

Original article

Psychological contract and its importance in the organization managing

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INFORMATION

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ABSTRACT

The article addresses psychological contract management in organizations. The issue still seems to be insufficiently researched, especially when considering Polish enterprises. The article aims to define the factors essential for the employee and the employer when concluding a psychological contract already at the stage of the selected company's recruitment process. The conducted qualitative research allowed for a deeper understanding of the essence of the psychological contract and its distinction between relational and transactional characters. Besides, the research confirmed that it is possible to determine the probability of establishing a specific psychological contract already at the interview stage.

KEYWORDS

psychological contract, organization management, motivating employees



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Introduction

In the era of the employee market, organizations conduct intensified activities aimed at improving employee retention. One aspect that plays a role in shaping these activities is the psychological contract. Researchers referred to the phenomenon as a kind of contract, an informal mutual obligation that binds the employee with the employer [1]. The issue of psychological contract management in organizations has still not been sufficiently researched, especially when considering Polish enterprises, hence analyzing this phenomenon in this article. It aims to define the factors necessary for the employee and the employer when concluding a psychological contract already at the stage of the recruitment process in the selected company, and thus provide a deeper understanding of possible types of contract.

The contract begins when the employee establishes cooperation with the organization. However, the arrangements occur a little earlier, during the interview, where each party presents their expectations. Therefore, using participant observation, the expectations of ten candidates qualified to participate in the recruitment process for a managerial position in a selected company were analyzed and compared with its expectations. The mutual expectations on the

employee-employer line in the selected target group were analyzed in the aspect of managing the organization, especially in terms of building employee motivation and commitment. The conducted qualitative research allowed for a deeper understanding of the essence of the psychological contract and its distinction between relational and transactional characters. The research also confirmed that already at the stage of the interview, it is possible to determine the probability of establishing a specific psychological contract. However, the qualitative nature of the study excludes the quantitative generalization of the results; therefore, it seems justified to continue the study towards quantitative analysis.

The last part of the article contains recommendations on solutions that organizations can use to shape committed and motivated teams, since a contract, as an informal agreement, specifies what the employee needs at work while defining the organization's expectations towards him. It is worth pointing out that the awareness of the importance of the psychological contract, mainly the potential consequences of breaking its terms, might be an element of building the organization's competitive advantage in the labor market.

1. Relational vs transactional nature of a psychological contract – the essence of a psychological contract

In general terms, a psychological contract is that the employee has specific expectations for his/her employer, as the employer defines expectations towards the employees [2]. However, it is not about the apparent exchange of employee skills for remuneration from the employer. The specificity of the contract, and at the same time its most significant difficulty, lies in the fact that expectations of the parties go beyond formal arrangements. K. Adamska points out that these arrangements are in no way written or structured [3]. P. Makin, C. Cooper, and Ch. Cox also noted that the psychological contract is informal and definitely subjective [4]. In turn, E. Morrison and S. Robinson indicate that a contract built on the beliefs of employees and the organization is the basis of the joint employment relationship [5].

The psychological contract can take various forms, and its different types are distinguished in the subject literature [6]. Depending on the nature of mutual obligations and the approach to the contract, it can be referred to as a relational or transactional. The relational nature of the psychological contract occurs mainly in the case of long-term employees and organizations with a relational corporate culture [7]. This type of contract is mainly based on the employee's loyalty to the organization and commitment to satisfying its interests in return for stabilization and employment security. The employee most often reports expectations of long-term cooperation, preferably with the possibility of pursuing a career path within the company's organizational structure. The employer, on the other hand, expects dedication and commitment to performing the assigned tasks. The relational contract is characteristic of family businesses, where the organizational culture is based on relationship, loyalty, and trust. However, it is worth pointing out that due to the changes taking place in the labor market, maintaining the relational contract causes more and more difficulties, especially the dynamics of changes and the need for competitiveness among enterprises are markedly unfavorable. Nevertheless, during the recruitment process, candidates with many years of experience gained while working in one or two companies, looking for further development in stable conditions, and ready to be fully engaged will be interested in establishing a relational contract. In turn, the transaction is appropriate for young organizations focused mainly on achieving business goals, disregarding the relational aspect of work. This type of contract is characterized by a high degree of flexibility and the employee's ability to adapt to the changing realities

