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# **The Examination of the Initial Phase of the Psychological Contract**

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## **The examination of the initial phase of the Psychological contract**

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Although the psychological contract has attracted a great deal of attention from researchers, it still lacks consideration in some important aspects. The psychological contract can be understood as the mutual beliefs and obligations between the employee and his or her organization. Previous research has focused on the time of employment and afterwards, leaving the initial contact with the company unaccounted for. However, it has been acknowledged to play an imperative role.

This study aims to provide insights on how knowledge intensive companies establish psychological contracts during their recruitment process. Interviews were conducted with HR-managers and/or team leaders responsible for the recruitment in four knowledge intensive companies.

Results show that the relationship between the employer and the employee is multifaceted and varies significantly between the companies. Naturally, trust played an essential role in how the both parties evaluated each other during the process. What was in particular evident in nearly all of the cases was that the creation of the psychological contract to a large extent came down to the individual involvement of the candidate.

### **Introduction**

In our contemporary time, the business world is very competitive, and companies are now also fighting beyond the national boundaries (Ullah, 2010). Joseph & Dai (2009) stress that coping with this increasing intensity of competition has led us to a shift in the economy. The knowledge-based economy has come to replace the old economy, which focused more on physical assets. From these changes a new breed of workers has seen the light, namely, the knowledge worker. Knowledge workers can be defined as “workers who use their intellect to convert their ideas into products, services, or processes” (Joseph & Dai, 2009 p131). Consequently, brains have become one of the most important qualities. Furthermore, the increased complexity of technologies continues to advance, which results in that managers of today face new challenges. One of them is that they need to hire more employees with high technical and professional skills (Markos & Sridevi, 2010). These changes seem to in particular affect companies in the service sector (Normann, 2001) and companies in knowledge intensive industries (Sveiby & Risling, 1986).

One of the most discussed functions in HR is that of recruitment. Although, recruitment is important in the entire company, it is specifically important when the position is complex and/or need specialised knowledge (Boxall & Purcell, 2005).

Aligned with that, Wooldridge (2006) stress the importance of attracting and recruiting top talent in globalised industries where there is a shortage of that. Failing to attract and recruit workers with required competences will lead to failure or in a best-case scenario decreased growth (Boxall & Purcell, 2008).

According to Boxall & Purcell (2008) the recruitment strategy of a company can be seen as the way that firms tries to source and attract the people that they in the end will pick from. When it comes down to recruitment there is two major perspectives: *The selection model* and there are the *matching model* (Walter, 2005). In the *selection model*, which has its origin with Fredrick Taylor and his “principal of scientific management”, recruiting was seen as an opportunity to negotiate the employment contract. However, in contrast, the *matching model* sees the recruitment as way of matching personal values and norms against one another and as a final step, establish a contract. The matching model is considered to decrease employee turnover and increase work satisfaction.

Closely related and interwoven to the matching model is the concept of the psychological contract. The psychological contract are “an individual's beliefs regarding reciprocal obligations” (Rousseau, 1989 p390) and it is contractual when the individual feels that he or she have the obligation to pay or re-pay the employer something i.e. longer working hours, loyalty etc. It also accounts for employer side, to provide i.e. career opportunities and/or training etc. The subjective nature of the psychological contract and all the different actors involved in the recruitment process makes it problematic to know whom and in what way the contract is affected.

This led the to the research issues of this study. This research aims to examine to what extent companies establish psychological contracts with their future employees, and in addition, to investigate in what way and where in the recruitment processes it takes place.

The thesis is structured as follows: Firstly, the author provides an explanation and understanding of the concept of psychological contract. Then a brief review on how the study was carried out in the methodology section. After that the empirical data is presented in chronological order ending with the specific components of the

psychological contract, followed by, the discussion where the recruitment processes and each step is analysed by using prominent theories. Lastly, the results of the study are presented in practical and theoretical implication part.

## **Psychological contract**

This section provides a definition of the concept and the effect of trust. Also, primary and secondary contract makers are discussed together with the different roles and constellations of contract makers. And how a breach is defined and what happens if one occurs.

### **PSYCHOLOGICAL CONTRACT DEFINED**

The original concept of “psychological contract” was defined in the early sixties by Chris Argyris and Harry Levinson, and sought to describe the subjective nature of the employment relationship. Although that the contemporary prevailing notion of the concept have changed, the fundamental pillars are still there. Nowadays the psychological contract can better be understood as the “individual’s beliefs about the terms and conditions of reciprocal exchange agreement between that person and another party (Rousseau, 1989 pp. 125). In contrast to a formal or implied contract both sides does not necessarily have the same understanding of the contract it all comes down to the parties’ subjective understanding.

