

## Review Article

# Exploring the Link between Psychological Contract Contents and Human Resource Practices

 Sapna Jangra<sup>1,\*</sup> and Shachie Sandhu<sup>2</sup>
<sup>1</sup>Assistant Professor, Department of Business Studies, PIET, Samalkha, Haryana-132102, India.

<sup>2</sup>Assistant Professor, Institute of Management Studies and Research, Maharshi Dayanand University, Haryana-124001, India.

 \*Corresponding Author Email Address: [shachie.ss@gmail.com](mailto:shachie.ss@gmail.com)

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## ABSTRACT

Companies are going through a tough patch right now, but employees know their rights and how they contribute to the company's success. The connection between employers and employees is delicate, built on trust and the understanding that each party has a responsibility to meet the other's expectations. An abundance of studies examining the impact of different internal and external factors on employees' psychological contracts have been conducted during the past twenty years. Among these studies, human practices have been identified as a key factor in shaping employees' psychological contracts. The psychological contract is the subject of this article; it concerns the unspoken understandings that exist between employers and workers, as well as the ways in which HR policies and procedures influence these understandings. Upon closer inspection, the terms of the psychological contract are nothing more than an offshoot of the company's human resources policies and procedures, which in turn are directly related to the employee's expectations of his employer.

## 1. Introduction

Psychological contracts have been in the public eye since the 1960s, so this is hardly a new field of study. Psychological contract (PC) was first used by Argyris (1960) in his book "Understanding Organizational Behaviour" to describe a leadership style that supervisors adhere to. Schein (1970) provided more context by investigating the idea that employers and employees have different expectations [1-5].

According to Rousseau (1989), the phrase "psychological contract" describes an individual's views about the details of an exchange agreement between two parties. The definition states that the promises made and the consideration offered are the main factors. Furthermore, the presumption of reciprocity is the basis for the psychological contract. Workers' perceptions of the psychological contract, rather than the organization's ability to measure or quantify it, form the basis of this PC notion. Given that PC is based on the parties' respective duties and that they almost never agree that a contract exists, it is inherently subjective. But when it comes to employment relations, defines the employment contract as a system of mutually beneficial expectations and duties between an employer and an employee, in which each side makes concessions to the other in order to meet his or her own needs. According to Kalleberg and Reve (1992), employment contracts are informal in nature and merely outline the expectations of both parties. According to Robinson et.al. (1994), employees' psychological contracts revolve around the debts they owe their employers and the benefits they anticipate receiving from them. The concept of a psychological contract is highly individualistic, depending on how each party views his or her own expectations in relation to those of the organization.

## Psychological Contract

In the context of the onboarding process, the term "psychological contract" has been defined as the degree to which an employee's expectations align with or diverge from those of their employer. When it comes to describing how newcomers join up, Kotter thinks the psychological contract is a useful instrument. The study by Rousseau (1990) discusses the implicit expectations that are connected to what each party has pledged and what they perceive to be obtained. From the time of hiring all the way up to the employee's departure, the psychological contract is being handled [6-10].

When there is a good working relationship between an employer and employee, where both parties see the other as honouring their obligations, it doesn't motivate them to work harder or make more commitments. On the other hand, when promises are broken, it causes dissatisfaction and bad things to happen. Moreover, the psychological contract between an employer and employee has certain subjective contents, which are further subdivided into concrete (remuneration, training) and abstract (recognition, security) components. The specific elements of a transactional contract include the employee's expectation of payment, while the relational contract's abstract component is the employer's obligation to treat the employee with respect. When an employer with a transactional contract fails to deliver as promised, the employee is likely to look for employment elsewhere. Here, upon nonfulfillment, both parties are free to end the contract [11-15].