of the labor market [7]. The employee shows a proactive attitude and takes responsibility for creating his/her career path. The place of employment is, in this case, a tool for the employee's brand-building. Therefore, the transactional psychological contract will be characteristic of the YZ generation that builds its brand based on autonomous competencies, where their value is confirmed by the position developed in the labor market among many employers. A change of employer can occur at any time during an employee's career and may involve flexibility in terms of both the workplace and the area of activity, or even the form of employment. During the recruitment process, the probability of entering into a transactional contract will be highest for candidates with experience gained in many companies focused on achieving their own specific career goals and prefer working in a dynamic work environment. It is worth noting that the contract is an unstructured phenomenon, so its character will change depending on the stage of the employee's life cycle in the organization and the stage of development of the enterprise.

2. Important factors in establishing a psychological contract in a selected enterprise

The article describes cases related to establishing a psychological contract and its importance in managing an organization. The study was conducted based on one of the primary methods in social research, i.e., observation; due to the author's active participation in the recruitment process, it was participant observation. The sample selection was deliberate – the study covered all candidates qualified to participate in the recruitment process for a managerial position in a selected enterprise that, as a family business with a long tradition, is characterized by a relational, organizational culture. The experience and competencies of ten candidates were analyzed in the recruitment process. According to a specific structure, the candidates answered standard recruitment questions regarding expectations and motivation to start work. The recruitment questions reflecting selected elements of the psychological contract are listed in Table 1.

The adopted research method allowed for the definition of factors essential for the candidates, and thus made it possible to determine to what extent – based on these factors – it would be probable to establish a relational psychological contract with the selected enterprise. First, the candidates were asked about expectations regarding the use of their competencies and skills in a given position. On the employer's side, these expectations, based on the organization's competency profile functioning, were presented in the job advertisement and covered mainly the requirements concerning experience and a specific style of work, i.e., high independence and decision-making in action. In this regard, two critical aspects for the

Table 1. Recruitment questions in relation to the individual elements of the psychological contract

What are your expectations regarding the tasks performed in the indicated position?	Candidate's skills and competencies and the requirements for the position.	Knowledge agreement
What motivates you at work? What makes you feel appreciated at work?	Employee's internal motivation and the organizational incentives	Psychological contract
What values do you follow in your daily life? Are they in line with the company's values?	Organizational culture of the enterprise and the candidate's value system.	Value contract

Source: Own study based on: [2].

Table 2. Candidate's skills and competencies and the requirements for the position

Candidates' expectations	Employer's expectations	The prospect of entering into a psychological contract
70% of the candidates wanted to take up the challenge and expected the possibility of managing a team by themselves	Independent team management	YES
30% of the candidates expected support and guidance from the supervisor, did not feel up to the challenge of independent team management		NO
60% of the candidates indicated that in their work they expected the possibility to decide about the team's activities	High level of decision-making and responsibility for the actions taken	YES
40% of the candidates expected consultations on most decisions with the supervisor		NO

Source: Own study.

employer, independent team management, and a high level of decision-making and responsibility for the actions taken, i.e., competencies included in the job profile, have been defined.

