The Psychological Contract and the Readiness to Verbalize It in Financial Institutions in Poland

Anna Rogozińska-Pawełczyk

Abstract—A psychological contract is an agreement between the employer and an employee that covers the parties’ informal and frequently non-verbalized obligations and expectations towards each other. The contract is a cognitive pattern-governing employee’s behaviour in the organization. A gap between employee’s expectations and the organizational reality may lead to difficult-to-solve conflicts or cause the employee to modify their behaviour towards organizational values and goals, if they are willing and ready to verbalize their expectations.

The article discusses psychological contracts in the financial institutions in Poland. Its theoretical part outlines the types of psychological contracts in organizations (relational, transactional, and balanced) and shows the process of their verbalization. The purpose of the article is to present how the type of the psychological contract relates to employee’s readiness to verbalize it. The article ends with conclusions arising from the study.

Keywords—Customer contact staff in banks, employee expectations, financial institutions, mutual expectations, psychological contract, verbalization of the psychological contract.

I. INTRODUCTION

SOCIAL relations in an organization can be considered in terms of the expectations and obligations that the employer and employee have towards each other. The presented analysis deals with the psychological contract covering the terms of their cooperation. The parties make interpretations of the contractual terms while forming their visions of their future relations, in which they draw on their earlier experiences, and responding to needs that arise during their employment. This means that the psychological contract has the form of a cognitive pattern influencing employee behaviour in the organization. The contract is characterized by discrepancies between the employee’s vision of organizational reality and the reality itself. The discrepancies can be reduced in a way that either benefits or hurts cooperation.

If one aim of HRM (Human Resource Management) practices in the organization is to ensure balance between performance and good relations understood as employees’ readiness to test the contents of their psychological contract, the organization is better adapted to coping with changes in its business environment.

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II. LITERATURE REVIEW

A. The Psychological Contract in an Organization

A psychological contract is made of obligations and expectations that the employee and the employer have regarding the object of social exchange between them [1]-[3]. This unwritten agreement functions as a cognitive pattern through which employees interpret the events they experience in the organization and predict future developments [4]. The agreement determines how exchanges will be made based on the assessment of the other party’s claims, the sense of responsibility for the other party, a feeling of guilt when one fails to comply with its terms, or a feeling of disappointment when promises are broken.

A job seeker creates the vision of their future role and treatment in the organization based on their values and motivations, earlier experiences gained in other organizations, and a wider cultural context with its social behavioural norms [5]. The vision is juxtaposed with promises made during the recruitment process, both those incorporated in the formal contract and oral promises of development opportunities, etc. The parties expectations towards each other can be tested when training plans are being made or when training outcomes are being discussed with the immediate superior. Another testing ground can be the renegotiation of wage rates and the participation in a cafeteria system with non-financial rewards on the menu.

Inefficiencies in the organization’s HRM practices considerably reduce the possibility of verbalization of the psychological contract [6], [7] and make the contract less complete. Incompleteness is inherent to a psychological contract [4], because it is not possible to cover all aspects of mutual relations. However, the longer the relations are maintained, the more possibilities appear to add new information.

The psychological contract can be breached when one party behaves in a way that the other party interprets as contrary to what has been agreed [8]. The employee’s vision of promises made is largely based on unclear signals send by the employer and the employee’s excessive expectations. The risk of the contract being broken increases when the organization goes through a period of changes. In this situation, for the psychological contract to be verbalized, information must be distributed and consultations must be held beforehand. Parties that exchange information can agree on a common set of expectations, which is crucial to maintaining good relations in the organization. Particularly important is that the parties can verbalize, discuss, and reconcile their mutual expectations.
B. The Changing Paradigm of the Psychological Contract – the Role of Contract Verbalization

The psychological contract is a theoretical construct that allows employment relations to be understood [9]. The character of these relations has changed considerably over the least three decades as a result of globalization and technological, structural, and cultural developments [10]-[12]. Rousseau created three types of psychological contracts that are concluded in the time of tough competition and economic instability [8]. These three types of contracts differently perceive the value of employment relations, differently interpret particular behaviours, and lead to different decisions about what specific actions should be taken to strengthen or modify these behaviours.

