

KAROLINA MAZUR

**The dynamics  
of psychological contract  
between employee and  
organization. The analysis  
of selected factors**

**1. Introduction**

The dynamics of the organizational milieu requires the increased vigilance of managers. It causes changes on every managerial level, even strategic, to adapt the organization to current market rules. The problem of milieu volatility has been often emphasized in the world literature, which has been summarised by Mc Carthy and his alliances (Mc Carthy et.al.2010), but only a few academics considered the impact of the internal environment volatility on organizational competitiveness (e.g. Krupski et al., 2005, Bibu et al., 2009, Kearns 2007). In the meantime, changes of the milieu impact also internal environment and relations between employers and employees. The profiles of employees changes, an easy flow of information caused by development information technologies enables access of world workplaces. The work market becomes global. The character of work changes too (Rifkin 2001, Tomanek et al., 2010). Social science also evolves, including knowledge of human resource management. New methods of employee management are developed and applied. Employees are often treated as partners of parties in the contract. The growing interest of knowledge management

Karolina Mazur, Ph.D.  
University of Zielona Góra  
Faculty of Economics  
and Management

and other intangible resources also implies the application of new managerial tools and technologies employed in work – process.

It can be assumed that some relations between employees and organizations evolve through changes in the conditions of the social environment, cultural changes and other external factors (Drela, KiernoŹycka-Sobejko 2009, p. 38). Such external factors refers to the whole set of organizations and also impact the expectations of employers. The increasing meaning of resource based view in management (based on contractual approach), causes a focus on the exchange of certain values. The relation between the organization and the employee can be understood as a contract including diversified values. Such values also evolve because of general evolution of economy and social conditions. In the past the employer expected loyalty and subordination resulted from the familiarization of work environment (particularly from paternalism of the role of organization). Today he desires to have a worker as a partner in business who fulfills also some entrepreneurial functions (Smółka 2008, p. 22).

However a change of employee expectations from organizations can result from other sources than the evolution of social environment or technical progress. People face age changes accompanied by the change of their social situation. The needs and expectations of employees are modified with age too. Employees gain some experience during work stage and they offer new values for the employer. It also impacts the expectations of new employment conditions. More experienced workers can offer *know-how* and *know-why*, but they also expect reward in a monetary form or in advancement within organization.

The main purpose of this paper is the examination if the informal contract between an employee and an employer has a dynamic character, and how the age and experience progress influences the contract in terms of expectations, offer and breach. The paper consists of own research findings of the author.

## 2. The essence of the psychological contract and its role in organization

As it has been mentioned before, the growing meaning of resource based view caused a new understanding of the limits of organization. They are not so sharp as they were in the past. For commercial organizations, they are understood as a set of contracts between different parts participating in business. In a social analysis it can concern three levels. Level *macro* refers to the network analysis and a growing interest in interorganizational relations. The *micro* level analysis is presented in such concepts as a transactional analysis in psychology and management or in a social exchange theory (Berne 2008; Blau 2009; Graen & Uhl-

Bien 1995, after: Mazur 2011, p. 6). The third (*mezo*) level of analysis is represented by theories referred to relations between employee and the organization. The main example of such a theory in management is a theory of psychological contract (Thompson, Hart 2006, p. 229-241, after: Mazur 2011, p. 8).

The term of psychological contract refers to mutual informal expectations between the employee and the organization or its representatives (Wellin 2010, p. 35; Makin et al. 2000, p. 10-11; Mazur 2011, p. 112). The range of mutual expectations constitutes a content of psychological contract. The expectations within contract can be fulfilled (psychological contract fulfillment) or not (psychological contract breach), which causes a certain emotional reaction (psychological contract violation) which is a cause of a certain work related attitude). The psychological contract determines a shape of relation between the employee and the organization and it often precedes formal arrangements (Schalk & Roe 2007, p. 167). It means that the role of contract is significant because it enables a manager to anticipate employee behavior, management of work related attitudes and better achievement of organization goals. (McFarlane Shore & Tetrick, 1994).

For contemporary managers it can be also interesting how the contract content evolves, how employee expectations evolve, values offered by them and the perception of contract breach. By better recognition and understanding of repercussions of contract fulfillment or breach, managers can also manage the relations with employees and control intangible resources which they possess and offer.