Rousseau (1990) stresses the importance of *not* viewing the psychological contract as an equal deal that both parties share the same level of obligations towards one another. Instead this depends on the different actors and their current muscles i.e. in a recession the employer may offer less, whereas, the employee needs to offer more.

Also, the psychological contract is often perceived as being a stable entity, when the psychological contract is agreed upon its formalised and constant. On the contrary, it must instead be seen as dynamic relationship between the two parties, which is continuously renegotiated and changing over time (Roehling, 1997).

Robinson (1996) stresses the importance of distinguish the psychological contract from expectations. Psychological contract can in short be seen as perceived obligations, whilst, expectations are “general beliefs held by employees about what they will find in their job and the organisation” (Robinson, 1996). Consequently, the psychological contract is more about a conveyed promise, in others word, what you perceive that you are entitled to.

Naturally, the two concepts are closely related and intervened which sometimes makes it hard to differentiate them from one another. At the same time they can also be the same i.e. if an employee believes that he is promised a promotion it creates an expectation but at the same time it creates a perceived obligation, which is incorporated, in the psychological contract.

Furthermore, expectations do not originate from perceived promises, but can be a product of the lack of them.

There are also ideas that if you make the psychological contract explicit as an attempt of manage the contract you can reduce misunderstandings (the likelihoods of a breach) and have more effective management (Flood et al 2001). One problem with this approach is that the psychological contract are perceived to consist of mostly implicit promises, consequently, making it explicit is not really managing it at all (Conway & Briner, 2005). Conway & Briner (2005) stress that it is so because of two reasons. *Firstly*, making it explicit does not really account for all promises and therefore not fully managing the contract. *Secondly*, by making the promises explicit instead of implicit can be seen as “managing it away”, substituting implicit promises with explicit promises. Furthermore, Rousseau (1995) says that explicit promises are included in the contract due to the subjective nature of the psychological contract. However, in contrast, Meckler, Drake & Levinson (2003) stress that the explicit contract should not be included because it then acts more or less as an employment contract. There is no consensus amongst researcher what the effect on changing a contract from implicit to explicit actually entails. Robinson & Morrison (2000) say that implicit promises increases breaches due to the fact that both parties do not share the same perspective on what has been promised. Conway & Briner (2005) say that the implicit contract is more seldom breached because it allows flexibility in the contract. What can be concluded is that the questions whether or not to make the contract explicit or not is not as black or white as it first may appear.

When looking at the literature about psychological contract, one can see that most of them is about measuring quantitative data from the time of hire and then eight weeks into training (Thomas & Anderson, 1998), 24 months (Robinson & Rousseau 1994) 18 and 30 months (Robinson, 1996). Some look at employees and managers (Porter et al 1994), some only managers (Turnley and Feldman 1999) and others only students

(Shore and Barksdale 1998). Although that Rousseau, (1990) stress the importance of the recruitment in the psychological contract, this matter has been left un-attended in the literature.

### One or several contracts

Usually there is not only one contract or for that matter only two parties involved in the contract but several.

According to Rousseau (1995) there are four types of contracting, principal-to-principal, agent-to-principal, principal-to-agent and agent-to-agent (see fig 1.1). In these four kinds of contracting there are two basic roles:

- *Agents*, which is individuals who is communicating someone else's ideas or beliefs.
- *Principals*, convey or make contracts for themselves i.e. when a recruiter or a manager establish a contract with a candidate.

Types of contracting	Involved parties e.g.	FIG 1.1
<b>Principal-to-principal</b>	Employment contract between employee and owner/employer	
<b>Agent-to-principal</b>	Organizations representative with employee	
<b>Principal-to-agent</b>	Employer/owner contracts with representatives of workers	
<b>Agent-to-agent</b>	Organizations representative and employee's representative	

However, if the owner discusses with the candidate it is matter of principal-to-principal agreement, whereas both parties enact the contract for their own sake. In addition, this constellation is considered to have less filters and a more distinct attribution of responsibility when addressing changes or breaches of the contract.

Principal-to-principal have the most differentiated relations, of the contract varying from very close to more distance taking, avoiding familiarity with the other party. Agent-to-principal is the most common and accounts for the majority of the employment contracts.

