

---

# Psychological Contract: a Study of Different Variants in FMCG Companies

*Rasleen Kaur\* & Puneet Kaur Bedi\*\**

## *Abstract*

*In the globalized world, managing human resources is one of the critical challenges for today's organizations. Increasingly it is understood that cultivating Psychological contract among people of the organization is the fundamental aspect of this employee-employer relationships. The **psychological contract** includes informal arrangements, mutual beliefs, 'promises' or 'expectations' that are exchanged between the parties in an employment relationship. Four variants of Psychological contracts are Relational contracts, Transactional contracts, Transitional contracts and Balanced contracts. The present study is original one aimed at developing a deeper understanding about psychological contract and employment relationship amongst employees serving FMCG industry in India, taking into consideration strength of all variants of psychological contracts.*

**Keywords:** *Psychological Contract, Relational Contract, Balanced Contract, Transitional Contract, Transactional Contract*

## **Introduction**

Deregulation, globalization of markets resulting into increasing international competition have called for improvement in productivity of organizations along with flexibility of managing Human Resources. Certain crucial changes have taken place among employees of an organization recently. Organizational structure is no more hierarchical rather now an organization prefers to follow a flat form. Again, companies no longer assure lifetime employment to their employees; neither do employees profess complete loyalty to the employer. Expected growth in profitability and in opportunities is the fuel that feed the deal that employers might be able to offer employees. As a consequence, the nature of relationships between the

employee and the employer have undergone changes. In this scenario, managing changing employer-employee relationships has become one of the critical challenges for organizations. In the new people-economy, organizations cannot survive unless they have the right kind of knowledge. It is people who

**\*Rasleen Kaur**, *Assist. Professor*  
*Department of Commerce*  
*Sri Guru Gobind Singh College*  
*University of Delhi, India*

**\*\*Puneet Kaur Bedi**, *Scientific Assistant*  
*Department of Commerce*  
*Sri Guru Gobind Singh College*  
*University of Delhi, India*

---

drive organizations to success or failure. Psychological contract presents an opportunity to examine the fundamental aspect of this employee-employer relationship. It has now become an accepted part and vocabulary of human resource practitioners.

As per the organizational scholar, Denise Rousseau (1995), the **psychological contract** includes informal arrangements, mutual beliefs, 'promises' or 'expectations' that are exchanged between the parties in an employment relationship. These parties include employers, managers, individual employees and their work colleagues.

In an employment context, the Psychological Contract is the fairness or balance (typically as perceived by the employee) between:

- how the employee is treated by the employer, and
- what the employee puts into the job.

Globalization has created an all-important quality standard in all aspects of production and service sectors. Individuals enter employment with a set of beliefs, expectations and obligations which they anticipate being met by their employer. In addition, the employer holds a reciprocal set of beliefs, expectations and obligations leaving a binding exchange in place. The psychological contract is generally defined in the academic literature as the implicit and explicit promises two parties make to each other. It is important to note that the psychological contract does not involve items found in the employment contract. Instead of objective and defined promises, it concerns more implicit, subjective and malleable ones. Three States of Psychological Contract fulfillment are mutuality, alignment and reciprocity.

### Types of Psychological Contract

Four types of psychological contracts have been defined by Rousseau (1995) as follows:

**1. Relational Contract:** Relational contracts are based on long term membership but with an implicit and non-defined performance requirements attached to employment. Growth and prosperity is seen as long term relationship

in the organization. They are largely based on mutual trust and loyalty. Relational contracts were prominent prior to recent market changes and instability in the business world.

**2. Transactional Contract:** This is particularly true for employees hired on short term contracts as well as workers located off-site. These types of contracts are fundamental to the employee's behaviour and the organisational actions which could infer cooperation or disagreement. This kind of contract concerns with a more direct exchange of commitments and is more concerned with a tit for tat economical transaction. Transactional contract measures often include statements related to fair pay and limited training.