### 3. Types of psychological contract

In the literature connected with a psychological contract there are usually recognized two types of agreement: a relational contract (described by psychology) and a transactional contract (which is related to economics and management science) (Aggarwal & Bhargawa, 2010). The development of business ethics allowed to distinguish an ideological contract. J.A.Thompson and D.W Hart stated that contracts differ because of different „currencies“ used in social exchange (Thompson & Hart 2006, p. 229-241, Thomson & Bunderson 2003, after: Mazur 2011, p. 102, 113).

The list of types is not full, there exist many systems of categorization of psychological contract, but there are three types of contract accepted in this paper (Mazur 2011, s. 113-115):

- a transactional psychological contract – based on an economic „currency“,

it has a defined time range and has very narrow content (includes different forms of remuneration),

- a relational psychological contract – based on economic and socio-emotional „currencies“ , concluded without time a range with wider content; this type of contract refers to values of self-development (e.g. development of knowledge and skills) or values of social relations,
- an ideological psychological contract, based on an ideological „currency“, which has origins in mutual responsibility, organizational commitment, has no time limits and has very wide content.

The psychological contract breach has also three types: transactional, relational and ideological.

#### 4. The psychological contract and change

Some authors noticed that psychological contract also changes in time. E. Schein stated that contracts evolves and this evolution has three phases: start of professional life, professional development and professional maturity of employee. This phases differ in terms of employee needs and aspirations which is a result of the changes of the work and family situation (Schein 1965, after: Mazur 2011, p. 112). D.M. Rosseau understand this changes differently. The content of the contract, not the person, grows up and becomes mature. The relation between the employee and the organization changes with the experience, which both have with each-other. (Rousseau 1989, p. 125, after: Mazur 2011, p. 122). Further, the same author admitted that the changes in business environment and changes of management style also have influence on the contract content (Rousseau 1995, after: Mazur 2011, p. 122).

In 1994, G.S. Spindler distinguished „new“ and „old“ psychological contracts (Spindler 1994, p. 328). Also R.R. Sims mentioned „traditional“ psychological contracts “having existed in organizations characterized by stability, predictability and growth” and “new” contracts “only now being established based on stability” (Sims 1994). The “new” and “old” contracts were also mentioned by G.D. Kissler (1994). In traditional relations between the employer and the employee dominates familism: the organization fulfills paternalistic roles, is perceived as a “parent” and relations are very closed (Kissler 1995, Sparrow 1996). In new (modern) contracts, the employee enters the organization as mature a partner and has consciousness of the value exchange between him/her and the organization (Sparrow 1996). It influences the whole relationship, which was described by P.R Sparrow (1996).

There are many determinants of the organizational change. When focusing on the employee, there are two leading factors:

- age change – employees grow up, their social and economic situation changes which induces his/her needs, which is natural life order,
- seniority – employees gain knowledge during professional practice, they gain power (formal and informal) and have higher responsibility (Rousseau, McLean Parks 1993).

Such changes apply to employee expectations and their perception of psychological contract breach. They also refer to the value offered by employees.

