

# PERFORMANCE MANAGEMENT: A STUDY & ANALYSIS OF THE RELATIONSHIP BETWEEN PSYCHOLOGICAL CONTRACT AND ORGANIZATIONAL PERFORMANCE

## Abstract

This paper study the relationship of psychological contract and organizational performance, and also confirms that different components of psychological contract aids in performance of organizations and also facilitate managers to understand the psychological makeup of different generations working in same organization, resulting in strengthening the factors of effective performance management system and this paper also reveals that the employees are likely to low their work efforts when they perceive that the institution is failed to keep on its commitments. Based on this analysis, a conceptual framework is being designed in this research paper, to show the linkage between psychological contract and organizational performance via employees' performance.

**Keywords:** Psychological Contract; Organization Performance; Psychological Makeup

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## I. INTRODUCTION

An increasingly important component of interpersonal interactions at work and in general human behaviour is the psychological contract. In particular, the works of behavioural and organisational theorists Edgar Schein and Chris Argyris contributed to the earliest definitions and descriptions of the Psychological Contract in the 1960s. Since then, other more specialists have contributed to the discussion and are still doing so, either concentrating on the Psychological Contract directly or addressing it from one of the many different perspectives that are available. The Psychological Contract is a complex and nuanced idea that may be interpreted in a variety of ways and the subject of several scholarly investigations.

The Psychological Contract primarily relates to the relationship between employees and their employer, with a focus on shared expectations for inputs and results. The Psychological Contract is typically viewed from the perspective of the employees' sentiments, but both sides must be understood for it to be fully appreciated. The psychological contract is, in a nutshell, the balance or fairness (usually as seen by the employees) between the following:

1. The manner in which the employer handles the employee
2. What a worker brings to the workplace.

In the aforementioned description, the terms "employees," "staff," and "workforce" are all as applicable. At a deeper level, the idea becomes more sophisticated and important in work and management, particularly in large companies and change management. It's interesting to note that the Psychological Contract's theory and guiding principles may be used to improve interpersonal relationships and society at large. The Psychological Contract and the notions that surround it, in contrast to many conventional theories of management and behaviour, are still quite nebulous, have not yet been completely defined and understood, and are not yet commonly accepted or applied in companies.

- 1. Definition of psychological contract:** Despite of its importance and potential use, the notion of "psychological contract" is even less well understood in other societal areas where individuals and organisations interact. Things that follow should inspire you further to enhance your understanding of and implementation of its key ideas in that way that will makes sense to you. It is a very fruitful and perhaps useful field of research.

**Table 1: Understanding and Implementation of Key Ideas of Psychological Contract**

<b>Belief</b>	<b>Definition</b>	<b>Examples</b>
<b>Promise</b>	<ol style="list-style-type: none"> <li>1. A commitment is a promise to do or not do something. (1993; Rousseau and Parks)</li> <li>2. "A pledge that one will or won't engage in a particular action, or behaviour" (1996) Concise Oxford Dictionary</li> </ol>	"Because it was the agreement, I shall receive the prize."
<b>Obligation</b>	<ol style="list-style-type: none"> <li>1. "A feeling of inner compelling force from whatever source it may be, to act in a particular manner toward another person, or community; in a narrow sense, a feeling arising from your beliefs received, and prompting to the service in return; less certain than duty, and not involving it, and the ability to act in accordance with it" (Drever, 1958, Psychology Dictionary)</li> <li>2. The limiting influence of a rule, precept, obligation, contract, etc. (Oxford Concise Dictionary, 1996)</li> </ol>	"Since I worked so hard, I deserve the prize."
<b>Expectation</b>	<ol style="list-style-type: none"> <li>1. Expectations can range from normative views to judgments about the likelihood of future events. (1993; Rousseau and Parks)</li> <li>2. "The disposition of waiting patiently for something generally to some extent, defined, albeit ill-defined"(Drever, 1958, The Dictionary of Psychology)</li> <li>3. "The act or occurrence of expecting or looking ahead; the likelihood that an event will occur" (Concise Oxford Dictionary,1996).</li> </ol>	I'm likely to receive the award because it has occasionally happened in the past.

