Psychological contract and its impact on employees: A comparative case study

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Abstract

The psychological contract, mainly in international practices, is consolidated based on its relevance in terms of improving the results at work, placing a special emphasis on the reciprocal expectations between subordinates and managers who have agreed upon these expectations and orient their efforts realizing these expectations. Meanwhile in the Albanian reality, the psychological contract is not widely known and implemented although some of its elements are used.

In this comparative case study, two organizations, belonging to the same industry, but different sectors, one from the public and one from the non-public sector, were subject of study in order to analyse the perceptions of subordinates about the psychological contract and the role of managers in the implementation process of the psychological contract. In this context, respondents were asked questions about their expectations and perceived commitment of their managers to their best interests. Differences between the two samples were studied and analysed.

The overall findings of this study are consistent with the argument of previous research that there actually exist a difference in the psychological contract awareness and in the perception of its implementation between the two sectors. It resulted that the sample from the non-public sector believes to a greater extent that actually a psychological contract is being implemented at their organization opposed to a relatively lower percentage in the public sector. However, results do not confirm a clear and significantly deep division between the two sectors. This may be due to the fact that the psychological contract is not clearly recognized and thus not fully implemented, which creates a need for all parties involved to become more familiarized with the psychological contract concept and its benefits.

Key words: Psychological contract, Education industry, Albania

JEL: M12, M51, M52

1. Introduction

The growth of the role organizations have in the wider social life has brought about changes to the perspectives of studies on them. The power of organizations stands on the human resources they have, and in this aspect, it is very important to establish a relationship between employees and hierarchical leading structures in order to stimulate and bring out the best from the employees. Everyone recognizes the legal obligations of the contractual agreement, while the psychological contract has recently become very popular especially in the organizational psychology literature as a way of examining and exploring the expectations that individuals have about their relationship with their employer (McDonald, D. J., & Makin, P. J. 2000).

Referring to the relevant literature, the term "psychological contract" implies much more than what is expected on the role of employees, it can be translated into an instrument that promotes the performance of the employees, paving the path to what we call today the “high-performance pay”.

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Organizational life requires motivation of employees, better performance, quality service-oriented work etc., but on the other hand employees themselves have the right and deserve to have better working conditions, insurance for the continuing of the employment relationship, higher salaries which have a performance-related variable as well, etc. In essence, it appears that this contract creates obligations and benefits for both parties by establishing more than just a legal relationship between them. Psychological contract theory has distinguished transactional and relational psychological contracts. Both of these forms will be dealt with during this research so that the results of the study are accompanied by a concrete contribution to the necessity to apply it in the Albanian context based on the benefits that its application brings.

The purpose of this research is that while giving a thorough view of the psychological contract concept and while defining the subject of this research that is related to the psychological impact of the managers toward the subordinates, to take into consideration the underlying theoretical and practical importance of this topic in the Albanian context. The Albanian context is an interesting setting, more so in terms of the governmental organizations, where managerial roles present numerous discussions, in terms of the personal qualities of the superior itself, but also in terms of the "rigidity" to strictly be within the law that these organizations follow. The treatment of psychological contracts in terms of public and private organizations in Albania gives an interesting comparative case study view by pointing out the essential differences between them.

The hypothesis of this research has been defined as "The psychological contract has a positive impact on the subordinates and it brings about better results to the organization". A sub hypothesis to be checked is about the differences regarding the psychological contract implementation and impact in public organizations as compared to the non-public sector organizations.

After outlining the main idea, it has been proceeded by comparing the variables that show the influence that managers have on their employees in the context of psychological contract concept. The approach of this research will be general at first and later scrutinize the data about the influence that managers have on private or governmental organisations has been used. We believe this will serve us to show if this ‘unwritten’ contract is present in Albania or not and to find the relation between the psychological influence managers have on their subordinates and their performance at work.

The relationship between managers and employees in Albania can be characterized as ‘rigid’. This is due to the hierarchal mentality that these organisations have established between the two positions. In Albania there are still several problems when it comes to the execution of the legal framework regarding employee rights. Even though internationally the psychological contract is very well implemented in all the structural parts of every organisation, in Albania it is still a new concept, implemented and managed poorly.

