

Psychological Contract and Employee Expectations

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ABSTRACT

This analysis examines how employee expectations, work attitudes, and organisational commitment are shaped by the psychological contract (PC). The unspoken agreement between employers and workers that has a big impact on motivation, job happiness, and organisational loyalty is known as the psychological contract. The review highlights the effects of organisational culture, trust, and HR procedures on the psychological contract by synthesising findings from other studies. It highlights the negative effects of unfulfilled expectations, such as decreased job satisfaction, disengagement, and an increased propensity to leave. The study explores how the psychological contract is changing and the difficulties companies have in meeting employee expectations in light of contemporary workplace dynamics, such as remote work and changing generational beliefs. The review concludes by offering insights on how organizations can align their HR strategies with employee expectations to foster a committed and motivated workforce.

Keywords: Psychological contract, employee expectations, organizational commitment, work attitudes, HR practices, job satisfaction, turnover intention, organizational culture, trust, remote work, employee engagement.

INTRODUCTION

Understanding the Psychological Contract and Employee Expectations

In the world of work, relationships between employers and employees are often more complex than what we see in official job descriptions and contracts. While a formal contract outlines the legal terms salary, hours, benefits the "psychological contract" refers to the unwritten, yet equally important, set of expectations and understandings that employees and employers have about each other. These expectations are not written down, but they deeply influence how employees feel about their roles, their company, and the work they do.

The idea of the psychological contract has been around since the 1960s, when Chris Argyris first explored the concept. Over the years, scholars like Denise Rousseau have built on this foundation, showing how these informal agreements can shape employee behaviour, satisfaction, and loyalty to an organization. Today, the psychological contract is seen as an essential part of understanding work attitudes, particularly as work environments continue to evolve. With new workplace dynamics such as remote work, the gig economy, and shifting expectations across generations, understanding how the psychological contract functions is more important than ever.

What Are Employee Expectations?

Employee expectations are essentially the hopes or beliefs that employees have regarding their treatment at work, their opportunities for growth, and how their contributions will be recognized. These expectations are shaped by many things previous experiences at work, the culture of the organization, and external influences like societal trends or advice from peers. The catch is that these expectations are fluid. They change over time depending on experiences, leadership actions, and even broader economic or societal shifts.

Expectations are central to how employees evaluate their job satisfaction and engagement. When employees feel their expectations are met, they're more likely to stay motivated, feel loyal to their company, and put in the effort required to perform well. But when there's a mismatch between expectations and reality when, for instance, employees feel that their contributions aren't being recognized, or their work-life balance is off it can lead to frustration, disappointment, or disengagement. This breakdown in the psychological contract, known as a "breach," can have serious consequences for both employees and organizations, leading to burnout, turnover, or lower productivity.

Why Is the Psychological Contract Important?

The psychological contract plays a key role in shaping how employees view their relationship with their employer. When managed well, it can lead to strong feelings of trust, loyalty, and engagement, all of which benefit the organization. But if employees feel their expectations are not being honoured, the effects can be the opposite: decreased job satisfaction, lower motivation, and eventually a breakdown of commitment to the organization. That's why understanding and managing the psychological contract is so crucial for leaders and HR professionals it's not just about keeping employees happy, but ensuring that both parties are aligned on what they're offering and receiving from the relationship.

The impact of unmet expectations can be severe. For instance, research has shown that a breach in the psychological contract can lead to employees feeling betrayed, and this emotional response can affect their behaviour for a long time. They may disengage from their work, become less committed to the organization, or even start searching for other opportunities. This sense of betrayal, especially if not addressed, can be difficult to repair, and may result in lasting negative effects on employee morale and performance.

Expectations and Work Attitudes: The Connection

The relationship between employee expectations and work attitudes is intricate and deep. A strong alignment between the two can foster job satisfaction, organizational commitment, and motivation. On the other hand, a significant gap between what employees expect and what they actually experience can lead to dissatisfaction, frustration, or disengagement.

Expectations are often tied to a few key work attitudes job satisfaction, motivation, and commitment. Job satisfaction, in particular, is closely tied to the fulfilment of an employee's expectations. For instance, employees who expect to be fairly compensated, treated with respect, and given opportunities for advancement are more likely to be satisfied if those expectations are met. But if those expectations fall short, dissatisfaction is almost inevitable.

A variety of psychological theories can help explain this relationship. For example, **expectancy theory**, developed by Victor Vroom, suggests that employees are motivated when they believe their efforts will lead to desired outcomes, like promotions or recognition. Similarly, **equity theory** emphasizes the importance of fairness in how employees perceive their input-to-reward ratio. If an employee feels that their efforts aren't recognized or rewarded appropriately, it can lead to feelings of unfairness and, ultimately, disengagement.