The relational contract generally describes what behaviours are expected and assumes long-term cooperation. The most appreciated are loyalty and stability, which are mostly formed through paternalistic relations. Changes are usually riskier for the employer. This type of the psychological contract is available to employees whose real or potential contribution to the organization is viewed as high. The transactional contract strictly defines a narrow range of duties, which are mostly fulfilled in a specific period. This contract is easy to terminate and neither of the parties thinks that it should help the partner through a period of crisis. The risk of unexpected business circumstances is transferred from the employer to the employee. The balanced contract is a relational contract that additionally imposes certain performance requirements on the employee. The employer undertakes to provide the employee with development opportunities and the employee undertakes to behave as changing economic circumstances may require. The nature of the relations between the two parties depends on market demand and supply. As McNeil noted in 1985, these three psychological contracts form a continuum with the relational contract and the transactional contract at the ends and the balanced contract between them. The decision about each of them will be implemented depends on how developed employment forms in the organization are. The traditional forms use relational contracts and the flexible forms involve balanced and transactional contracts [13].

Relational contracts involving predictability and stability of relations between the parties increasingly often give way to transactional contracts [14], [15]. The relational contracts take account of the employee’s status in the organization, whereas the transactional contracts are negotiated between the employee and the employer [16], [17] and are executed between the employee and their immediate superior. Transactional contracts are flexible and frequently informal. A large number of transactional contracts in the organization are not without consequences. Firstly, it increases the complexity of employment relations that poses a challenge for the managers. Modifications to the arrangements and their less formal character may lead to a breach of a psychological contract that makes people feel that they are not treated fairly. The risk that this will happen gives more meaning to trust between the employee and the employer, because parties that trust each other can exchange information about their expectations and act on their shared beliefs [18], [19]. Terms of cooperation that are more negotiable are a challenge for both the employer and the employee, because they make them monitor and compare their inputs and gains and inform each other of their expectations [20].

C. The Dimensions of the Verbalization of a Psychological Contract

The pressure on increased flexibility of employment relations makes them more diverse, which results in new interpretations of opposing requirements and in the establishment of new priorities and norms [21]. The verbalization of the psychological contract, i.e. the employees’ readiness to say what they expect of their superiors and to compare and negotiate the visions of mutual obligations, increases organizational flexibility and owing to more frequent contacts makes the organization also more effective [22]. The verbalization of the psychological contract in the organization has to do with communication [23] that in addition to reducing uncertainty is also necessary for decision-making. Whether a message will be sent and received depends on how well the parties at the two ends of the communication process understand each other and on whether the sender believes that the other party is receptive. This belief is the essence of openness in communication, which is considered the first dimension of the verbalization of a psychological contract. The second dimension is short power distance and the third one, closely related to the first two, is the employee’s subjective evaluation of how important their contribution to organizational actions and decisions is [24].

D. Openness of Communication

Openness of communication is a belief based on earlier experiences that the exchange of information with the superiors, particularly in difficult situations, is possible [25], [4]. Difficult situations disturb organizational routines, entail new solutions, and consequently throw into question the stability of the psychological contract. Having a discussion in a difficult situation may involve the reconsideration of contract terms, which leads to a debate about the possible differences between the parties’ visions of their relations. For a difficult situation to be solved, substantial openness of communication is necessary [26].

There are four different approaches from which employees can choose to cope with a difficult situation [27]. A withdrawal involves a decision to leave the organization, to seek a new job, etc. Dialogue is an attempt to solve a problem by discussing options with the superior, presenting specific solutions, or seeking help inside and outside the organization. Employees choosing loyalty wait patiently for their organisation to solve the problem without their participation. Negligence, the last of the four options, causes that the employee spends time at work doing things unrelated to his or her job (usually takes care of personal matters), regularly and deliberately comes late for work, is absent from work more often, etc.