2. Literature Review

In this section a detailed literature review on the concepts that make up the basis for the research is shown referring to the relevant literature on the psychological contract concept.

Generally speaking, as it concerns the ‘guarantee’ offered to members of an organization, in particular for subordinates who try to regulate their relationship with their employers formally, there is the common practice widely known and accepted called a ‘formal contract’, however in this chapter only the psychological contract will be elaborated.
In 1762, relations between the state and the individual were examined by Jean-Jacques Rousseau in his masterpiece titled “The Social Contract”. He called this kind of contract “the social contract” (Rousseau, 1989; 1990; 1995) explaining that the psychological work contract “is based on implicit understanding between a group of employees and their managers. Rousseau proposed different definitions of the psychological contract, defining it as "the understandings that people have, (written or unwritten understandings), about the commitments between workers and their organization" (Rousseau, 1989; 1990; 1995).

The psychological contract is a complicated concept and, in many aspects, differs from other types of contracts due to some of the elements involved in this contract, but the most significant changes are because of the participants in this type of contract (employer and employee) can assume different terms and conditions regarding the work relationship between them. It is basically an individual perception about the exchange agreement or the mutual expectations and obligations among the employee and employer (Rousseau, 1998).

The description of the Psychological Contract was first introduced in the early 1960s, mainly by organizational and behavioural theorists such as Chris Argyris and Edgar Schein. Important developments towards the psychological contract are related to authors such as Rousseau (1989; 1990; 1995; 1996; 1998; 2004) and Organ (1990). These authors built concepts like ‘civic behaviour’ in the organization and OCB-organisational citizenship behavior, based on the concept of psychological contract, which were considered classical concepts over time. Rousseau (1990) emphasized the increase in the number of unwritten or written contracts that arose in labour relations and his further studies he proceeded by defining psychological contracts as beliefs, based on promises expressed or implied, in relation to an agreement exchange between an individual, an organization, the employment firm and its agents (Rousseau, 1998).

Psychological contracts can be described as the set of expectations held by the individual employee which specifies what the individual and the organization expect to give to and receive from each other in the course of their working relationship (Sims, 1994). Atkinson (2002) defined psychological contract as a series of practical and emotional expectations that employers and employees may have for different reasons for each other, and he also, recognized the changes in the psychological contract that ranged from defining mutual security allegiance instead of relying on justice, trust, and delivery of the deal. Festing & Schäfer (2014) define the psychological contract as the employees’ perception of the implicit agreement between themselves and the organisation that contains a shared responsibility between the two parties.

Morrison (1994) in his studies demonstrated that the human part of an organization which is considered extremely useful in times of danger, was put in the game through the psychological contract. Rousseau (1995) would argue that the psychological contract in essence is characterized by it being a subjective perception that may differ from one person to another; it is dynamic, it may change over time during the relationship; it raises mutual obligations where all parties involved expect positive outcomes from the effort they have put in the contract.

Many researchers have studied the effect of psychological contract in changes in employment of individuals as well as managers and employees who perceive this contract as a key and important component in keeping, recruiting and employee motivation (Coyle-Shapiro et al., 2004).

During the early 2000s several authors noted an increasingly need for the application of psychological contracts. Coyle-Shapiro et al. (2004) argued that apart from some practical implementation issues, there existed theoretical limitations that needed to
change and a broader theoretical approach that forms the basis for managing and building a psychological contract was needed.

Regarding its implementation, there exist contradictory studies on the existence of a psychological contract among public sector subordinates. In this framework, Guest & Conway (2000) claimed that the psychological contract did not exist for the public sector employees, contrary to this, Janssen et al. (2003) claimed the existence of a well-managed psychological contract in the workplace in the public sector. However scholar agree on the fact that there is a large difference between the psychological contract implemented in the private sector and that implemented in the public sector.