## 5. The dynamics of psychological contract research findings

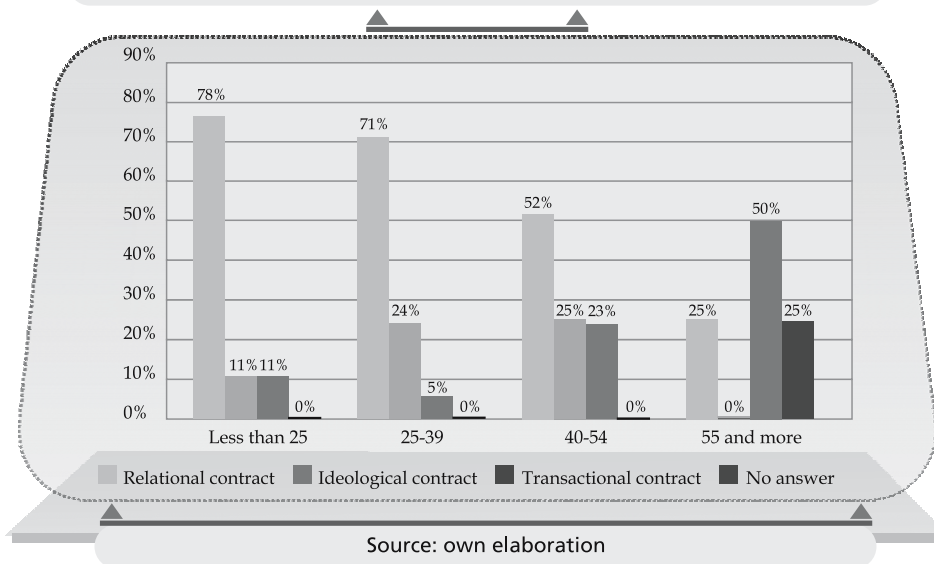
In 2010-2011 there was conducted the research psychological contract in *high-tech* organizations in Poland (research project „Psychological contract in process of building competitive advantage in high-tech sector”, financed by Ministry of Science and Higher Education. During the research, author conducted 140 interviews with employees of high-tech sector (27 women and 114 men). The average age was 36. The interview included questions about content of the contract, – what values they expect to receive from organizations. Those values were categorized. Three categories were used: a transactional psychological contract, a relational psychological contract and an ideological psychological contract (point 3 of this paper). Employees were divided into four age groups (less than 25, 25 to 39, 40 to 54, 55 and more). They were also divided for three seniority groups (beginner – to 1 year of experience, young employee having from 2 to 5 years of experience, senior – more than 5 years of experience).

During the research employee were asked to answer for the question, what are their offers for the organization, what value they bring to it. The answers were also categorized. Three categories also were used: a transactional psychological contract, a relational psychological contract and an ideological psychological contract (point 3 of this paper). The employees were asked if the contract had been breached and what was the range of this breach. The breach areas were also categorized (transactional psychological contract, relational psychological contract and ideological psychological contract). The three categories of contract based on categorization system used by A. Thompson, D.W. Harta and J.S. Bundersona, who used different types of “currencies” to diversify values in each group (Thompson & Hart 2006, p. 229-241, Thomson & Bunderson 2003, Mazur 2011, p. 102, 113). Values classified in category “transactional contract” referred to economic “currency”. They contained wages and contribution

in profit distribution. Values assigned to “relational contract” referred to social and economic “currency”. They included social values (e.g. good atmosphere in workplace) or values that can be a source of future income (e.g. possibility of personal development or promotion). Values classified in category “ideological contract” based on ideological “currency”. They referred to values connected with social responsibility of organization and relation between employee and employer, in which the second part acts as a parent (e.g. assurance of work security or employer honesty ).

The relation between the age and type of contract content was examined. The research findings confirmed relations between different types of employees expectations and age ( $\chi^2(9)=35,20$ ;  $p<0,005$ ) and between age and values that are necessary for them to stay in organizations ( $\chi^2(9)=50,86$ ;  $p<0,005$ ). They also confirmed existing relation between a type of the employee offer and age ( $\chi^2(9)=19,14$ ;  $p<0,025$ ).