## Transactional and Relational Contracts

Both the employer and the employee must believe that they have a duty to each other in order for there to be a contract. Implied contracts, promissory contracts, and employment contracts are only a few examples of the many kinds of contracts that have been the subject of research. The scope, tangibility, timeliness, and stability dimensions were



further elaborated upon by Rousseau (1990) in relation to the contract continuum that MacNeil (1985) had suggested. Almost identical to Blau's (1964) economic and social categories, our psychological contract categorization is based on transactional and relational contracts. In contrast to social interaction, which is long-term, non-monetary, and nonspecific, economic exchange is focused on immediate, monetary gain [16].

On one end of the spectrum are transactional contracts, which do not contain any promises but are time-oriented, narrow-scoped, and have readily apparent monetizable elements like pay-for-performance and various forms of rewards. On the other hand, there's the topic of relational contracts, which deal with free-form interactions between businesses and their workers. In a similar vein, examined the impact of different kinds of employment contracts on employees' dedication to their respective organizations. According to the research of South African contingent workers conducted by Lee and Faller (2005), there are two types of contracts: transactional and relational. Transactional contracts are impersonal and primarily concerned with money; they place little emphasis on long-term relationships between the parties involved; and relational contracts are more social and emotional, characterized by trust and commitment.

#### **Psychological Contract Breach**

Disappointment and a deteriorating relationship between employer and employee can occur when an employee's expectations are not satisfied and he does not receive what he had hoped for. When one party acknowledges that the other has not met their responsibilities, this is called a breach or violation. If one party does not adjust their behavior to meet the other's expectations, this is known as a breach of the psychological contract. Organizational citizenship behavior, trust, contentment, commitment, and intention to stay with the company are all negatively impacted by psychological contract violations. Robinson S. L. (1996) explains the mediating function of trust in cases of psychological contract breach and concludes that trust is crucial to the psychological contract. Psychological contract violations have been the subject of several studies, including one that looked at how they affected different types of employees' intentions to leave. Numerous studies have shown that psychological contract breach has a detrimental impact on a variety of employee behaviors, including citizenship behavior and the disregard of on-the-job responsibilities. Researchers have shown that when people's psychological contracts are broken, it damages trust in organizations, makes workers angry, and makes them less invested in their work. The works cited include those of Robinson (1996), Morrison (1997), and Rousseau and Robinson (1994). According to research, employees are more emotionally affected and experience a more powerful reaction to psychological contract breach compared to psychological contract fulfilment.

#### **Psychological Contract Fulfilment**

As a result of both the employer's and the employee's efforts to carry out their respective responsibilities, a phenomenon known as "psychological contract fulfilment" occurs, and the worker experiences a sense of worth and satisfaction. A large body of research has linked

psychological contract fulfilment to beneficial results in domains like attitudes and behaviors and employee loyalty, defined as the propensity to remain with the organization. The term "psychological contract fulfilment" refers to the state of mind that an employee enters into with his or her employer when he or she feels that his or her expectations have been met and a sense of loyalty and dedication to the company grows. According to Rao and Kunja (2019), employees within the same organization may experience either fulfillment or breach of their psychological contracts, depending on their unique characteristics. According to research by Huy and Takashai (2018), when workers complete their responsibilities, they expect their employers to pay them the minimum amount due. Personality, ethical leadership, and organizational identity are employee attributes that have a direct impact on the perceived status of contract fulfilment.

Psychological contract fulfilment leads to happier and more dedicated workers, which in turn boosts productivity. A large body of empirical literature has investigated psychological contract violation and breach. Psychological contract fulfilment, however, has been proposed by researchers as a metric for evaluating psychological contract performance. The extent to which an employee believes their employer has fulfilled their responsibilities is a measure of psychological contract fulfilment. Therefore, this presumption can originate from either the employer's or the employee's perspective. In contrast to the negative aspects of a breach, the positive aspects of an obligation—the fulfilment of a promise—are the center of attention in a psychological contract. Whether or not workers have faith in their employers is irrelevant to the status of the psychological contract, which centers on the mutual understanding of responsibilities between the two parties. Employees care more about the actual results than the promises made to them, according to Scheel et.al. (2013).