There are debates about the types of psychological contracts and in our judgment these debates will always be contemporary as this type of contract has a dynamic nature over time. Various scholars have presented different types of contracts. In this respect, authors like McNeil (1985) in his studies has determined two types of psychological contracts; transactional and relational contracts. The first type relates to contracts that are, for a limited period, monetary, and are very specific. The same holds true for Venn (2009) mainly as regards to the duration, who states that these contracts can last for a maximum of 2 to 3 years. On the other hand, relational contracts aim to create and maintain a relationship that involves non-monetary exchanges in addition to monetary exchanges (De’Vos & Buyens 2001). They are more open-ended and have not-well defined specifications.

According to Rousseau (1990), transactional contracts have more concrete terms, meanwhile relationship contracts are subject to subjective interpretations by both parties and are commonly identified with areas such as employee training, job security and career development, which are basic elements of human resource management.

Shore & Barksdale (1998) have developed another typology, mainly focusing on the content of psychological contracts. They claim that in a specific contract it is the level of obligation that defines the extent of obligation of parties involved in the contract, thus four types of psychological contracts emerge; mutual high obligations, mutual low obligations, employee over-obligation, and employee under-obligation psychological contracts.

In the psychological contract we also find elements of organizational culture dimensions defined by the Hofstede model and here we refer to power distance and individualization. The power distance dimension is reflected through concepts such as hierarchy and inequality. In the case of individualism and collectivism concepts, the psychological contract may be individual or collective, and this is accompanied by direct consequences on the individual or collective dimension. The contractual changes are based on the expectations of individuals while in the collective contract the differences are seen as only possible when they are related to all of individuals as a whole (Janssens et al., 2003).

There is continuous debate about the outcomes of psychological contracts, however there are no doubts among authors of the field regarding the advantages of the psychological contracts that relate to improving performance at work (Robinson and Morrison, 1995; Coyle-Shapiro and Kessler, 2002; De Vos et al., 2003; Rousseau, 2004; Tsai and Yang, 2010; Rousseau, 2011; Moore, 2014).

A positive relationship between psychological contract and organizational commitment has been found by various scholars. Meyer & Allen (1991) and Meyer et al. (1993) state that organizational commitment is comprised by 3 factors, affective, normative and continuance factors. Affective commitment is generally related to how individuals identify themselves with the organization and the ‘want’ they have to stay with the organization. Normative commitment stands for the influence that social norms
have on the commitment of individuals towards the organization and the ‘ought to’ they feel towards the organization. Continuance commitment instead is more calculative as it is related to the need individuals have to continue working for the organization, so it is more concerned with the ‘need’ individuals have to work. So, stability is a determining element of the psychological contracts, but in terms of the positive consequences of the contract award it should be said that commitment is also related to the organizational culture, and the norms that the society imposes on the collective, which also determine behaviour in the organization.

Furthermore, Moore (2014) found a positive correlation between the psychological contract and employee engagement and a negative correlation between psychological contract and employee turnover intentions. In this context, it is widely accepted in the management literature that employee engagement leads to higher organizational productivity and organizational overall performance.

In the framework of the advantages of proper psychological contract implementation, subordinates should be taken care of in terms the reward policy, because it is a vital motivator factor for employees. Usually employees have claims that they should be paid more, and this seems like a legitimate and human claim to them, so each organization should pay special attention to the reward policies. In addition to remuneration policies, organizations should have a clear career development system offering opportunities for personal and professional development of employees. For a successful organization, management level surpriors should create a suitable environment where individuals enjoy job satisfaction, relationships and a climate that stimulates efforts due to the rewarding policies.

Employees consider the psychological contract as a safeguard against the demands of managers but also as a regulatory framework that brings positive consequences related to security elements, salaries, promotion as long as the worker achieves the proper performance of his job (Rousseau, 1990). So, in essence, it can be said that the psychological contract comes from a mutual obligation that creates reciprocal guarantees of its existence and lack of its breach or violation. Violating the contract results in employees experiencing negative feelings about the organization failing to fulfill the obligations that cause insecurity and can be expressed through anger, lack of motivation, feeling of being subjected, etc.

Psychological contracts can result in better ‘fits’ between employee aspirations and relevant long-term organizational tasks so that productivity is enhanced. The psychological contract reflects the main source of the employee’s motivation to work hard, so if this contract is breached or not properly respected, it breaks one of the most essential sources of motivation at work. On the other hand, breaking the psychological contract implies that employees lose confidence in managers if they have previously agreed on its implementation.

