

## IMPACT AND EFFECTS OF RELATIONAL AND TRANSACTIONAL PSYCHOLOGICAL CONTRACT

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**Abstract:** *This article discusses the concept of a psychological contract in the organization. Its theoretical part outlines the origin of the concept and presents psychological contracts (relational, transactional) as used in organizations. The purpose of the article is to determine how particular individual and organizational factors make an employee choose a relational or transactional psychological contract. The research results represent an attempt at concluding about the frequency at which the two contracts are implemented and about their influence on the efficiency of HR departments and all employees across the organization.*

**Key Words:** *psychological contract, relational psychological contract, transactional psychological contract*

**JEL Classification:** *M12, M14*

### 1. A PSYCHOLOGICAL CONTRACT – ITS DEFINITION, PROPERTIES AND TYPES

In all parts of the world interpersonal relationships build on mutual relations – certain „contractual” obligations that are taken on with various institutions or individuals. This causes that contracts are only different with respect to the degree of their formalization and intricacy, because the mechanism of exchange is common to all of them. The formal and legal issues surrounding the conclusion of an employment contract between the employer and the employee are accompanied by the two parties’ informal expectations about various aspects of the workplace and its functioning which are called a psychological contract. A psychological contract is a non-written ‘trading agreement’ specifying the obligations and expectations of the employer and the employee [1]. These expectations and obligations (both financial and psychological) go in two directions. The employee has certain concrete, personal expectations of the organization that also has some needs that the employee should meet.

A psychological contract has three properties. One is the schema that consolidates interrelated elements, giving them meaning and value. Particular individuals may accept the elements to a different degree; as a result, the meanings and values of the elements become less obvious. The second property is the adjustment of behaviour. A psychological contract not only stimulates expectations but also requires that certain actions be taken, thereby determining the ways of adjusting mutual relationships. The last property, the incompleteness of a psychological contract, is inherent to informal obligations which are by nature difficult to define and enforce. In this article a psychological contract is examined in terms of an informal, unwritten agreement whose provisions are frequently vague and imprecise.

A psychological contract has one more notable property – variability. According to Hiltrop, this variability arises from reactions to changes that occur in both external and internal environments, induced by market competition and the mounting tendency toward the downsizing of organizations. Its other source is that more and more importance is given

to flexibility and adaptability. Hiltrop indicates that increasingly unstable employment makes psychological contracts acquire short-term, occasional characteristics and that each party assumes that its survival and development are less dependent on the other party [2]. In an environment characterised by high competition and economic instability a psychological contract may be either relational or transactional [3].

Under a relational contract, employees offer loyalty and commitment to their organization in exchange for security of employment which is guaranteed by long-term contracts. The key values are loyalty and stability founded on, usually, paternalistic relationships. The arrangements between the employer and the employee are determined mainly by organizational membership, with the organization defining the rules of conduct one-sidedly and in general terms. Employee’s performance has a limited effect on the character of mutual relationships and employers risk more if any organizational changes occur. This type of contract is available to employees whose actual or anticipated contribution to the organization is rated high. Several factors in the in-house environment may be conducive to the introduction of a relational psychological contract [4]: a formalized system of vertical and horizontal promotions, a large number of employees with long years of service in the organization, full-time and long-term employment, and external competitive environment does not exist or is very weak.

A transactional contract has a precise and narrow scope of responsibilities related to employee’s temporary involvement in the fulfilment of organizational goals. Employees are focused on advancing their careers and on using the organization to build their employability. This contract is easy to terminate and none of the parties to it feels obliged to help the other through a crisis. The risk of unpredictable economic circumstances is moved from employers to employees. Consequently, the careers of employees covered by transactional psychological contracts have the following characteristics [5]: the responsibility for career development lies with the employee and not with the organization, the relationships between employers and employees are based

on exchange rather than being hierarchical, employers withdraw from long-term employment contracts, work poses more demands on employees, employees expect short-term advantages, employee's workplace identity is not determined by the employer, employees steadily accumulate knowledge and transferable skills, employees change jobs, industries or employment status several times during the period of their economic activity.

## 2. FORMAL CHARACTERISTICS OF THE ORGANIZATION, EMPLOYEES' PERSONALITY TRAITS AND THE TYPE OF A PSYCHOLOGICAL CONTRACT – THE FINDINGS OF THE STUDY

The data for the study were obtained from an anonymous questionnaire survey which was carried out in 2011 as part of research conducted at the Institute of Labour and Social Studies in Warsaw. The sample of respondents contained 124 individuals representing organizations that had different status and owners. The questionnaire forms were completed during training sessions open to employees and employers and lectures delivered to post-graduate and extramural students at the Faculty of Economics and Sociology, University of Łódź. The respondents were 64 women and 60 men; their mean age was 34 years.

The purpose of the research methods was to analyse correlations and determine the degree of significance of the calculated coefficients of correlation. The correlations were useful in identifying relationships between the type of a psychological contract in the organization (relational or transactional), the characteristics of the organization (the type of ownership, forms of employment) and the characteristics of its personnel (individual factors determining their readiness to verbalise a psychological contract). The relationships between the characteristics were verified by means of the Chi-square test. For a null hypothesis stating that the characteristics were independent at the level of significance ( $p < 0.05$ ),  $\alpha = 0.05$ , the strength of correlation was determined from calculating the coefficient of contingency and the C-Pearson's correlation coefficient that takes values in the range 0 – 1.