## **2. Literature Review**

An exploratory study found that new hires' views of the mutual responsibilities between their company and themselves change significantly within the first several years on the job. Perceived employer obligations appear to be declining but employee expectations of benefits from companies are rising, according to the trends. The psychological contract is defined as the promises made by an employer and the benefits that employees anticipate receiving from their work. What the employee and the company really think is being exchanged is what the concept of contents refers to. Rousseau (1990) conducted a seminal and influential study on the substance of the psychological contract. Based on his presentation of a basic set of items for psychological contract contents, Rousseau (1990) further classified these contracts into "transactional" and "relational" types. Coyle-Shapiro and Kessler (2000), Millward and Hopkins (1998), Robinson (1996), and Kraatz and Rousseau (1994) were among the several research that focused on this topic. Additionally, the categorization of psychological contracts into transactional and relational contracts continued to be dominant. The revised Psychological Contract Inventory was developed by Rousseau as a result of his

research in 1990 and serves as an evaluation tool for mental health professionals.

Herriot, Manning, and Kidd (1997) made another groundbreaking discovery while studying managers and employees in the UK. They surveyed representatives from a variety of sectors and organizations, collected data in the form of incidents, and then used thematic content analysis to compile lists of organizational and employee responsibilities. Psychological contracts have largely been the subject of research on content framing rather than their effects. There are two primary kinds of information that make up a psychological contract, however the vast majority of studies have focused on just one of these types: the items that the parties are agreeing to exchange with one another.

Research on the psychological contract and its effects on the nature and variability of the employment rapport was most pertinently conducted by. Any prior experience or transaction, as well as explicit commitments like a bonus system, bolster the belief in reciprocal duties, which are at the heart of the phrase "psychological contract". In order to study the connection between psychological contracts and organizational commitment, (Millward and Hopkins, 1998) put out a scale that includes things that fall within both transactional and relational contracts. There were 37 items total on the Millward and Hopkins scale; 22 were related to relationships and 15 were about transactions. It is not easy to create a standardized measure to represent the contents of a psychological contract because they can include hundreds of items. Rousseau and Tijoriwala (1998) and Conway and Briner (2005) both state that there is currently no widely accepted method for verifying the accuracy of the psychological contract.

#### **Contents of Psychological Contracts**

According to studies conducted by Kotter (1973), low production, discontent, and turnover can occur when a new hire's expectations are not aligned with those of the business. According to Kotter (1973), there could be hundreds of possible contents for the question of what makes a psychological contract. An employee joins a company with a set of expectations, some of which the company can provide (such as a chance to advance in his career, a competitive salary, a high social standing, and so on), and some of which the employee can contribute (such as strong communication and leadership abilities). Furthermore, each employee may have different responsibilities in this area. In 1973, Kotter outlined thirteen elements that employees expect to receive from their employers, and in the same vein, seventeen items were investigated as expectations of contributions to the business. Nevertheless, research on psychological contracts is scant. However, in the past few years, there has been a dramatic shift in the priorities of both the company and its workers. The researcher found that there are many different kinds of obligations on both the employee's and the organization's side by applying the critical incidence technique and asking for both good and bad instances of organizational and individual occurrences. A list of twelve types of organizational obligations was compiled by Herriot et.al., 1997. These types include "Training, Fairness, Needs, Consult, Discretion, Humanity, Recognition, Environment, Justice, Pay, Benefits and Security," among others. "Hours,

Work, Honesty, Loyalty, Property, Self-presentation, and Flexibility" were among some of the items on the employee's to-do list. Numerous writers from a variety of countries and academic settings have examined the psychological contract and its contents throughout the years.