Figure 1. Age and values necessary to be employed

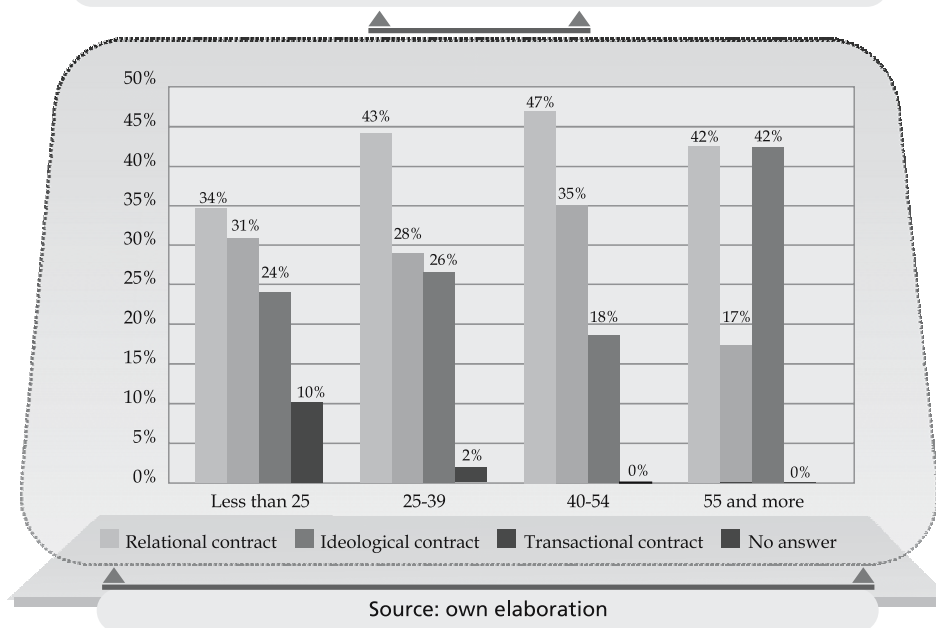


The data presented in figure 1 demonstrates that the growing age is accompanied by the decrease of meaning of relational contract but the increase of transactional contract values. Young employees, (age less than 25)

do not focus on economic values, they try to gain knowledge and build social relations. Employees at age 25-39 emphasize the values of relational contract but they also focus more on ideological contract, which includes such values as recognition and organizational justice. Employees at age 40-54 concentrate on relational but the meaning of transactional contract increases in this age. It is possible that they are conscious of their value confirmed during professional experience. Employees at age 55 and more appreciate transactional contract the most.

In every age group employee offer values of transactional contract the most often as professional knowledge or analytic skills, which are a source of value added in the high-tech sector. But with thee age change also change the type of other offered by employees values (figure 2). The offer of ideological contract

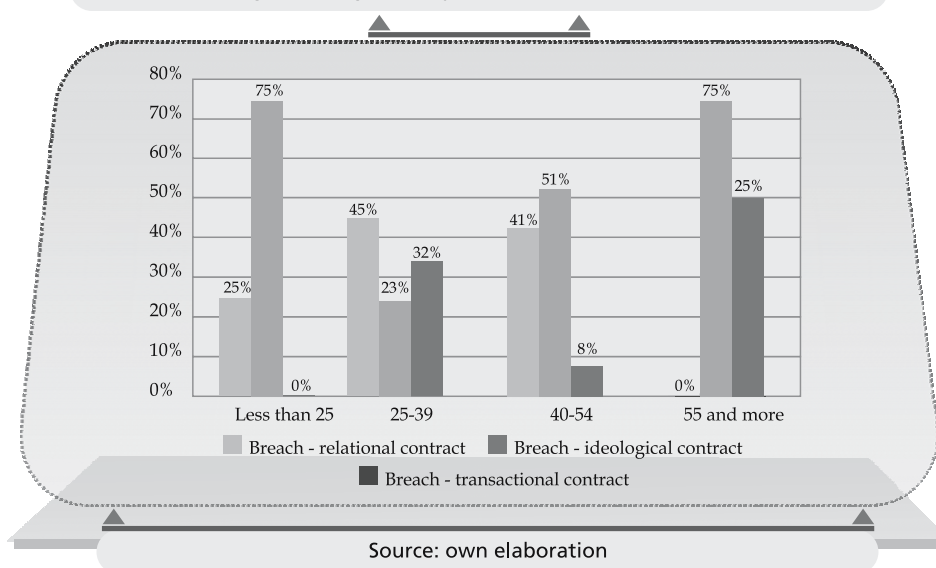
Figure 2. Age and values offered in psychological contract



differs in different age groups, it grows with age (with little decrease in 40-54). The ideological contract consists of such values as loyalty, honesty, diligence and organizational commitment.

The research results proved that the relations between the age and the type of breached contract also exist ( $\chi^2(6)=36,23; p<0,005$ ). Contracts “grow up” and „get old” with employees.