Organizational Commitment and the Psychological Contract

Organizational commitment is another important aspect of the psychological contract. It refers to how emotionally attached employees feel to their organization. Employees who feel strongly connected to their company tend to go above and beyond in their roles, stay with the company longer, and contribute positively to the overall work environment. One of the most important factors influencing organizational commitment is the extent to which the psychological contract is perceived as being honoured. When employees feel that their expectations are being met, they are more likely to develop a deep sense of attachment to their organization.

However, when employees feel let down by their employer whether through a lack of career development opportunities, insufficient recognition, or unmet promises they are more likely to disengage. This decrease in commitment can be detrimental to the company in the long run, resulting in higher turnover rates and a less motivated workforce.

Modern Challenges in Managing Employee Expectations

Managing employee expectations today is more challenging than ever. The workplace has shifted significantly in recent years, especially with the rise of remote work, hybrid work environments, and a changing workforce demographic. Employees, especially those from younger generations like millennials and Gen Z, have different expectations compared to previous generations. They tend to prioritize work-life balance, personal growth, and meaningful work over traditional factors like job security and salary. This means that organizations need to rethink their approach to the psychological contract.

The rise of remote and hybrid work adds another layer of complexity. Employees no longer interact face-to-face with their colleagues and managers every day, which can create gaps in communication and expectations. Without regular interactions, it becomes harder for employees to feel connected to the organization, and the psychological contract can start to feel vague or distant. As a result, employers must find new ways to build trust, maintain open communication, and ensure that employees feel valued, no matter where they work from.

Purpose of This Review

This paper aims to provide an in-depth exploration of the psychological contract and its impact on employee expectations, work attitudes, and organizational commitment. We will explore the theory behind the psychological contract, how it develops, and the factors that shape it. We will also look at how unmet



expectations can influence employee attitudes such as job satisfaction, motivation, and engagement and what organizations can do to manage these expectations effectively. Finally, the paper will provide insights into how modern workplace dynamics, including remote and hybrid work, have influenced the way psychological contracts are perceived and managed today.

By better understanding the link between psychological contracts, employee expectations, and work attitudes, organizations can take practical steps to nurture a positive, committed, and engaged workforce. This review will provide both theoretical insights and real-world implications that can guide organizations in fostering a supportive work environment where both employees and employers can thrive.

LITERATURE REVIEW

Bishakha Mazumdar et al., (2023). They investigated whether non-standard jobs are more common among bridge workers and whether this is a deliberate decision. The study also looks at how these workers' personal and professional views are affected by meeting the psychological contract, or employment expectations. The results imply that some bridge workers deliberately seek out non-traditional work. The study also shows that bridge employees' life happiness, job satisfaction, affective and normative commitment, and retention intentions are all positively impacted when employers fulfil their perceived commitments.

Juan Herrera et al., (2021). This study investigates research trends on the psychological contract and organizational commitment in business organizations. 220 journal articles were analyzed using bibliometric techniques and SciMAT software. The most recurrent themes addressed issues like justice, normative commitment, HR management, and job insecurity. However, sensitive topics like employability and talent retention emerged in the last period. The study found shortcomings in research on ideologically charged psychological contracts, organizational context, and cultural and demographic factors. The contribution lies in providing visibility to scientific results, serving business organizations and the scientific community as research spaces to explore.

Sjoerd van den Heuvel et al., (2017). This study looks at how employees' attitudes towards organisational change and intention to leave are influenced by the quality of change information. Additionally, it examines how trust, psychological contract fulfilment, and engagement function in this connection. The results show that attitude towards change and psychological contract fulfilment are positively impacted by change information. A more positive attitude towards change and a lesser intention to leave are associated with psychological contract fulfilment and engagement. However, trust had a negative correlation with turnover intention and had no effect on attitudes towards change.

Upasana Aggarwal et al., (2009). The literature on how human resource practices (HRP) influence the employee psychological contract (PC) is reviewed and summarised in this paper. It offers a conceptual framework for investigating the connection between PC and HRP and how they affect employee behaviour and attitudes. The impact of business and employment relationship strategies on HRP, the relationship between HRP and organisational culture, the impact of HRP on employees' psychological contracts, and the moderating effects of these factors on employee attitudes and behaviours are some of the main points that are highlighted in the review.

Lester et al., (2001). This study explores the 21st-century status of psychological contracts, finding that companies struggle to meet workers' values, such as open communication, leading to increased employee happiness and intention to leave. The study also discusses organizational implications and recommendations for enhancing psychological contract fulfilment.