It has been discussed several times that the psychological contract hardly exists in the public sector and in this regard this may be, among the factors that affects the lack of motivation, performance and results in the public sector, where employees give up results and innovative ideas of the organization towards bureaucracies.

Studies have shown that there are some types of organizations or types of leaders who are marked with multiple cases of breach or non-implementation of a psychological contract and these cases are related to authoritarian leaders who do not orient the efforts towards expectations but control it through intimidation (Kiazad et al., 2010). These leaders fail to fulfil one of the key elements of the organizational culture concerned with job satisfaction.
3. Methodology

This study can be classified as a comparative case study. Case study is a research strategy and focuses on perceiving existing dynamics in a certain order (Eisenhardt, 1989). Comparative case study design allows for reflecting the differences and common features of two or more cases in order to get better insights about the situation. The survey method was used in this study as the basic data collection tool.

The research population of this study consisted of the academic staff of one faculty of a larger public university and the academic staff of a relatively smaller non-public university. The sample selection way is rational and the sampling is non-random or purposive sampling. Among the inclusive criteria set for the population of this study to voluntarily be part of this study are being part of the academic staff of the university object to the study, being under the supervision of a manager or supervisor, and having an experience in the same department object of the study for more than 3 years.

Regarding the collected feedback from the subjects of this study, from the non-public institution, 50 out of 80 academic staff members that complied the above inclusion criteria properly answered the survey questions. Meanwhile, from the public faculty, 72 out of 105 faculty members that complied the above inclusion criteria properly answered the survey questions.

The survey was conducted on-hand and online through google form for practicality of data collection during the March-May 2018 period. Due to ethical requirements, participants were informed about what the questionnaire was about. The survey data are for academic purposes only and aim to produce results only in this context, without the aim of identifying the names of the participants in the study and without exposing them. Moreover, the chosen tool through which the questionnaire was performed guarantees such a thing. On the other hand, the authors do not seek to draw conclusions through which the image and reputation of the subjects of study may be undermined but aims to generalize the results so that conclusions are drawn that serve the improvement of each educational institution, and even more generally each other organization in the market in order to improve the relationship between subordinates and superiors for enhanced work results.

The content of the survey was designed in order to address the research sample’s views regarding the application or not of a psychological contract; regarding emotional attitudes, and employee expectations at workplace; regarding cases of breach of the psychological contract by managers; regarding motivation or promotion opportunities of employees due to the psychological contract etc. The questionnaire was consulted and tested in the course of its finalization by consulting it to ten faculty members for comments and feedback on what needs to be improved or not to be included in the questionnaire. Afterwards a pre-test was conducted with colleagues and their opinion, comments and feedback was taken into consideration, and thereafter the final version was implemented.

Data collected was filtered and stored to be analyzed and interpreted in accordance with the research questions of this study.

4. Findings

In this chapter, some of the data obtained from the questionnaires will be reflected and analyzed in a comparative case perspective by looking at the differences that exist in both the public and non-public sector realities. For the data analysis, out of 185 surveys distributed we were able to collect 122 surveys, which counts for 65% of feedback. Collected surveys were checked for eligibility and only 7 surveys were removed due to
missing parts during the filling by participants. Survey data was converted into an Excel file to be further analyzed.

Regarding the question that aimed to test for differences in feelings and emotions experienced by subordinates in both sectors, as reflected in graph 1.0 below, it can be seen that subordinates working in the non-public sector feel much more motivated and rewarded than their colleagues working in the public sector, the latter feeling much more disappointed than those working in the non-public education sector. So more precisely, 40% of the respondents from the non-public sector sample feel motivated as opposed to 15% of respondents from the public sector. Meanwhile, 45% of respondents from the public sector sample respondents feel disappointed as opposed to 20% of the non-public sector respondents.