**3. Transitional Contract:** This is particularly applicable when there is any breakdown in contracts. It is regarding future employment. This type of psychological contract is visible during downsizing or mergers and acquisition of a company and there are uncertain-ties in work life. Such a psychological contract is usually found in the companies which are in the transitional phase undergoing radical organizational change.

**4. Balanced Contracts:** This contract represents open-ended and relationship-oriented employment. In most of the public owned organizations which are managed by professionals, balanced type of psychological contract exists. It states that employees seek a balance between what they receive and give in the employer-employee relationship. Balanced contract as the name suggests are found in an atmosphere of mutual support ,a high-involvement team with members having high commitments, where there is scope of ongoing development, mutual support and which is dynamic of nature.



fairness and trust and how employers keep the deal. The critical concern in a psychological contract is not whether employees and employers agree on what happened but whether they make the same interpretation of the event.

### Rationale of the Study

The FMCG sector is the fourth largest in the Indian economy. This sector is proving a linkage between the organized and unorganized sector of the economy. This industry is concerned with mainly production, distribution and marketing of consumer packaged goods. Consumer packaged goods includes food and beverage, personal care, apparels, pharmaceuticals lifestyle and household products etc. Human resource in FMCG sector is characterized with higher educational qualifications who take up responsibilities at a lesser age and experience. Success of such organizations largely depends on the human capital. Globalization has thrown many opportunities towards this sector and thus leading to many interventions there in terms of restructuring, turnaround, mergers, downsizing, etc. leading to continuous changes in ways of functioning. The employees who work at the front end have to meet the targets of sale in a given period. To achieve high sales target is itself a challenging task in a given volatile scenario of the consumer loyalty. Given the industry's current and expected future significance, it became imperative to explore the existing psychological contracts.

The research paper makes an in-depth analysis of psychological contract and employment relationship amongst employees serving FMCG industry in India, through studying four following aspects:

- (i) strength of relational contract, (ii) strength of transactional contract,
- (iii) strength of transitional contract and (iv) strength of balanced contract .

### Methodology

Two leading FMCG companies were selected for the study based on convenience sampling. The names of the companies have been kept confidential as it was a part of condition to conduct survey. Exploratory study was conducted on employees of these companies working at the front end. Four variants of psychological contract such as relational contract, transactional contract, transitional contract and balanced contract were measured on 62 randomly selected employees working at the front end with different hierarchical levels. Twenty questions were adapted for data collection through the Psychological Contract Questionnaire constructed on Psychological Contract Inventory (Rousseau, 1995) on the basis of 7 point likert scale.

### Data Analysis

In order to find out the dominating psychological contract variables among four categories such as transactional, relational, transitional and balanced psychological contract, statistical means of responses were calculated. Means were also calculated for each question to determine the most prominent and least prominent contributor in each variant of psychological contract.

### Results and Discussions

Results are explained with the help of Table 1 and Table 2

Table 1 : Means of Variants of Psychological Contract		
S. No.	Variable	Mean
1	Strength of Transactional Contract	14.6666667
2	Strength of Relational Contract	24.4
3	Strength of Transitional Contract	8.4
4	Strength of Balanced Contract	22.8

**Table 2 :**  
**Ranking of statements showing dominance in different variants of psychological contract.**

Type of Psychological Contract	Statements	Mean	Rank
Transactional Contract	I do this job just for the money	2.9334	III
Transactional Contract	I expect to grow in this organisation	2.7	IV
Transactional Contract	Provide with job assignments that would help in enhancing your career	3.1667	II
Transactional Contract*	Does not involve you in the decision making regarding your department*	3.3268	I
Transactional Contract	I come to work purely to get the job done	2.6	V
Relational Contract	I expect to gain promotion in this company with length of service and effort to achieve goals	4.85	III
Relational Contract	I feel part of a team in this organisation	5.28	II
Relational Contract	I am motivated to contribute 100% to this company in return for future employment benefits	4.79	IV
Relational Contract	Provide you job security	3.10	V
Relational Contract	Provide you with opportunities to prove your worth	6.38	I
Transitional Contract*	Loads you with a lot of work*	2.68	I
Transitional Contract*	Pays less and gets more work done*	1.68	II