The Psychological Contract differs significantly from a physical contract or document in that it symbolises the idea of "connection," "trust," or "understanding" that may exist for one or more workers, as opposed to a physical object or legal document that may vary from employee to employee.

- 2. Nature of psychological contract:** The psychological contract is a set of individual ideas about the conditions of a transaction between people and their organisation that has been developed by the organisation. As the organization is social system and there is a continuous influence- interaction. As superordinate influence subordinate through authority and subordinate influence to higher in the hierarchy are known as an upward influence.

**The nature of psychological contract:**

- Follet through resolving a conflict by integration and depersonalization of order increases the interaction among subordinate and superordinate. Follet envisaged functional leadership. According to her authority flows from the function and situation.
- Elton mayo highlight the importance of the informal group. The Informal group is a critical link between employee and managers apart from the formal link.
- According to Bernard, employees seek plural inducements (General incentives and specific incentives).The nature of a contract is based on managers understanding what

motivates which employee and provide accordingly to ensure Reciprocal bonding. While Bernard also defined Zone of Indifference, which derived from contribution - satisfaction equilibrium.

- Likert through supportive relationship and interaction-influence system defines the importance of interaction in the organizational efficiency.
- McGregor defined transactional influence is one of the reasons for the success of an organization. In which there are mutual trust and confidence between subordinate and superordinate.
- Argyris mention that psychological dimension by theorizing that performance is directly proportional to psychological satisfaction; otherwise, it would lead to interpersonal incompetence.

Thus, nature psychological contract should be such that it leads to satisfaction to employees at the same time lead to the fulfillment of an organizational goal.

### 3. Types of psychological contract

- **Contract for a transaction:** Transactional contracts are agreements for short-term that apply only for the predetermined amount of time. As per transactional contract, person's identity is derived from their special competences and abilities that plays a big role in the foundation of the trade relationship itself. Transnationally oriented employees view the company as just a location to carry out their jobs without having any emotional investment in it.
- **Relationship or customary contract:** Relational contracts are more general, open-ended, amorphous, and susceptible to the subjective interpretation of the parties involved. They last for a while and are concerned with exchange of resources that are personal, value-based, socioemotional, as well as economic.
- **Transitional contract:** As name implies, a transitional contract is a period of the relationship between two parties that reflects the absence of promises for potential future employment. They are cognitive assertion rather than in a form of psychological contract, reflecting the effects of transitions and organisational change that conflict with an earlier agreed-upon employment arrangement.
- **Balanced contract:** A balanced contract has both relational and transactional components, which are flexible employment arrangements based on the business's financial performance and the ability of its employees to advance their careers. The learning and growth of the individual and the company both benefit greatly from one another. Employee rewards are determined by contributions to the company's comparative advantages, especially in light of shifting needs brought on by market forces and performance.

### 4. Distinction between a psychological contract and an employment contract: Work contracts and psychological contracts differ significantly from one another. While the latter clearly covers a wider range of issues and is based on the significance of managing and understanding the attitudes and beliefs of the parties in an employment relationship,

the former tends to involve more formal aspects of the contract and can ultimately be enforced through legal remedies or semi-legal (grievance or disciplinary procedures).

Employment agreements are legal contracts that differ significantly from psychological agreements. An employment psychological contract develops a lasting mental representation of the working relationship. This mental model gives one a reliable idea of what to anticipate in the future and directs effective behaviour with little need for practice.

**Employment agreement:** A contract of employment, also known as an employment contract, is one type of contract, which is used in labour law to define the rights and obligations of the parties to a contract. Both "employees" and "employer" are the parties to the contract.

**An employment contract may include the following:**

- **Wages or salary:** Contracts will list the agreed-upon wage, salary, or commission.
- **Time commitment:** In some situations, an employment contract will specify the number of days and times an employee is required to work.
- **Length of employment:** Employment contract will outline how long an employee is expected to be employed by the business. This might be occasionally last for an extended length of time period. In other situations, it could be a deal with a time limit defined in it. Other times, a minimum time frame is specified with the extension option.
- **General obligations:** Contracts might specify the number of responsibilities and activities that employee is required to carry out when employee is on the job.
- **Secrecy:** Some contracts contain a declaration concerning confidentiality, even though you would need to sign a separate agreement for non-disclosure.
- **Communications:** A contract can provide that the business retains control and ownership of all communications if an employee's job includes managing email, websites, or social media.
- **Benefits:** A contract should also specify any other benefits that have been agreed upon, including but these should not be limited to health insurance, paid time off, and any other perks associated with the position.

