

Review of the Literature on the Changing Psychological Contract: Implications on Career Management and Organizations

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The changing psychological contract has become a focus for organizational development, especially as job roles within organizations continue to change. This literature review examines the evolving employee-employer relationship and how this relationship has impacted career management and organizations for over the past century. The paper integrates the existing literature on psychological contracts and the ability of organizations to employ and retain individuals whose career goals match those of the organization.

Keywords: Career Management, Contracts, Organizations

The purpose of this paper is to examine the employee-employer relationship, defined as the psychological contract, and its impact on career management and organizations. Organizations have operated under the assumption that career management is a joint effort between the employee and his or her manager. However, recently the responsibility of career management has been challenged.

This paper attempts to determine who should be responsible for career management and how the relationship affects other aspects of the organization. The main areas of focus in this paper include the various definitions of career, the definition of career management, the definition of the psychological contract, the history of the psychological contract, the transition to a new psychological contract, the impact on career management and organizations, and how career success is measured.

Review of Literature

The literature on the changing psychological contract was explored by reviewing journals and text that focused on one or more of the following five categories: 1) employer-employee contracts, 2) career development and success factors, 3) career development and personality, 4) career development and motivation, and 5) career planning and motivation. Much of the literature focuses on the evolution of the employer-employee psychological contract and its impact on how careers, career management, and employee success are defined. The literature found that the changing psychological contract affects employees in all areas of business in all countries around the world. Furthermore, the literature suggests that employees who assume responsibility for managing their own career and who are able to adapt their skills to the changing business environment are more likely to experience success than those employees who do not.

Definition of Career

The definition of career has evolved over time, taking on multiple meanings. Super and Hall (1978) state that a career is “the sequence of positions that an individual undertakes throughout the life cycle” (as cited in Martin, A. F., Romero, F. P., Valle, C. R., and Dolan, S. L., 2001, p. 151). Super and Hall’s (1978) definition values each position that a person holds during their lifetime even if the individual considers it meaningless.

Similarly, Arthur, Hall and Lawrence (1989) define a career as “the evolving sequence of a person’s work experiences over time” (p. 292). Arthur and Rousseau (1996) view a career as the unfolding of an individual’s work experience. Arthur et al. (1989) and Arthur and Rousseau (1996) specify that only work experiences define a career. However, life experiences outside of work can make an impact on one’s career. For example, an individual who provides community service, such as serving on the school board, may gain skills such as political awareness that can be used in the individual’s current position or possibly in the future when running for political office.

These definitions, all referring to a person’s career as a sequence or unfolding, are different from the old meaning, which states that a career is “a course of professional advancement; usage is restricted to occupational groups with formal hierarchical progression, such as managers and professionals” (Arthur and Rousseau, 1996, p.

338). As the job roles in organizations change, it is critical for organizational development practitioners and researchers to use a definition that goes beyond an individual's advancement within an organization.

For the purpose of this paper, a combination of the definitions by Super and Hall (1978) and Arthur and Rousseau (1996) will be used, stating that a career is a sequence of positions (defined as either work or life experiences) that an individual undertakes throughout their his or her life.

Definition of Career Management

Career management is defined by Greenhaus and Callanan (1994) as a dynamic process in which individuals gather information on their own likes, dislikes, strengths, weaknesses, and on the world of work; develop obtainable goals; develop and implement strategies to achieve these goals; and obtain feedback to promote decision making. This definition assumes that the individual is responsible for managing his or her own decisions and development. However, this article demonstrates that career management was not always the employee's responsibility. In the past, organizations took a more paternal view when it came to career management and helped guide the employee as he or she made decisions that would impact his or her career. The definition by Greenhaus and Callanan (1994) does not imply that an individual must advance within an organization for career management to take place, but does require that the employee continually improve through goal setting and personal and professional development.

Definition of the Psychological Contract

The new term "psychological contract" has replaced the old phrase "an honest day's work for an honest day's pay" (Tarmet, n.d.). The traditional employee-employer relationship guaranteed "continued employment and advancement opportunities if the employee remained with the company and maintained a high level of job performance. Pay increases and status were linked directly to vertical movement in the company" (Noe, 2008, p. 411). Levinson and et al. (1962) first used the term "psychological contract" to refer to the mutual relationship between an employer and an employee. Hall and Moss (1998) define the psychological contract as a partnership between the individual employee and the organization. Although organizations are putting more responsibility on the employee to manage their own career, "employers still see a responsibility for providing the resources and opportunities for core employees to grow and develop in their careers (p. 26). Hall and Moss' (1998) definition will be used throughout this literature review.

History of the Psychological Contract

Although research on the psychological contract is relatively new, the concept of the psychological contract has been traced by researchers as far back as the 18th century (Rousseau, 1995). Rousseau (1995) categorizes the first type of employment relations as the emergent phase. In this era, factories housed workers who specialized in producing different goods, such as textiles and ceramics, which "provided consistency in output, not available from individual craftspersons" (p. 94). Rousseau also indicated that merchants began owning the factories and hired foremen to oversee the individual jobs, resulting in the beginning of employment contracts.