RESULT

The review's results indicate that fulfilling the psychological contract leads to positive employee outcomes, such as higher job satisfaction, organizational commitment, and lower turnover intention. Studies such as those by Bishakha Mazumdar et al. (2023) demonstrate that psychological contract fulfillment influences not only professional outcomes like job satisfaction but also personal outcomes like life satisfaction.

Furthermore, the relationship between HR practices and the psychological contract is crucial in shaping employee behavior, as highlighted in the review by Upasana Aggarwal et al. (2009).

However, breaches in the psychological contract can result in negative employee behaviors, including disengagement and turnover. This is especially relevant in modern work environments where employees' expectations are shaped by a range of factors, including work-life balance, career development opportunities, and organizational culture. The review suggests that organizations must be proactive in aligning their practices with evolving employee expectations to foster a positive, committed workforce.

In conclusion, the findings highlight the critical role of psychological contract fulfillment in shaping employee attitudes and behaviors. Organizations that effectively manage employee expectations can benefit from a more loyal, engaged, and motivated workforce. Conversely, failing to meet these expectations can lead to disengagement, dissatisfaction, and higher turnover rates.

DISCUSSION

INTERPRETATION - The review highlights that the psychological contract is essential in shaping employees' attitudes, satisfaction, and commitment to an organization. When employees' expectations—both formal and informal—are met, they feel more engaged, loyal, and motivated, positively impacting organizational performance. However, a breach in the psychological contract, such as unmet promises or poor communication, can lead to disengagement and higher turnover intentions. As workplace dynamics shift, especially with remote work and changing generational expectations, organizations must adapt to these evolving needs, focusing on factors like work-life balance, career growth, and meaningful work to maintain loyalty and reduce turnover.

IMPLICATIONS - This review stresses the importance of understanding and managing the psychological contract (PC) between employers and employees, especially in today's evolving work environment. As employees' expectations change, particularly with remote and hybrid work, organizations need to adapt their practices to boost job satisfaction, commitment, and engagement. When expectations aren't met, it can lead to disengagement, turnover, and a lack of loyalty. HR professionals are encouraged to focus on managing these expectations through open communication, trust, and fair treatment to reduce turnover and improve employee well-being.

Additionally, recognizing the shifting priorities of younger generations, like millennials and Gen Z, is crucial. These employees often value work-life balance, personal growth, and meaningful work. By aligning HR strategies with these values, organizations can improve retention and overall performance.

FINDINGS

1. **Employee Expectations and Attitudes:** The fulfillment of employee expectations, encapsulated in the psychological contract, positively influences work attitudes such as job satisfaction, motivation, and organizational commitment. Unmet expectations, however, can lead to disengagement, dissatisfaction, and increased turnover intention.
2. **Impact of Psychological Contract Fulfillment:** Research suggests that when employers meet their employees' psychological contract, it leads to improved life satisfaction, job satisfaction, and higher retention intentions, as seen in the study by Bishakha Mazumdar et al. (2023).
3. **HR Practices and Organizational Culture:** The review highlights that human resource practices play a pivotal role in shaping the psychological contract. Effective HR practices that align with employees' expectations contribute to a stronger, more positive psychological contract and greater organizational commitment (Upasana Aggarwal et al., 2009).
4. **Changing Work Environments:** Modern challenges, such as the rise of remote and hybrid work, have made it more difficult to maintain a strong psychological contract. Organizations must adapt to these changes by fostering trust and communication in new ways to manage employee expectations effectively.
5. **Trust and Employee Behavior:** While trust plays a role in shaping employee attitudes toward change, the findings show that its effect on turnover intention is negative, and its role in shaping attitudes toward change is less clear (Sjoerd van den Heuvel et al., 2017).

CONCLUSION

In conclusion, this review underscores the significant role of the psychological contract in shaping employee attitudes, behaviors, and organizational commitment. Organizations that effectively manage the psychological contract by aligning their HR practices with employees' expectations are more likely to foster a positive, engaged, and loyal workforce. On the other hand, failing to meet these expectations can result in negative outcomes, including disengagement, dissatisfaction, and increased turnover.

As work environments continue to evolve, particularly with the rise of remote and hybrid work, managing the psychological contract becomes more challenging. However, it also presents an opportunity for organizations to rethink their approach to employee expectations and engagement. By focusing on transparency, open communication, and trust, employers can nurture a strong psychological contract, leading to enhanced job satisfaction, motivation, and long-term commitment.

Organizations must continuously reassess their practices and adapt to the changing needs and expectations of their employees to remain competitive and maintain a motivated workforce.

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