Graph 1.0 Emotions and Feelings experienced

Regarding the question which aimed to identify the perception of respondents on whether the psychological contract was being applied or not in each of the sectors, as seen in graph 2.0 below, it resulted that 60% of respondents in the non-public sector 73% of respondents from the public sector claim that the psychological contract concept is not being applied in their organization. It seems that in both sectors there is a dominating perception that the psychological contract is not applied. Furthermore, there exists a considerable discrepancy in the psychological contract implementation among the two sectors even though we are talking about the same industry, that is education.

Graph 2.0 Psychological Contract Application
As a follow up for the above question, respondents who claimed that the psychological contract was being applied in their organization were asked about the cases of psychological contract violation cases. As seen in graph 3.0 below, it results that in the public sector, 90% of respondents claim that they face psychological contract breached cases from ‘Sometimes’ to ‘Daily basis’ which is considered a very high percentage of psychological contract violation as opposed to the non-public sector where the percentage falls to 60%, and in the latter 40% of respondents claim that they never face psychological contract violation cases as opposed to only 10% in the public sector.

![Graph 3.0 Psychological Contract Breach](image)

Graph 3.0 Psychological Contract Breach

Regarding another question, which aims to measure how much the expectations of respondents have been met from the moment they have been recruited by the present organization, as seen in graph 4.0 below, it turns out that again the non-public sector is paying more attention to the expectations of subordinates as 60% of respondents from the non-public sector claim that their expectations are being either fully or relatively met as opposed to only 25% of respondents from the public sector. Meanwhile, 35% of respondents from the public sector claim that expectations are not at all being met and 40% of them claim that they don’t even think of having expectations as such a system is not applicable.

![Graph 4.0 Expectations of subordinates](image)

Graph 4.0 Expectations of subordinates
Another cross-check question with the intention to test the answers for the above question was asked which aimed to measure promises kept by the organization where respondents worked was asked. The analysed answers confirmed the percentages of graph 4.0 above, as 70% from the non-public sector admitted that their organization kept their promises from ‘just as they expected’ to ‘far more than they expected’ as opposed 35% of respondents from the public sector.

It seems that subordinates in the public sector are less satisfied with the remuneration policies, working conditions, and promotion policies of their current organizations as compared to their colleagues working for the non-public sector. Percentages for subordinates of the public sector range from 65% to 70% rates of not being satisfied as opposed 60% of respondents from the non-public sector being satisfied with the actual remuneration policies, working conditions, and promotion policies of their current organizations.

Another aim of this research was to measure perception of participants about their direct superior managers or managerial level positions in general. In this perspective, participants were asked questions which sought to identify the role of managers in their daily activities and their interest in career development processes in the organization.

Graph 5.0 Expectations of subordinates

It results that there exists a negative direction of the trend among the two sectors about the trust subordinates have that their managers are committed to their interests and development. As can be seen from graph 5.0 above there is almost an opposite trend between the two sectors. Setting reciprocal expectations between both parties is a vital aspect of the psychological contract concept, on the other hand, expectation-based promotion policies are considered a very effective tool to increase the overall outcomes and performance of an organization. Thus, 50% of respondents from the non-public sector claim that their managers are constantly committed to meet expectations of subordinates as opposed to only 5% of respondents from the public sector. Meanwhile, about 45% of respondents from the public sector believe that there is actually no reflection of reciprocal expectations between subordinates and management in their organizations, which is not a good sign for the proper implementation of the psychological contract because subordinates from the public sector seem not to trust on the good intentions and commitment of their managers to look after their best interests. Meanwhile, this percentage is much lower, about 10%, in the non-public sector which
seems to confirm that there is a wider understanding and implementation of the psychological contract concepts in the non-public sector.

Furthermore, only about 20% of respondents from the non-public sector as opposed to 10% from the public sector believe that their career advancement in the firm and the salary too are defined by the realization of formal reciprocal expectations, which is actually alarming given the importance that setting expectations from both parties has in the psychological contract philosophy.