In 70% of the candidates, when responding about independent team management, indicated that the organization's offer attracted them due to the possibility of development and taking responsibility for shaping the team. Therefore, considering the similar employer's expectations, the probability of entering into a contract would be very high for these candidates. The remaining candidates expected the possibility of learning and support in a new role, which, due to the different employer's expectations, suggests that the perspective of concluding a contract is somewhat distant. That was because the employer did not provide additional time for the appropriate preparation for the new role in line with this group of candidates' expectations. In decision-making, 60% of the candidates showed an attitude consistent with the employer's expectations, while 40% wanted a completely different dependence in the decision-making process. The knowledge agreement, which defines the skills and the employee's competencies in relation to the employer's requirements, is the most crucial element from the business point of view; hence the compatibility of the candidate's and the employer's expectations will be necessary to establish an effective and long-term psychological contract.

In the next section, employee motivation aspects were examined, broken down into payroll (related to remuneration and employment conditions in the position), and non-wage motivational factors (dealing with development and promotion opportunities within the organizational structure).

40% of the candidates show readiness to work in a new role and develop in this position in the coming years, thus committing themselves to specific work in the organization. In turn, 60% plan dynamic career development and vertical promotion within the company's organizational structure. In a situation where the employer does not plan to develop directly in a higher position and is looking for a candidate who will take over the responsibility for stabilizing the team, the group of candidates may not be interested in such cooperation in the long term. In addition to non-wage factors, it is also impossible not to consider the wage incentive systems and candidates' expectations in this respect. In 80% of responses, the candidates indicated financial expectations that were within the organization's budget. Nevertheless, 20% of the

Table 3. The employee’s internal motivation and the organizational incentives

Candidates’ expectations	Employer’s expectations	The prospect of entering into a psychological contract
40% of the candidates indicated that they were ready to start working in a new role and develop in this position in the coming years	Development within the organizational structure, possible horizontal promotion (non-wage motivating factors)	YES
60% of the candidates indicated their willingness to develop dynamically and move up vertically in the coming years		NO
80% of the candidates indicated financial expectations in line with the salary scale of the selected enterprise	Specified employment conditions, in line with the company’s salary scale (wage incentives)	YES
20% of the candidates indicated financial expectations that exceed the company’s capabilities by an average of 25-30%		NO

Source: Own study.

applicants stated amounts that were not achievable. In a situation where there is a disproportion in mutual expectations, and one of the parties cannot meet the other’s expectations, it is not possible to enter into a contract. In summary, the motivation contract, along with the knowledge contract, is equally important in establishing a worthwhile psychological contract. The appropriate level of employee motivation determines the implementation of the tasks and business goals of the organization.

In the last point, the candidates answered questions aimed at examining their adjustment to the team and the selected company’s organizational culture.

Table 4. Organizational culture of the enterprise and the candidate’s value system

Candidates’ expectations	Employer’s expectations	The prospect of entering into a psychological contract
During the interview, 70% of the candidates declared that their own value system complied with the organizational culture represented by the company	Representing the value system in line with the company’s organizational culture	YES
During the interview, 30% of the candidates indicated that they were guided by values other than those promoted		NO
During the interview, 20% of the candidates showed the characteristics of a task-based personality	Adjustment to the team, the preferred task-oriented personality type	YES
80% of the candidates represented features other than the task-oriented personality type		NO

Source: Own study.

The employer's expectations in terms of a value contract will apply to the candidate representing a value system similar to that promoted in the company. The selected company seeks candidates who are characterized by honesty and responsibility, the rule of the highest quality and efficiency, flexibility and openness to new solutions, and creativity and the desire for constant development. For 70% of the candidates, the value systems they represent meet the employer's expectations. During the interview, 30% proved to be people of different values, so it may be impossible to establish a contract in their case. In general, the value contract complements the content of the basic scope of the psychological contract, and the parties' compliance with the value system may sometimes decide about the willingness to continue cooperation, even when other contract aspects are upset.