According to [27], the classical reactions of an employee
may be driven by aggression or common sense. In the first case, the employee tries to put forward different solutions and "win" an optimal solution from the superior, and blames managers or the company for the arising problems. A reaction based on common sense is defined by the authors as a constructive action taken by an employee who repeatedly tries to understand and solve the problem, and to find a compromise [27].

E. Power Distance

Power distance is indicated by the degree to which an employee varies their behaviour when the superior is around [28]. Higher power distance means that the employee refrains from spontaneous reactions, whether verbal (the form and contents of communication are controlled) or non-verbal (physical distance is maintained and all forms of physical contact such as patting, hugging for greeting, touching to keep the other person's attention, or acknowledging some statements are avoided [29]. High power distance towards a person of higher social rank can also be seen in the course of the conversation: it is the person of authority who has the right to initiate and end conversation, and to interrupt the interlocutor. This social asymmetry determines the degree to which expectations can be shared and negotiated. When power distance is higher, the psychological contract is less verbalized. Perceiving persons with authority as those whose powers are greater than their formal entitlements is a serious factor contributing to power distance [30].

F. Contribution

The third condition for the psychological contract to be verbalized is the employee's subjective impression that they significantly contribute to organization's actions and decisions and that their opinions on the work they do help the organization improve its performance. On the other hand, an employee who thinks that superiors are not interested in what they think about organizational issues perceives their role in the organization as small. These employees are less willing to verbalize and negotiate a psychological contract. Perceiving an employee who makes a major contribution to the organization as someone who duly deserves respect is consistent with the principle of organizational fairness [31].

The superior can show their respect for the employee not only by being open to their suggestions, but also by keeping promises that were made. This encourages the employee to fulfill their part of obligations and activates the reciprocity principle [18]. The principle makes people form positive opinions about organizational fairness. Greenberg [32] argues that organizational fairness comes with employees starting to believe that they are fairly rewarded and evaluated, but also when the organization has fair procedures and appreciates good interpersonal relations [32].

III. METHODOLOGY

The article presents the findings of a pilot study into the perception of the psychological contract in the organization. The study was financed from the research grant "A Human Resource Management Model Based on a Psychological Contract" no UMO-2013/09/B/HS4/00474 awarded by the Polish State Committee for Scientific Research (NCN).

In order to meet the specific needs of the study two diagnostic tools were created: the Psychological Contract Form (PCF) and the Psychological Contract Verbalization Form (PCVF). The PCF was developed from the Psychological Contract Inventory that Denis Rousseau had created to identify what type of the psychological contract was used in organizations. Like the original questionnaire, the PCF consisted of 35 items and three subscales: the balanced contract (15 items), the relational contract (10 items) and the transactional contract (10 items). The respondents were instructed as follows: „Please think about your relations with the present employer and answer the question (for each item in the questionnaire) about the type of expectations you hold towards your workplace (and what you cannot expect of it)“. The answers were marked on a five-point scale; I meant that the item was irrelevant to the respondent’s relations with the employer and 5 that it described them accurately. Each subscale score was calculated by adding up all points the respondent achieved for their answers (each answer was scored from 0 to 4). A higher score pointed to higher intensity of the given characteristic.

The PCVF served the purpose of establishing how willing the employee was to state what they expected of the employer. It comprised three scales with 25 items, i.e.: a) Openness of communication (11 items) – the degree of employee’s readiness to openly express their expectations of the superior; b) Power distance (8 items) – employee’s subjective opinion on the constraints in communicating their views in the presence of the superior and expressing expectations; c) Contribution (6 items) – employee’s subjective perception of how important their participation in organizational actions and decisions was.