Type of Psychological Contract	Statements	Mean	Rank
Transactional Contract*	My commitments towards the employer is uncertain*	1.36	IV
Transactional Contract*	I do not trust this employer*	1.50	III
Transitional Contract*	Difficult to ascertain my future with this employer*	1.18	V
Balanced Contract	I feel this company reciprocates the effect put in by its employers	6.02	I
Balanced Contract	I am heavily involved in my place of work	4.0	IV
Balanced Contract	Opportunity to learn and develop your professional capabilities by on the job training	5.12	II
Balanced Contract	Provide you to develop marketable skills	3.10	V
Balanced Contract	Increase your participation in the decision making	4.56	III

Source : Authors' Survey

Means for all variants of psychological contract variables were calculated and it was found that relational contract is dominating with highest mean of 24.4 as compared to other types of contract in FMCG companies, Balanced Contract has 22.8, while transactional contract mean of 14.6667 followed by transitional contract with mean of 8.4. This indicates that employees in FMCG companies expect growth in the career, they feel part of organization, they feel motivated to contribute towards their company in return for future employment benefits, they feel that organization do provide them sufficient platform to prove their worth. Employees do relate themselves with long term membership and participation with the organization. Table 2 indicates the rank of the statements within each variant of psychological contract showing the most prominent and least prominent contributor in each variant of psychological contract.

### Conclusion

A good work environment is based upon the positive psychological contract. To have a healthier employment relations employer should make employees passionate and enthusiasts to work happily. Of late, Indian industry's working conditions have changed a lot due to change in technology, change in socio-economic profile and globalization. Thus there is a need to keep a positive psychological contract in order to attain and sustain the quality workforce. Employee's expectation from the organization (which is usually implicit) should correspond with returns given by the employer and vice versa to establish a success story. Thus, the underline idea is to understand the expectations of employees and expectations of employers which can be better understood through understanding of psychological contracts.

---

## References

- Aggarwal, U., Datta, S., Bhargava, S., ( 2007). The Relationship between Human Resource Practices, Psychological Contract and Employee Engagement — Implications for Managing Talent, IIMB Management Review (Indian Institute of Management Bangalore; Sep2007, Vol. 19 Issue 3.
- Ballou, Nichole Simone, (2013). The Effects of Psychological Contract Breach on Job Outcomes , Master's Theses. Paper 4327.
- Harold A. P., (2008). Psychological Contract and Employment Relationship, The Icfai University Journal of Organizational Behavior, Vol. 7, No. 4.
- McInnis K.J ( 2012 ). Psychological contracts in the workplace: A Mixed Methods design project, Electronic Thesis and Dissertation Repository. Paper 383. <http://ir.lib.uwo.ca/etd/383>
- Millward, L.J. and Hopkins, L. J. (1998). Psychological Contracts, Organizational and Job Commitment , *Journal of Applied Psychology*, Vol. 28, Issue 16.
- Negi Gayatri (2013). Employee Attrition : Inevitable Yet Manageable Abhinav, International Monthly Refereed Journal of Research In Management & Technology, Volume II.
- O'Neill, Bonnie , Adya Monica (2007). Knowledge Sharing and the Psychological Contract: Managing Knowledge Workers across Different Stages of Employment, *Journal of Managerial Psychology*, Vol. 22, N.4.
- Rousseau, D. M. (1995). Psychological contracts in organizations: Understanding written and unwritten agreements. Thousand Oaks, CA: Sage.
- Turnley, W. and Feldman, D.C. (2000). "Re-Examining the Effects of Psychological Contract Violations: Unmet Expectations and Job Dissatisfaction as Mediators", *Journal of Organizational Behaviour*, Vol. 21, No. xx, pp. 25-42. [business.kingston.ac.uk](http://business.kingston.ac.uk)
- Usmani K. A., Khan F. S. (2015). Psychological Contract and its Consequences When violated: Employee's Perspective *Journal of Multidisciplinary Research Review* , Vol.1 Issue 7