The study set out to establish how particular individual and organizational factors make an employee choose a relational psychological contract or a transactional psychological contract. Therefore, three research hypotheses were formulated:

- H1 HRM practices differentiate the type of a psychological contract.
- H2 Organizational factors, e.g. long-term employment contracts and state ownership are positively correlated with a relational psychological contract.
- H3 The degree of verbalisation of a psychological contract varies depending on its type.

### 2.1 HRM practices and the type of a psychological contract

The reflection of a psychological contract may be sought in HRM practices. If an employee believes that the practices are really implemented, then different relationships between particular types of psychological contracts and each HR procedure are likely to occur. It was assumed that the factors determining both relational and transactional contracts are the availability of an assessment system and the goal-setting, feedback and training practices. If the attainable

career path allows employees to meet their need for appreciation and development, then a relational contract (strengthening employee identity underpinned by their belonging to a group that appreciates its members) is preferred. The variable component of pay shapes a transactional contract through its elements related to the need to monitor inputs and profits.

Respondents stating that their organizations had assessment systems and those from organizations without such systems were not found to be significantly different with respect to either the relational contract or the transactional contract. As expected, the correlation between the availability of a career path and the frequency of relational contracts was very significant [ $p < 0.001$ ;  $C = 0.81$ ]. A very strong correlation [ $p < 0.001$ ;  $C = 0.94$ ] was also found between the variable component of pay and a transactional contract.

### 2.2 The type of ownership, the form of employment and the type of a psychological contract

An important element of a psychological contract is the definition of the benefits that employees may have from their involvement in the organization's goals. One type of the benefits may be formal guarantees of long-term employment that ensures stability of income and professional development within the organization (a relational psychological contract) and another may offer employability development opportunities (a transactional psychological contract). The prevailing type of a psychological contract in the sample included professional development benefits (increase in professional knowledge and skills) that the respondents preferred. This allows concluding that the respondents liked transactional contracts more, but the differences between this solution and their current employment stats were not statistically significantly different.

As found by the study, the type of ownership significantly differentiates the type of a psychological contract used, but the stereotype of state-owned organizations being havens of secure employment has not been confirmed. While relational contracts were more frequent in private firms: [ $p < 0.01$ ;  $C = 0.66$ ], the employees in state-owned organizations preferred transactional psychological contracts [ $p < 0.05$ ;  $C = 0.26$ ].

### 2.3 The degree of psychological contract verbalization and contract types

That psychological contracts are dissimilar in character may be demonstrated by analysing employee relationships that include elements such as the openness of communication, participatory decision-making and power distance. When a psychological contract can be verbalised, employees are willing to state openly what they expect of their employers and what they intend to do. An assumption was made that the verbalization of a psychological contract depends on the openness of communication, worker participation and lower power distance. A relational contract is likely to be preferred in a workplace characterised by openness of communication, appreciation of values such as harmonious cooperation and friendly relationships between superiors and subordinates, lower communication barriers (a high power distance would be detrimental to efficiency) and exchange aimed to strengthen the sense of belonging.

On the other hand, a transactional contract can be expected to involve a limited range and exact period of exchange and precisely described mutual obligations. Considerable openness of communication or participatory decision-making is not likely to occur, unlike the power distance.

The examination of the relationships between the types of a psychological contract and the readiness for its verbalization did not show that a transactional psychological contract was related to openness of communication or participatory decision-making. The respondents tended to associate it with greater power distance. The power distance was negatively correlated with a relational contract, but the openness of communication and participatory decision-making were correlated with it statistically significantly.

### 3. CONCLUSION

The purpose of this study was to identify relationships between the type of a psychological contract in the organization and the characteristics of, respectively, organizations and individuals affecting the nature of employee relationships. The most important findings from the study are the following:

- Which psychological contract prevails in the organization can be identified by analysing the functioning of particular HRM practices. This conclusion is substantiated by the relationships that the study has identified between assessment systems, career paths and the variable component of pay, on the one hand, and the types of psychological contracts, on the other.
- Each type of a psychological contract involves a different degree of readiness for its verbalization. In the case of a

transactional contract the degree is lower, but higher for a relational contract which is associated with the openness of communication, low power distance and a sense of being involved in organizational decision-making.

- The stereotype that public ownership is a haven of secure employment has been found ungrounded in relation to a relational psychological contract. According to the research results, relational contracts characterised by a stronger sense of secure employment and the employer assuming responsibility for employees and receiving their loyalty in return are more likely to be found in private firms. Respondents representing institutions described their relationships with the employers as transactional significantly more often than those from private firms. Notwithstanding their indefinite employment contracts, their evaluation of the on-site employee relationships revealed a sort of „mental temporariness”. The results suggest that transactional contracts are more likely to occur in firms having state owners rather than private owners.

The above findings demonstrate that the type of a psychological contract has a great effect on the relationships between employees and employers, so it is very important for organizations for practical reasons. By analysing the type of a psychological contract the HRM problems can be evaluated and solved. The knowledge of the different types of psychological contracts may help organizations describe and explain the employee relationships and the analytical tools presented here may make it easier for them to identify the directions of change they should follow to become more efficient.

**Table 1** The types of psychological contracts in the organization and individual factors (C-Pearson's correlations)

Type of a psychological contract:	relational	transactional
Verbalization of a psychological contract	0.48**	- 0.30*
Openness of communication	0.60**	- 0.14
Power distance	- 0.25*	0.22*
Participatory decision-making	0.46**	- 0.15

\*p<0.05; \*\*p<0.01

Resource: developed by the author

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