Each statement was provided with a two-point „yes” / „no” scale for the respondent to indicate the degree to which their behaviours and beliefs matched the statement. The final score was arrived at by adding up the points the respondent got for their answers (0 or 1 point for each answer). A higher score was indicative of higher intensity of the considered characteristic.

The survey covered the whole country and the respondents were managers and personnel in 8 financial institutions (3 banks, 2 pension funds, 1 insurance company and 2 brokerage firms). A total of 364 persons aged 35 years on average (SD = 10.16) of which 193 were women and 171 were men. In terms of the organizational status, 287 were employees (167 women and 120 men) and 77 were managers (26 women and 51 men).

IV. FINDINGS

The type of a psychological contract an organization has adopted can be established based on the freedom of communication allowed by employment relations, employees’ belief they are part of decision-making (contribution), and power distance. The probability that a psychological contract
will be verbalized is the higher the greater openness of communication and sense of participation, and the lower the power distance. A balanced contract can be assumed to be positively correlated with openness of communication and a sense of participation, and negatively, because employees are expected to be efficient and effective, with power distance (small power distance could have a negative effect on their performance). The reciprocal nature of a relational contract emphasizing the value of harmonious cooperation creates friendly relations between an employee and the superior, lowers barriers to openness in communication (power distance is viewed as an obstacle), and strengthens the employee’s sense of participation. The transactional contract with its limited range of trade-offs, fixed time for their execution and precisely stated obligations involves power distance rather than openness of communication and contribution.

The type of the psychological contract and the causes and consequences of its verbalization should be considered in a broader context of employees’ attitudes and behaviours. Because this article focuses only on some selected aspects of employee functioning in the organization, the following research questions were formulated:

- Does the degree to which the psychological contract is verbalized depend on its type?
- Is the verbalization of the psychological contract by the employee related to their organizational status?

The study sought to establish how strongly the type of the psychological contract and employee’s readiness to verbalize it are correlated with each other. The readiness was considered with respect to three dimensions: openness of communication, power distance, and contribution. The research results provided positive answers to the research questions (Table I).

The transactional contract was not correlated with openness of communication or contribution, but it correlated with power distance. The relational contract was negatively correlated with power distance (r = -0.32; p < 0.001). The balanced and relational contracts were significantly correlated with openness of communication and contribution (respectively, r = 0.89 at p < 0.001; r = 0.87 at p < 0.001; r = 0.87 at p < 0.001; and r = 0.65 at p < 0.001). The transactional contract was negatively correlated with openness of communication (r = -0.22 at p < 0.05).

Each type of the psychological contracts comes with different readiness to verbalize it. The readiness was the lowest in the case of the transactional contract and the highest for the relational contract characterized by openness of communication, low power distance, and the employee’s sense of being part of organizational decision-making.

The higher openness of communication and employee’s contribution (their sense of participation), the clearer it is that the balanced contract (involving flexible employment relations and negotiable trade-offs) is at work. This contract is not significantly correlated with power distance. The characteristic features of the relational contract are lower power distance, stronger sense of contribution and greater openness of communication. The transactional contract is not correlated with contribution, but it has to do with power distance and less open communication. When the relations between the employer and the employee are of relational nature, responsibilities are strictly defined (subordination) and the employee does not feel obliged to share information with the superiors.

Following the assumption that the higher employee’s status in organizational hierarchy the higher level of verbalization of the contract, it was expected that the three dimensions of verbalization of the psychological contract would differ in intensity. The research found that such differences really existed, but that they were not statistically significant (Table II).

The rates of openness of communication and contribution were higher for managers than for employees. At the same time, managers showed lower power distance. This means that the managers were probably more open in communication, had a stronger sense of participation in organizational actions and decisions, and experienced lower power distance. As regards the employees, their relations with the employer were characterized by higher power distance combined with lower openness of communication and a weak sense of contribution. An interesting observation is that both employees and superiors may feel inclined to avoid open discussions about various aspects of their relations. The main reason for pursuing this strategy is the fear of open confrontation, should the parties’ expectations were at variance. Open communication and clearly defined expectations may undermine the relations the parties have established.