The need for increased efficiency brought about what Poulsen (2006) terms the industrial economy, which continued into the late twentieth century. During the industrial economy, the organization was responsible "for supplying careers to the talented and ambitious employees: and if you were loyal, you could have a lifetime's career in one organization" (p. 251). Rousseau (1995) defined this period as the bureaucratic phase where organizations hired individuals early in their careers and retained employees long-term. The organizational hierarchies facilitated career opportunities, and the development of relational contracts expanded "employee commitment to the organization, including identification with its goals and values, and personal sacrifice to fulfill the organizational objectives" (p. 95).

Researchers refer to the industrial economy or bureaucratic phase as the "old" or "traditional" psychological contract. According to Iles (1997), "the old contract is seen to offer employment security as the basis of a parent-child dependence relationship. Security and slow promotion are exchanged for adequate performance and loyalty. Career management is seen as the company's responsibility, while career development is seen as upwards, along a single career path" (p. 348). Hind (2005) states that in the traditional psychological contract, if "individuals gave reliable performance, they could expect to be retained by their companies, promoted regularly and generally "looked after. Employees could expect benign paternalism from the organization in exchange for loyalty and commitment" (p. 269).

Shifting to the New Psychological Contract

According to Holbeche (1994), more organizations have become leaner and flatter and “offer fewer advancement opportunities, which may result in lower morale, increased workload and fewer promotions” (as cited in Ball, 1997, p. 74). Iles (1997) describes this change as a shift from employment security to employability security that is “based on an adult-adult partnership where growth and development of competitive skills are exchanged for employee flexibility and commitment” (p. 348). “New contractual relationships based on the concept of employability require organizations to offer training, development and opportunities for employees to progress either within their own business or outside it” (Hind, 2005, p. 269). “Another reason the psychological contract has changed is that due to increased domestic and global competition as well as mergers and acquisitions, companies cannot offer job security and may have to downsize” (Noe, 2008, p. 411).

Rousseau (1995) defines the new psychological contract as the adhocratic phase where multiple employment relations exist within the same organization. For example, organizations look to employ both core employees and contract employees, which integrates those employees possessing extensive tenure with those individuals outside the company, who bring with them a more varied skill set. This combination of employees allows the organizations to meet objectives as new opportunities emerge.

Impact on Career Management and Organizations

Poulsen (2006) describes the new psychological contract as the knowledge-based economy where the individual can “no longer rely on the organization to set the rules and provide standard careers. Each person is responsible for his or her own market value and for making good career decisions according to their own subjective criteria. This requires much more of each person in understanding his or her own motivation, skills and ambitions” (p. 251). Hall (1976) introduced the term “The Protean Career,” referring to the Greek god Proteus, who was able to change his shape (as cited in Hind, 2005). The “protean career is a process which the person, not the organization, is managing. It consists of all of the person’s varied experiences in education, training, work in several organizations, changes in occupational field, etc. The protean person’s own personal career choices and search for self fulfillment are the unifying or integrative elements in his or her life. The criterion of success is internal, not external” (Hall and Moss, 1998, p. 25).

Although the responsibility of career management has shifted to the employee, “organizational effectiveness depends on the ability to transition employees from a traditional pattern of expectation to one of increased responsibility for their own career growth and development. This requires employers to provide tools, resources and linkages that ensure maximum person-job match, skills acquisition and continued improvement” (Martin et al., 2001, p. 150).

As the definition of individual jobs change, the impact is felt by both the individual employee and the organization. When we look at the career advice given to the baby boomers (born between 1946 and 1964)—finding a good and secure job and keep it for the rest of one’s life—one can easily see how difficult it is to discuss general career trends over the lifespan (Harrington & Hall, 2007). After the Baby Boomers came Generation X (born between 1965 and 1980). Their expectations of work are considered significantly different from their predecessor generation. Companies are challenged by Generation X employees to “re-establish employee loyalty, and to gain the advantages associated with a loyal employee base (Calo, 2006, p. 338). Bridges (1994) speaks of a job shift, which results in a decline in the importance of individual job descriptions and an increase in the importance of project teams. “These project teams are made up of individuals from different functional backgrounds; workers must be able to switch their focus rapidly from one task to another” (p. 274). These employees will be able to handle changes in the environment with relative ease. Iles (1997) states that employers who retain resilient employees could have a huge strategic advantage. He defines a resilient employee as one who “moves quickly to keep pace with change, is dedicated to continuous learning, takes ownership of career management and is committed to the company’s success” (p. 348).