Analysis of an organization's performance with respect to the achievements of its goals and objectives is known as organisational performance. Organisational performance, in other words, includes actual outcomes in comparison to desired outcomes. Three key results are the subject of the analysis.

1. Shareholder performance value
2. Financial results
3. The state of the market.

## II. REVIEW OF LITERATURE

**Dr. Chaubey D. S. (2016):** psychosocial contract theory in the service industry. Numerous academics' studies have shown how the psychological contract affects workplace relationships, employee productivity, and performance. The author makes an effort to investigate the psychological contract's substance in the higher education industry. In order to achieve greatness, the higher education industry in India places a strong emphasis on producing high-quality inputs and results. Research was undertaken by the author to ascertain the link between the perceived psychological contract and job satisfaction of workers working for service organisations. The author discovered that there is only a tenuous connection between these two factors. It is simpler for both sides to act openly and honestly when trust has been built through the psychological contract, according to the author.

**Kumar S. (2012):** After reviewed various study the author clearly indicates the many a time independent relationship with psychological contract has been researched. But there are very few studies which focus on studying both the antecedents and consequences of psychological contract at the same time. In most of the studies only moderating relationships are studies by the researchers. Psychological contract has not been studied as a mediator between the personal organizational variables and the performance in the organizational settings.

**Hess and Jepsen (2009):** According to the author's research, satisfaction, commitment, and turnover intention are three cognitive reactions that are related to psychological contract fulfilment. It has also been demonstrated that work contentment levels affect emotional connection, affect, and the desire to stay with the company.

**Rousseau (1995):** According to the author, workers who have children may bargain for new psychological contracts that contain family-friendly perks like flexible hours. Experience and a lengthy tenure are associated to employee work engagement, according to a research of employee supervisors and personal management staff in the Indian NTCs' (National Textile Corporation) garment industry. The study also discovered that long-term and permanent employees have higher job participation and quality of life at work than contract workers.

## III. RESEARCH METHODOLOGY

### 1. Objective of study

- To know the concept of psychological contract in Organization.
- To evaluate the impact of psychological contract on organization performance.

**2. Research design:** In this research study, **Descriptive Research Design** is used because the topic is contemporary in nature and of utmost importance for the development of an organization as well as for the increment of performance of organization.

**3. Type of research: Conceptual research** is conducted to classify the effect of psychology contract on the performance of the organization on the basis of traditional and modern concepts.

#### 4. Data collection

- In this study, information is collected from Secondary Sources.
- Secondary data is collected from internet, books, and journals.

### IV. PSYCHOLOGICAL CONTRACT AND ITS IMPACT ON ORGANIZATIONAL PERFORMANCE

Employee is a human asset of an organization which has a direct and indirect impact on organizational performance which can be on the basis of employment contract as well as on the basis of unwritten contract i.e. psychological contract.

Even psychological contract is an unwritten contract but its impact on organizational performance is much higher than employment contract.

**Impacts of psychological contract are based on some dimensions which are as follows:**

- Belief in the Employer
- Compliance with Mutual Obligations
- Perceived Justice
- Contract duration

**1. Trust in employer:** In psychological contracts, trust is seen as a social phenomenon based on the ideas of equity as well as social exchange theory, where each party performs their own compulsory duties in the assumption that the other would not fail to do theirs, highly reliant on one side's confidence in the other. Without trust, an employee won't be able to do the work that their boss assigned, which would negatively affect organisational performance.

If psychological contract and trust are positively correlated, then the psychological contract will be stronger the more trusted the connection is, and this will have a favourable effect on organisational performance.

**2. Fulfillment of mutual obligations:** Mutual obligations, which are defined as the belief of an employer or employee that they are mutually indebted through a course of action related to their respective party, are thought to be the foundation of the psychological contract that establishes the relationship between employee and employer.