It is here that the manager or recruiter expresses the obligations of the organisation (high remuneration, good career possibilities), However, it is not only the human

actors that communicate obligations to the organisations, non-human actors such as advertisements, mission statements and brochures. One of the most important thing regarding principal and agents are the fact that agent's acting on the behalf of the principal, may do so incoherently with the principal's original intent. Furthermore, agents can communicate inconsistent messages regarding the actual parties to the contract, and it is not always clear if a manager is representing the company or himself, which makes the relationship even more complex. Interestingly enough, the recruits often perceived the organization to have made the promise, regardless who actually conveyed the promise (Conway & Briner, 2005). Likewise, the recruit often blames the organization to not hold up their end of the commitment, even though, that the promises were from a person who acted as a principal within the organisation. Furthermore, people in the organization can act a dual role, both being agent and principal i.e. a co-worker can say as a principal "I can help you meet the deadline" and also "if you meet that deadline your in pole position for a promotion" as an agent.

#### **Primary contract makers**

According to Rousseau (1995) there are two kinds of contract makers, namely, human and administrative. Human contract makers are considered to be the primary contract makers while administrative is seen as secondary. Human contract makers are as the title entails, humans who make contracts. In an organization there are several persons that can act as a contract maker the most common contract makers are: managers, recruiters, co-workers, mentors and top management. It is important for the organisation to decide who should be incorporated in contract making, thus, the psychological contract is more likely to be effective when the main contract makers are known to both parties (Conway & Briner, 2005). In this part I will focus more on the three classes that is most related to the recruitment process.

*Managers* in particular play a very complex role when making contracts, it is their two dimensional role as both making contracts for the organisation and for themselves. Furthermore, they are also one of the key components in breaches in the psychological contract, due to their position; they have the potential to diminish the effects of unmet obligations with actions i.e. to offer personal support or create opportunities for the employee. It is said that the degree of mutuality is the

fundamental incentive for the leader and employee relationship (Rousseau, 1995).

Mutuality has three major components:

- *Predictability* is best understood as the way that the parties predict each other's ideas on how they want to organize and behave in accordance to the other parties' expectations.
- *Enablement*, do both parties aid each other to reach their separate goals.
- *Clarity of the effort*, do both parties understand fully understand the performance expectations.

*Recruiters* and all people involved in the recruitment process are trying to provide all the necessary information for the candidate, i.e. job description, company information etc. The general idea of doing so is to provide realistic expectations and obligations for the position. However, some companies tend to focus on selling the position to the candidate, risking overselling the position. "The more selling is done, the more likely it is that the expectations will go unmet" (Rousseau, 1995 p 95). A concept developed by John Wanous (1992) called realistic recruiting is a way of communicating information regarding the job and organization without misrepresentation. The three primary activities in a realistic recruiting is:

- *Realistic preview*, introduce the candidate with explicit job responsibilities and career developments.
- *Work Samples*, Use job specific tasks or situations as problem solving enquiries in the screening and recruitment process.
- *Managing the psychological contract*, discuss performance expectations and employee practices explicitly both from the organisational and candidates side.

### **Secondary contract makers**

Administrative contract makers are those structural signals that are sent out from the companies' processes and procedures. In other word, all non-human things that could potentially affect the establishing of the psychological contract. The most common of those are compensation system, benefits, training, mission statements and personnel manuals. All of these, communicates commitments and offer incentives for behaviour



in different ways. Especially in companies that have a strong culture and rely on their administrative structure this instrumental in the creation of the contract.

Also, one should not neglect the company's structure and origin, Rousseau (1995) stress that if companies have a strong culture they tend to incorporate more people in contract making positions, such as co-workers and that decentralized organisations have more contract makers than their centralized counterparts.

### **PSYCHOLOGICAL CONTRACT BREACH AND TRUST**

Rousseau's (1989 p 123) definition of a breach is "one's perception that another has failed to fulfil adequately the promised obligations of the psychological contract". As mentioned, the psychological contract is a matter of subjective agreement between two parties; consequently, a breach of it is of the same nature. Whether or not a breach actually has occurred or if it is just in the employee's beliefs, are of less importance. It still affects the behaviour in the same way. Therefore, the single most important thing is to understand why the employee feels that the contract has been breached.

In addition the psychological contract is not just based on employers' actions or inactions but also on the subjective perception of them in their particular context.

One thing that is always addressed for when talking about the psychological contract is trust, and its effects on the contract. Trust has especially two effects on it. *Firstly*, depending on the trust level it can influence each party's behaviour towards one another. In addition, it also plays a vital part on how we subjectively evaluate the psychological contract towards our employer. Furthermore, it also plays an important role in when we feel that a breach has occurred.