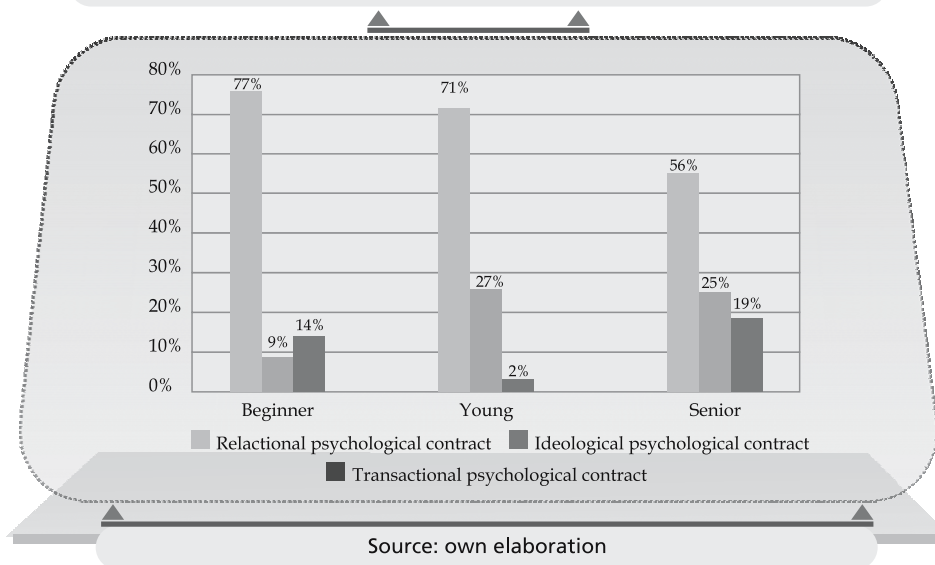
Figure 3. Age and types of breached contract



Amongst the interviewed employees, two groups particularly admitted the breach of ideological psychological contract (figure 3). Employees at age less than 25 (75% indications) perceived as a contract breach the weak responsible behavior of management (referred to quality of strategy, promptness of payments and work physical conditions). Employees at age 55 and more (also 75% indications for ideological contract breach) focused on organizational justice. Young people perceived breach as more ideological, less relational (only 25% indications). Employees in the age group of 25-30 did not so often perceived ideological contract breach (23%) and they perceived the breach of relational contract (45%) and transactional (32%). Employees at age 40-54 are more willing to perceive a breach of ideological contract (51%) and only a few of them perceived a breach of transactional contract. Employees in the age group of 55 and more indicated the breach of ideological contract (75% indications) and transactional (25%).



Figure 4. Seniority and values necessary to be employed

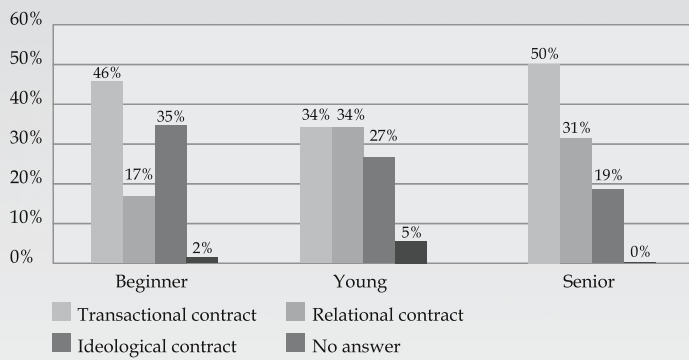


The relations between seniority and contract type were also examined. The relation between the type of the contract (as expected values) and seniority were confirmed ( $\chi^2(4)=8,21$ ;  $p<0,01$ ). The research findings also confirmed that the relation between seniority and values necessary to be employed exists ( $\chi^2(4)=10,76$ ;  $p<0,05$ ). It confirms the opinion of Schein from 1965 (Schein 1965, after: Mazur 2011, p. 112).

The values of relational psychological contract dominated in all groups (figure 4), but the research findings demonstrated that the values of ideological contract and transactional contract differ in different groups. Beginners paid more attention to transactional values (14% of indications) than to ideological (9% of indications), young employees reversely (27% indications to ideological values and only 2% to transactional). The analysis of the content psychological contract in the group of seniors demonstrated that for such employees the most important are the values of relational contract (56% indications). The ideological contract (25% of indications) and transactional contract (19% of indications) are less important, but in comparison to other seniority groups, transactional contract has growing importance).