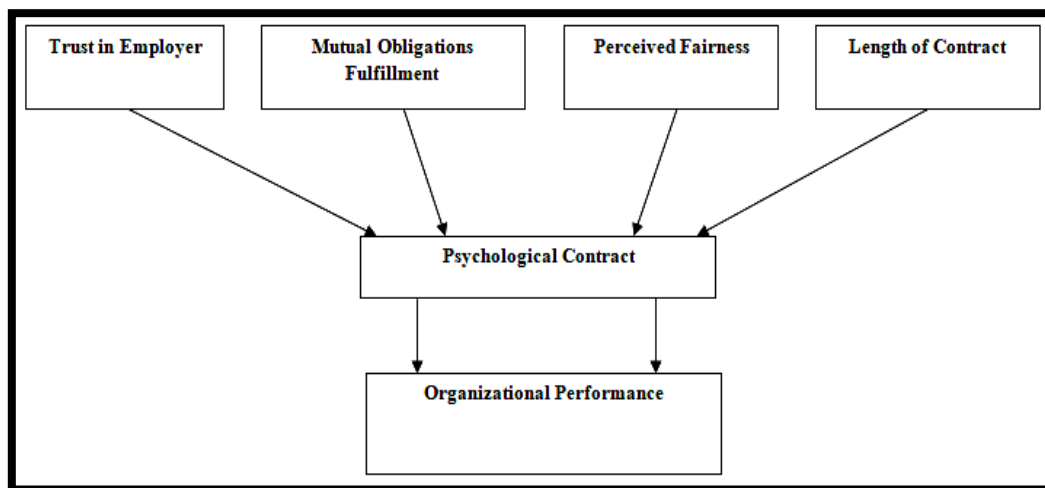
Workers have expectations from their employers in terms of incentives and recognition for their job, just as employers have expectations from their employees in terms of engagement, willingness to work, and loyalty. These commitments are largely implicit in psychological contracts when both parties anticipate having their expectations fulfilled.

The effectiveness of the organisation will improve if expectations from both parties are met

**3. Perceived fairness:** The individual's view of the fairness of the rules and procedures, which in turn impacts the results, is known as perceived fairness or procedural justice. Since not only the fairness of the outcome is taken into account, but it is also important to consider the fairness of the process through which the outcome was produced, fairness in the distribution of power, of the decision-making procedures, and other processes that enables to eliminate biasness and uncertainty, making its outcomes more beneficial in the long run.

Employees who are more committed are anticipated to do better than those who are less committed. A correlation between organisational efficiency and workers' perceptions of organisational fairness in performance evaluations has been found by several authors.

**4. Length of contract:** The length of employment is thought to have an impact on how employees view their relationship with their employer, as well as their relationship with the company and their coworkers. Based on how people view their connection with the employer and the organisation, psychological contracts are prone to change as workers advance in their employment position.



**Figure 1: Conceptual Framework of Psychological Contract**

## V. CONCLUSION

The psychological contract is the unwritten and unsaid agreement that outlines what an employer and employee anticipate from one another. Between the employer and employee, there are no formal agreements; rather, there is just mutual consent. When an employee's expectations of their employer and organisation are met, they feel like a part of the business and are happier, which leads to a strong psychological contract. The above study was conducted on the basis of traditional and modern concepts to know the basics of psychological contract and its impact on organization performance. The study conclude that psychological contact depends on four dimensions, i.e., First, **Trust in employer**, if an employee has trust in employer that there will be strong psychological bond between



employer and employee which will lead in positive impact on organizational performance. Second, mutual duties are fulfilled. In a psychological contract, both parties must think that their expectations will be realised. Employers have expectations of their workers, and employees have expectations of their employers. The employee constantly wants perceived fairness from the employer in decision-making processes, power distribution, and other processes since it helps to remove ambiguity and biasness and improves the outcomes over the long run. Fourth, the length of the contract and the psychological contract are both influenced by how long an employee stays with the company. The length of employment is thought to have an impact on how employees view their relationship with their employer, as well as their relationship with the company and their coworkers. If every aspect of the psychological contract is fulfilled, the performance of the company will improve.

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