Conclusion

Establishing a contract is a long-term process with specific goals. The first point is a comprehensive presentation of expectations, discussion of the course of the process, the values represented by the employer, and the benefits of concluding a contract for both parties [8]. Although the contract begins with the conclusion of the cooperation agreement, it should be noted that the arrangements and exchange of expectations begin a bit earlier, already during the recruitment interview. Such an interview is always a two-way process because as the employer examines the candidates' competencies and motivation to select the best one, the candidate also verifies and checks employers to choose the best place for himself/herself. The research showed that it is possible to determine the probability of establishing a specific psychological contract, already at the interview stage. As it turns out, the candidates choose their employer more and more consciously, and practice shows that the proper definition of mutual expectations is significant for the employee's further work. Besides, honesty and transparency during the interview allow avoiding later disproportions and misunderstandings regarding the already concluded contract and maintaining the employee's motivation at the appropriate level. The results of the conducted research also confirm a strong relationship between the psychological contract and employee motivation.

Besides, the previous analysis of the subject literature indicates that it is fundamental for the employee's motivation to properly define the framework and initial conditions of cooperation and, most importantly, their later adherence [9]. In this context, it is worth pointing out that the awareness of the principles and specificity of a psychological contract may help shape the desired motivation level related to the employee's commitment. As opposed to the first two motivation levels, where the first one is classic submission (the employee does what the supervisor tells him/her to do without thorough analysis and self-reflection) and the second determines the identification of the goal (the employee's desire to achieve the goal is formed), on the third level the employee considers the goal as his/her own. If the employee is to achieve the third level, he/she must recognize that he/she is the only appropriate person to perform the task, and the work itself is in his/her interest, which is in line with the assumptions of the psychological contract with the organization [10]. However, since a psychological contract is a set of informal obligations, it can change very easily and quickly. The following activities are essential to minimize the risk of breaking the psychological contract assumptions, thus building a company's competitive advantage:

- Proper definition of requirements and expectations towards the candidate.
- Recruitment of candidates matching the team and organizational culture of the company.

- Communication of the company's values and organizational culture during the recruitment process.
- Appropriate management of change to adjust the psychological contract to the new realities, maintaining the proportion of mutual expectations.
- Team management based on adapting communication in line with the social style represented by employees.

Summing up, many factors, both on the part of the employee and the organization, may cause expectations to change and breach or even break the contract. That is why it is indispensable to continually analyze the motivation and satisfaction among employees and verify the activities carried out by the employer in terms of the psychological contract with the employee.

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Conflict of interests

The author declared no conflict of interests.

Author contributions

The author contributed to the interpretation of results and writing of the paper. The author read and approved the final manuscript.

Ethical statement

The research complies with all national and international ethical requirements.

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Biographical note

Natalia Dernowska – M.A., PhD student at the Wrocław University of Economics and Business, active in the Department of Production and Work Management. She deals with the issues of human capital management, in particular in the area of motivation, employee evaluation, and development of competencies. As part of her doctoral dissertation, she conducts research on the determinants and competencies of the HR Business Partner in the organization. Professionally, she is HR Manager and HR Business Partner in a pharmaceutical sector company.

Kontrakt psychologiczny i jego znaczenie w zarządzaniu organizacją

STRESZCZENIE

W artykule poruszono tematykę zarządzania kontraktem psychologicznym w organizacjach, która zdaje się być wciąż niedostatecznie zbadana, szczególnie jeśli wziąć pod uwagę polskie przedsiębiorstwa. Celem artykułu było zdefiniowanie czynników istotnych dla pracownika i pracodawcy podczas nawiązywania kontraktu psychologicznego już na etapie procesu rekrutacyjnego wybranego przedsiębiorstwa. Przeprowadzone badanie jakościowe pozwoliło na głębsze zrozumienie istoty kontraktu psychologicznego i jego rozróżnienia na charakter relacyjny i transakcyjny. W wyniku badań potwierdzono również, że już na etapie rozmowy kwalifikacyjnej możliwe jest określenie prawdopodobieństwa nawiązania określonego kontraktu psychologicznego.

SŁOWA KLUCZOWE kontrakt psychologiczny, zarządzanie organizacją, motywowanie pracowników

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