V. DISCUSSION

The presented research focused on the correlation between the type of the psychological contract in the organization and the degree to which its employees and managers were willing and ready to verbalize it which influences the process of
forming employment relations. A sample of respondents was surveyed with respect to three types of psychological contracts and their verbalization, taking into account their organizational status and the types of employment relations in their organizations.

The employee’s readiness to verbalize the psychological contract, expectations and obligations is an indication of the degree to which the degree trusts that it is possible for them to initiate or to participate in a conversation with the superior. For a conversation on equal terms to be possible the employee must believe that the other party has a positive attitude to having it (openness of communication), must know that they can be spontaneous (low power distance) and must feel that their role in the organization is important (contribution).

According to the research results, a relational contract emphasizes the value of harmonious cooperation that in addition to contributing to friendly employee-superior relations reduces also barriers to open communication (power distance) and strengthens the sense of contribution. It has also been found that the higher the power distance, the higher the probability of employment relations being of the transactional type. An interesting finding was the more frequent occurrence of relational contracts in the surveyed financial institutions. These contracts present the workplace as a safe environment where the employer assumes responsibility for employees and receives their loyalty in return. A proof that psychological contracts in the surveyed institutions were really relational was the strong correlation between the psychological contract and the employees’ readiness to verbalize it. Two explanations of the readiness are possible: either the respondents have demanding attitudes towards the employer or their expectations of the employer are somewhat unrealistic. The transactional contract, as the research showed, involves a limited and strictly defined range of trade-offs reducing openness of communication and increasing power distance. The balanced contract is characterized by openness of communication and employees’ sense of contribution.

To find out what types of psychological contracts the surveyed institutions used, the possibility of open communication, the employees’ sense of contribution to organizational decisions and power distance were analysed. The research results showed that these factors underlying the verbalization of the psychological contract, i.e. employees’ readiness to share their expectations with the superior.

The three dimensions of verbalization of the psychological contract were found to vary in intensity depending on person’s status in the organization. The managers were more open in communication, had a stronger sense of contribution and experienced lower power distance compared with the employees.

VI. RECOMMENDATION AND FUTURE STUDY

The three types of psychological contracts and the verbalization of their three dimensions give significant insight into employment relations formed in the organization. Many employers offer the same remuneration, motivation and evaluation solutions to their employees and expect in return that their employees will show attitudes and behaviours that they cannot show because they have different expectations. A transactional, fixed-term contract that assumes close monitoring of employee’s performance will not make the employee more effective nor will it induce behaviours other than required by their job. In order to correctly fulfil the psychological contract the parties must jointly work out rules of cooperation that will set out the character and contents of the contract. This transparency cannot take place unless both the employer and the employee verbalize the psychological contract. Verbalization encompasses the possibility of discussing relations openly; the employee’s subjective feeling that they have a role to play in organizational actions and decisions, and low power distance.

1. The theoretical perspective on the psychological contract and the research results presented in this article explain why changes in the HRM approach do not always bring the expected results, and sometimes even provoke conflicts that are difficult to disentangle. The employer may think that some change is desired by an employee, while an employee may perceive it as a breach of their unwritten contract. A differently understood psychological contract may provoke misunderstandings that the parties will blame on each other. A case in point is transactional contracts the conditions of which are renegotiated with changes in the market [33], [34]. For employees to be able to develop their relations with the employer based on the relational contact, they must be informed beforehand about the benefits this arrangement can bring to them.

2. The results of the research into psychological contracts and the determinants of their verbalization seem to indicate that sharing views on mutual expectations plays a major role in the organization. Such conversations are not easy, because the parties must trust each other or at least believe that they can base their cooperation on fair exchanges and mutual respect. The success mainly depends on the parties’ positive attitude (openness of communication), spontaneity (low power distance), and the sense of having a significant role in the organization (contribution).

REFERENCES