In a recent survey, 70 service companies that went through a significant change “rated adaptable people as one of the most important factors for successful change, yet the companies in the survey either do not measure their people’s ability to change or are using inappropriate instruments” (Hind, 1996, p. 22). Hind (1996) believes that “the transition from career dependent to career resilient organizations is not only desirable, but essential for organizational survival” (p. 28). The resiliency and adaptability of the workforce will largely determine the competitive edge organizations will acquire in the new century.

Organizations seeking to transition to the new psychological contract may begin by focusing their attention on those employees who show characteristics of having career resilience. Waterman, Waterman and Collard (1994)

state that employees who exhibit career resilience “have the willingness and ability to respond quickly and flexibly to changing business needs.” Not only are career resilient employees interested in enhancing their individual skill set, they also actively participate in the company’s strategic planning process. “By looking out for themselves, career resilient employees look out for the company” (p. 87). Iles (1997) also describes these particular employees as the high-potentials. According to Kaplan (1990), the high-potentials have a personality trait referred to as expansiveness, which is the “drive for mastery and accomplishment, a willingness to push hard and exercise effort and influence, a task-oriented style, a sense of self-confidence and self-efficacy, and a hunger for rewards and recognition” (pp. 310-311).

Career Success

The literature reviewed shows no consensus about how career success is defined. One argument is for a definition from a subjective or personal viewpoint, especially as career management responsibilities have transitioned to the employee. Van Maanen (1977) defines subjective career success as “the individual’s internal apprehension and evaluation of his or her career, across any dimensions that are important to that individual” (as cited in Arthur, Khapova, and Wildrom, 2005, p. 179). People have differing values when it comes to salary, job satisfaction, position title, length of commute, job stability, and the ability to have a work-life balance and “it would be a mistake to assume that all members in a particular social category would share the same subjective career orientations (Bailyn, 1989, as cited in Arthur et al., 2005, p. 179).

Arthur et al. (2005) state that other researchers continue to focus on career success in terms of a person’s organizational position, or of attained promotions between positions. This is known as objective career success, which “reflects shared social understanding rather than distinctive individual understanding” (pp. 177-179). Van Maanen (1977) defines objective career success as “an external perspective that delineates more or less tangible indicators of an individual’s career situation” (as cited in Arthur et al., 2005, p. 177).

In neither the subjective or objective definition “does the measurement of career success take into account the organization’s perspective on the individual” (Callanan, 2003, p.128). An organization that does not feel an employee is performing at or above expectations may not care about the individual’s perception of his or her career success. As in the case of Enron, “career success as seen by the organization is precarious and is based on one’s ability to perform in a present sense while adhering to the dictates of the organization’s culture and internal control systems” (Callanan, 2003, p. 128). Career success to the Enron executives was simply to remain employed, and that meant doing whatever was necessary to keep the company competitive in the marketplace. Jackall (1983) defines career success as “a function of one’s willingness to adhere to the rules as dictated by the corporate culture” (as cited in Callanan, 2003, p.129).

Implications for HRD

It is clear that a shift in the employee-employer relationship is occurring, and based on changing job roles within organizations, there is a need to transfer career management responsibilities to employees. Even organizations that have not fully committed to the traditional psychological contract are incorporating many of the peripheral employees that Rousseau (1995) mentioned in the form of short-term contract workers, which significantly impacts the organization’s job structure and culture. Furthermore, the integration of these peripheral employees changes the way organizations recruit and retain their traditional employees. Organizations put less emphasis on the candidate’s skill-set during interviews and more emphasis on how well the candidate’s values match the organization’s mission and vision. In addition, organizations will be able to more easily retain those employees whose career goals match the needs of the organization.

Much of the literature regarding the changing psychological contract focuses on the individual employee. However, there was little to no literature on performance models being used to connect individual performance to organizational results. Focusing performance measures at the individual, organizational, and process level may provide insight on the types of opportunities that organizations offer employees (Swanson and Holton, 2001). Organizations will benefit from future research that identifies how the new psychological contract impacts organizational results through individual performance.

Career resilient employees are targeted as being best suited for the new psychological contract. However, according to Iles (1997), there is not a large amount of empirical data to support the “current conceptions of employability and career resilience in high-potential career management” (p. 348). Future research is needed to support or reject the hypothesis that a career resilient employee is better suited for the new psychological contract.

Researchers must continue to further define career success and the balance between the individual and career perspective. Arthur et al. (2005) state “that observing career success through either a purely objective lens or a purely subjective lens offers a limited picture” (p. 180). Researchers such as Melamed (1995), Korman and Korman (1980), and Callahan (2005) have researched the work-life balance construct of career success; however, little empirical data on this topic was found.

Psychological contracts are essential to the relationship between an employer and an employee. As such, HRD professionals should have a deeper understanding of the nature of this relationship to better design and implement HRD programs in the workplace. It is important to be aware of the type of employee the organization is dealing with. Preparing and executing a training program for Baby Boomers will not be the same for Generation X employees. The underlying premise for each would be different. Hence, psychological contracts can be considered as the blueprints of an organization’s employee profile and the culture under which the business is conducted.

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