In order to get a better view of the perception that respondents have and as a cross-check for previous answers too, they were asked about they would see as appropriate to change or improve in their respective organizations. It results that especially in the public sector more and slightly less in the non-public sector subordinates agree that most importantly ‘more attention should be paid towards the potential and expectations of subordinates’ and that ‘subordinates should be more involved in the challenges and decision-making processes of the organization’. It results that subordinates from the public sector believe that actually it is the performance of their superiors that is perceived as affecting the general performance of the public organizations and not their individual potential, which if managed properly is a crucial input determining the performance of organizations. It seams that subordinates are willing to offer their potential to the interest of the organizations, but it is managerial level superiors that need to be more pro-active and involve subordinates more in decision making processes and give them the chance to show their potential capabilities. Decision-making processes are considered to be collective processes because institutional challenges and problems are diverse whose solution needs various activities to be carried out by many subordinates and in this case only the insights of the manager or very few people would not be enough for a comprehensive solution.

When it comes to their colleagues, respondents have no problem with the cooperation level among colleagues, which is another sign that among subordinates actually exists the willingness to cooperate and commit their potential to the interests of the organization, but it is in the hands of managers to set reciprocal expectations and involve subordinates more in decision making processes and give them the chance to show their potential capabilities. This result confirms the literature in general which claims that individuals do collaborate as every individual has a specific expertise or knowledge in a certain area and is willing to contribute that knowledge to the collective interest. Furthermore, tasks and duties should be defined through interaction processes between individuals and through instruction based processes by superiors.

5. Conclusion
There is in fact a lot and still growing literature about the conceptualization of psychological contract, and many studies have been conducted about the effect psychological contract has on other variables of success and increased performance of organizations. However, studies about the Albanian context are lacking and to the knowledge of the researchers of this paper there are very few empirical studies on this matter related to the case of Albania, which creates the need for further studies to properly analyse the psychological contract implementation in the context of Albania as a developing country.

The main purpose of this study was to test the perception of employees from the selected sample of the public and non-public sectors of the education industry in Albania regarding the existence and application of the psychological contract in their respective organizations. It was aimed to look for any analogy between how subordinates felt in their respective work positions and the implementation of the psychological contract
concept. Another objective was to measure awareness of subordinates about the psychological contract and analyse the role of their managers in the process of psychological contract implementation. In this context, respondents were asked questions about their expectations and perceived commitment of their managers to their best interests. Differences between the two samples were studied and analysed.

As seen in the findings section, 60% of respondents from the non-public sector say that there is no psychological contract, while in the public sector this value goes up to 73%. On the other hand, it is alarming that even in cases where the psychological contract is believed to be applied, the rate of psychological contract violation is very high.

Some of the previous studies found that psychological contract is partially applied in private sector, but hardly applies in the public sector, and this has been one of the main reasons to encourage this comparative study for the both sectors. The overall results of this study conform to a great extent to previous research results that there actually exist a moderate difference in the psychological contract awareness and in the perception of its implementation between the two sectors as the sample from the non-public sector believes to a greater extent that actually a psychological contract is being implemented at their organization opposed to a relatively lower percentage in the public sector. However, results do not confirm a clear and deep division between the two sectors as long as all parties involved yet have to become more familiarized with the psychological contract concept and its benefits.

It turns out that to a moderately large extent the managerial level staff in both sectors still do not recognize the importance of the psychological contract in terms of improving outcomes and performance of the organization. The findings of this study indicate that a great deal of responsibility falls to managers to create a climate that encourages better results, and this includes, but is not limited to, the attention that managers should show to motivation, emotions, employee expectations, and to look after their best interest. Expectation-based promotion is considered in both sectors as an effective tool to increase the overall performance of the organization. As a conclusion, subordinates think that currently because of the lack of a psychological contract, the above do not work properly.

In a world where globalization is taking the lead in managing every organisation, Albania has still to make its ‘homeworks’ to keep up with the trend to properly consolidate the psychological contract concept using proper practices to implement it as a vital part of the organizational management practices.

In this study researchers focused mainly on the differences that existed between the two sectors studied in terms of psychological contract awareness and its implementation. However, it is important to note that it is unknown whether the findings of this study are unique only to the present organizations or they can be generalized to other organizations and sectors as well. In order to get a more inclusive insight about the psychological contract it is recommended that for the case of Albania more research on larger samples by using other data collection techniques too and extended in lengthier periods of time testing the effect of the psychological contract on various variables or considering the antecedents of the psychological contract should be conducted in the future.
6. References