#### **Psychological contract contents in India**

The idea of a psychological contract has been around for over 50 years, but it has received far less attention in India's context than in others. Many scholars have made significant contributions and conducted extensive study in this area, including D. M. Rousseau (1990), Millward & Hopkins (1998), and Herriot, Manning, and Kidd (1997). A lot of research has looked at what's in PC in the US and the UK, and most of what those studies found is relevant everywhere. Therefore, Indian workers' expectations are very comparable to those of their Western colleagues (Aggarwal & Bhargava, 2009). The work environment and policies in India differ slightly from those in European countries, despite the fact that a large number of exploratory and empirical research have not been conducted in India. Consequently, research on the meaning of the psychological contract in an Indian setting is urgently needed. There aren't a tonne of studies, but there are some big ones that can hold their own against studies from other nations. An important step in the development of research explaining the crucial influence of HR practices on psychological contract status was the work of Gusto and Noonan (1994). Much of the research on the psychological contract between employers and employees has taken place in the United Kingdom and the United States, and the amount of belief on its status stems from different HR practices. What matters most in a psychological contract is the substance of the exchange, not the mechanics of the contract itself.

Aggarwal and Bhargava, (2009) examined the psychological contract in an Indian setting from the perspectives of the employer and the employee, with functional heads standing in for the organization. This study's participants expected their employers to provide them with a healthy work environment, competitive pay and benefits, easy access to relevant information, chances for professional growth, and regular training and development.

The critical incident technique (CIT) and data from a consulting firm were used in a comparable study conducted in an Indian context by Agarwal and Gupta (2016) to examine the issues surrounding the psychological contract as perceived by employees. Both transactional and relational contracts had their contents compiled. As far as the employees are concerned, transactional items are merely hygiene issues; they had no effect on motivation and, in fact, contributed to their discontent. Findings from this study shed light on workers' most recent expectations about their employer. This study found that organizational HR practices (such as training, fair rewards, job security, resources to complete work, physical working conditions, and timely salary payment) make up the transactional psychological contract, whereas relational psychological contract contents (such as humane work practices, recognition and dignity, mentoring, and ethical work culture) are more focused on emotional aspects.



De.Vos et.al.(2003) and Rosseau (1990) cite a plethora of research examining the perspectives and expectations of newbies or freshers, who often enter an organization without prior experience. Because the employee's subjective perspective is crucial to the psychological contract's validity. According to Rousseau (1989) and Freese and Schalk (2008), it's not about what the employee actually gets, but rather how he perceives or expects it. According to research by De Vos et.al. (2003) on the topic of psychological contracts and their creation during organizational socialization, the employer's incentives and responsibilities are defined. Career advancement, job satisfaction, company culture, pay, and work-life balance are some of the most common employee expectations.

#### **Psychological Contract Contents and HR Practices**

Human resources (HR) policy and psychological contract research focuses on the usual, day-to-day processes that employees take for granted rather than on exceptional HR practices. Human resource policies and procedures have an indirect but significant impact on worker conduct. According to Rousseau (1995), HR practices serve as the primary means of communication between organizations and their employees. These practices establish mutual expectations between employers and employees regarding what each party is expected to provide. The relationship between an employer and employee is often understood to be mediated by HR procedures. How an employee interprets HR policies and procedures has a direct impact on the employee-employer relationship. Because the psychological contract is based on two-way, mutually beneficial exchanges, it is crucial that HR policies and procedures be conveyed to workers in a way that sets expectations for them. Among the many things that could influence the psychological relationship between employers and workers is HR strategy. Human resource procedures have the potential to further shape how employees view their relationship with their business. Human resource practices are defined by the kind and level of benefits that are provided to them.

