

PSYCHOLOGICAL CONTRACT

What is the psychological contract?

The psychological contract is defined by the Chartered Institute of Personnel and Development (CIPD) as the 'perceptions of the two parties, employee and employer, of what their mutual obligations are towards each other'. In other words, it effectively tells employees what they are required to do to meet their side of the bargain and what they can expect from their job.

Primarily, the Psychological Contract refers to the relationship between an employer and its employees, and specifically concerns their mutual expectations of inputs and outcomes. It will often be based on philosophy, beliefs and values and is therefore hard to quantify and define in a generic manner. So, characteristics such as respect, compassion, trust, empathy, fairness, objectivity – are likely to be those that determine the strength of the psychological contract between an employer and employee, rather than fact based 'hard' criteria such as pay rate, working hours etc. The diagram below shows clearly what factors tend to determine the psychological contract.

What happens when the psychological contract breaks down?

Breach of the psychological contract can seriously damage the employment relationship. It is not always possible to avoid a breach but damage is less likely if managers are open with employees about the issues that need to be addressed. Negative impacts can include:

- Low employee satisfaction
- Low levels of employee commitment and engagement
- Higher turnover rates
- Negative impact on employee well-being/ employee absence

What are the implications of this for my business?

As an employer, there are activities that can support the development of a strong psychological contract with your staff:

Process fairness: people want to know that their interests will be taken into account when important decisions are made; they would like to be treated with respect; they are more likely to be satisfied with their job if they are consulted about change.

Communications: an effective two-way dialogue between employer and employees is a necessary means of giving expression to employee 'voice'.

Management style: employ a style that nurtures trust, openness and honesty. Adopt a 'bottom up' management style rather than 'command and control'.

Managing expectations: employers need to make clear to new recruits what they can expect from the job. Managing expectations, particularly when bad news is anticipated, will increase the chances of establishing a realistic psychological contract.

Measuring employee attitudes: monitor employee attitudes on a regular basis as a means of identifying where action may be needed in order to improve performance

psychological contracts 'iceberg' model



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