees on serving customers, it also promises a share in the success arising from this. Because employees own the company, this psychological contract unusually is between employees and other employees, rather than with the organisation.
- The psychological contract was redefined by Rousseau to refer to an individual's beliefs about what is expected of them and what they can expect from their employer. Therefore each employee will have their own perceptions of their psychological contract, and their manager will have their own perceptions of what it involves. Their views of the psychological contract may not be the same or even compatible. Rousseau's individual-based definition of the psychological contract has encouraged a major increase in research in the psychological contract.
- Individual employees and organisations are under enormous pressures to change their expectations of people and in turn their psychological contracts. As individuals move through life their personal needs from work change. While people in their 20s typically seek to experiment and try out new things, those in their 50s typically seek continuity and security. Simultaneously changes arising from new technology and competition from the rapidly growing economies of China and India are putting pressures on large corporations to implement psychological contracts which emphasise greater individual output, flexibility and customer responsiveness.
- The prevailing psychological contracts in organisations have shifted from the emerging, through bureaucratic towards one characterised by adhocracy. This involves both the individual and the organisation being 'adult', and where employees define their own worth and identity through accomplishment. People regularly flow in and out of the organisation and long-term employment becomes less likely.