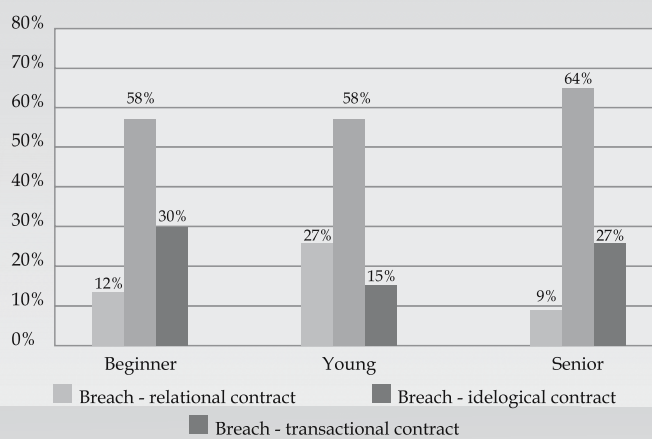
The research findings also demonstrated the relations between seniority and

Figure 5. Seniority and values offered by employee



Source: own elaboration

Figure 6. Seniority and types of contract breach



Source: own elaboration

employee offer. The research proved that employees are aware of the change in their offers. ( $\chi^2(6)=26,77$ ;  $p<0,005$ ). Seniority influences offer, the meaning of ideological contract is decreasing, which is inconsistent with the previous research findings. It is possible that age and seniority groups are different.

In all seniority groups the most important was transactional contract. Beginners indicated this offer in 46% of cases, young employees in 34% and seniors in 50%. But there is a growing offer of relational contract. Only 17% of beginners indicated these values as offered but young employees 34%.

The research findings demonstrated also that the relation between seniority and employee perception of breach (in cases of registered breach) ( $\chi^2(4)=16,77$ ;  $p<0,005$ ).

In all groups the most evident was the breach of ideological contract (figure 6). The main differences were observed for relational and transactional contract. Beginner more often perceived breach of transactional contract (30% of indications) than relational (12% of indications). Young employees more often perceived relational contract breach (27% of indications) than relational (15% of indications). Senior workers indicated more often breach of transactional contract (27% than relational (19%).

## 6. Final Remarks

The research findings and its analysis demonstrate that psychological contract is a phenomenon diversified in different groups of age and seniority. Psychological contract can be recognized as dynamic. It matures with age of employee and also can get old. The changes of employee personal life influence their offer and expectations. They also influence employee sensitivity to breach. Sometimes organizations do not change conditions of the contracts but they evolve by themselves and employee perception of breach also evolves.

The conducted analysis is a source of new research questions. The phenomenon of the dynamics of psychological contract has been not fully recognized yet. The question is if it functions in consciousness of managers. Do they modify contracts with employees? If amongst 140 employees as many as 122 perceived contract breach, in how many cases the reason is ignoring the change? It is also interesting, what particular values are content of different types of the contract? How the configuration of such values changes with age and seniority? Maybe there is a need for new categorization method in this case?

## Summary

### **The dynamics of psychological contract between employee and organization. The analysis of selected factors**

The main purpose of this paper was the examination if the psychological contract between an employee and organization has a dynamic character and how the age and experience progress influences the contract in terms of contract content, values offered by employees and the contract breach. The paper consists of own research findings of the author. The group of 140 employees from high-tech industry were examined in period of 2010-2011. There was used a  $\chi^2$  test in assessment of assumed relations. The research findings proved that the conditions of psychological contract changed with age of employee and his or her stage in the workplace. It refers to both parts of the contract. Values expected and values offered by employee evolves. The age and stage in the workplace change are also connected with change of employee perception of the type of contract breach. The research findings demonstrated that psychological contract is dynamic phenomenon.

## Streszczenie

### **Dynamiczny charakter kontraktu psychologicznego pomiędzy pracownikiem a organizacją. Analiza wybranych warunków**

W artykule przeanalizowano problem zmienności kontraktu psychologicznego wynikający ze zmiany wieku i stażu pracowników stanowiących wybrane czynniki. Analizę opracowano w oparciu o badania własne, którymi objęto 140 pracowników sektora wysokich technologii w Polsce w latach 2010-2011. W badaniach zastosowano test  $\chi^2$ . Wyniki badań wykazały, że warunki kontraktu zmieniają się wraz z wiekiem pracowników oraz ich stażem w miejscu pracy. Dotyczy to zarówno wartości oczekiwanych, jak i wartości oferowanych przez pracowników. Ponadto wykazano, że wraz z wiekiem i stażem pracy pracownika zmienia się także jego postrzeganie zakresu naruszenia kontraktu psychologicznego. W ten sposób wykazano dynamiczny charakter kontraktu psychologicznego.

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