The HR rules, methods, and tools of an organization greatly impact how an employee perceives his connection with his company. Furthermore, the nature of each employee's psychological contract determines the extent to which HR regulations play a role. Policies that are relevant to the psychological contract include effective recruitment practices, a system for evaluating performance, and remuneration policies. Human resource practices are seen as secondary contract makers, according to Rousseau (1995). These policies dictate how the organization treats its personnel. But according to Conway and Briner (2005), every HR practice is a promise that becomes a duty. According to Gusto and Noonan (1994), businesses should make it easy for employees to tell if a contract is a transactional or relational one by looking at their HR rules. That being said, nearly all HR practices reflect the organization's stated promises. Pfeffer (1998), Ahmed and Schroder (2003), and Ayeam (2005) all agree that the following HR practices are fundamental and critical: pay and benefits, job stability, hiring, information sharing, development opportunities, decentralization, and teamwork. Although this is by no means an exhaustive list of all the

activities of this kind that have an impact on organizational and personnel performance. Even so, the aforementioned methods address most of the concerns and requirements of workers.

#### **3. Compensation and benefits Policy**

Evidently, highly skilled and expert personnel are attracted to and retained by companies offering high compensation. In addition to competitive salaries, many organizations also offer performance-based incentive programs to motivate workers. When workers feel appreciated and valued at work, the monetary benefits they receive from these programs have a multiplier impact. Employees' increased dedication and productivity were outlined by Uen and Chien (2004) in their discussion on performance-based compensation. Employees anticipate receiving monetary returns in addition to a slew of other benefits, such as paid time off, health insurance, entertainment allowances, and more. Such perks make employees feel loved and cared for by their employers.

#### **Job Security**

Employees' dedication to the company is strengthened by the assurance of job stability, which boosts their confidence, trust, and optimism (Pfeffer, 2005). When considering the significance of hire and fire in the context of today's uncertain and competitive workplace, when people constantly worry about losing their jobs, it becomes clear how important this decision is. According to Pfeffer (1998), a key component of a high-performance work system is job security. When workers know they have a job, they are more likely to stay put, give their all, and do a better job overall.

#### **Training and Development**

Organizational success hinges on training and development programs that help workers hone their craft and become more efficient. A high-performance work system relies on training and development to raise the bar for employee performance by expanding their horizons in terms of what they know and how they do their jobs. A company's skilled workforce is its most valuable asset since it increases the company's productivity and helps it reach its goals and objectives. One strategy to address the issues that lower workers' levels of job satisfaction is to provide them with training. The competence and expertise of an organization's employees are crucial to its success, claims McDuffe Kochan (1995).

#### **Recruitment and Selection**

Recruiters are the initial point of contact for new hires, shaping their impressions and expectations of the company. Ensuring the correct people are in the organization through a proper recruitment and selection process is crucial for achieving targeted goals. Based on the promises that the employee encounters during the contact, his expectations for the future are formed. There are a lot of promises made to individuals during the recruiting process in terms of their psychological contracts. Experiencing a thorough selection process naturally causes an employee to have different expectations from his organization and employer.

#### **Information Sharing**

The term "information sharing" refers to the practice of disseminating to workers details regarding company policy

and the working. His productivity at work can be enhanced by the exchange of information. It is practically hard to finish duties without the necessary information from the various stakeholders of the organization, therefore an employee expects to receive a variety of pertinent pieces of information that are directly or indirectly related to his execution of responsibilities. The policy of the organization determines how quickly and properly information is shared with employees.

#### 4. Conclusion

In the last section of the article, the author makes the observation that the psychological contract between an employer and employee is directly impacted by the HR policies and procedures of the company as well as the employee's expectations. A psychological contract can be either broken or fulfilled depending on the "fulfillment or non-fulfillment" of these terms. Along with all the other perks, an employee also expects to have a pleasant emotional connection with their employer. Human resource practices lay the groundwork for employees' views, which in turn affect their attitudes, behaviors, and "job satisfaction, organisational commitment, and organisational citizenship behaviour," among other metrics. A constructive relationship between an employee and his employer is maintained when the employer fulfills its commitments in the employer-employee relationship, which is viewed as an exchange relationship. An employee's psychological contract is heavily influenced by the HR practices of the organization. Researchers have shown that employees' perceptions and behaviors are significantly impacted by the psychological contract they make with their organization's HR procedures.

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