Secondly, prior trust in the employer (before the time of hire) may influence the psychological contract, reducing the probability that a breach will be perceived as a breach (Robinson, 1996). This is called cognitive consistency and is sustained through selective perception, Fiske & Taylor (1984) explains it as: "seeking out, attending to, and interpreting one's environment in ways that reinforce one's prior knowledge, beliefs, and attitudes".

Selective attention is one aspect of selective, and it addresses that people tend to focus on information and evidence that confirms prior beliefs (Olson & Zanna, 1979).

Furthermore, they also tend to not to see or ignore information that is contradictory to their prior beliefs.

Robinson (1996) concluded in her study that the newly hired expressed fairly high initial trust in their employer and that the employer promised various conventional benefits, which created an obligation. Furthermore, it was also showed that a breach of the psychological contract diminished the trust capital (Robinson, 1996). There have been numerous researches regarding the outcomes of a breach and they all share the notion that in the end it affects the organization in a negative matter. Shore and Tetrick (1994) stress that if the employer fails to fulfil their obligations of the psychological contract the employee may leave the organisation. In addition, when the employee felt that the contract has been breached their employee obligations diminish, whilst, employer obligations were nearly unchanged (Robinson et al 1994).

To summarize: The psychological contract is an old concept and works a supplement to the formal contract by adding perceived promises to the agreement. These perceived obligations are subjective by nature, which makes them hard to fully control. Furthermore, depending on the prior level of trust, number of contract makers and their role, the company's processes and procedures the concept is multifaceted and very complex to completely understand.

## **Methodology**

Companies in knowledge-intensive and/or creative industries were the focus of this study, mainly for two reasons. Firstly, the subject of research is fairly complex which called for educated people, both in the recruiting position but also as a candidate. Secondly, studies have supported the claims that creative and knowledge workers work more for intrinsic motives, which makes the study more multifaceted and interesting.

The companies were chosen randomly from the Gothenburg region. The aim was to have companies from different industries, in that way not looking at any specific industry. Leading to obtaining a broad image of the particular interest of research

All chosen companies are active in knowledge/creative industries and of different sizes. Due to the particular interest of the recruitment process, it was asked for people who where responsible for recruitment. As a result, four HR managers/specialists and

two team leaders where interviewed.

To collect the necessary data semi structured interviews were chosen and they all lasted approximately 90 minutes. In that way making the process flexible and emphasizing the things that the respondent thought was important (Bryman & Bell, 2007). Questions were asked upon the different obligations discovered by Rousseau (1990), which upholds and create the psychological contract. Furthermore, the recruitment process was examined to identify the different contracts and contract makers. The employer obligations identified by Rousseau can be seen as what the employee feels that the company is obligated to provide, i.e. promotion, high pay, pay for performance, training, job security, career development, and support with personal problems. Employee obligations on the other hand, consist of overtime, loyalty, volunteering to do non-required tasks, advance notice when quitting, and willingness to accept a transfer, refusal to support competitors, protection of proprietary information, and spend a minimum of two years with the organization.

Furthermore, open questions were used to give the respondent the option to answer in his/her own words, not implicitly implying any particular answer (Bryman & Bell, 2007). A couple of days previous to the interview the questions were sent to the respondent so they had the possibility to reflect upon the subject.

Five of the interviews were recorded and transcribed, naturally, with the respondents consent. The sixth interview was not recorded due to technical problems during the interview, which was made with a telephone. The other five interviews were conducted in person. The opportunity to record the interviews helped the author to make a more thorough analysis of the content and functioned as an aid for remembering everything correct (Bryman & Bell, 2007). Right after the interview the text was written out fair and sent to each of the respondents. This was conducted to correct any misunderstandings or misinterpretations. Afterwards, the data was analysed using grounded theory. According to Bryman & Bell (2007) grounded theory is the most commonly used framework when it comes down to analysing qualitative data. More specifically, coding, which is seen as the most central part of grounded theory (Bryman & Bell, 2007), was used to break down the data into components and concepts. The data was then categorized to construct codes from the

interpretations of the data (Bryman & Bell, 2007). Then, the empirical findings from the recruitment process, employee and employer obligations were related and categorized in comparison to the framework.

## The empirical evidence

After an introduction about the companies to enhance the understanding, the recruitment process is described followed by the two major interaction processes, the advertisement and the interview. Finally, the building blocks of the contract are presented in employer obligations and employee obligations.

### The companies

The four companies were all quite similar when it came down to what they did on a daily basis; they were all in knowledge intensive and/or creative industry. The core competence called for high technical education and many of the workers had a history from Chalmers, Kungliga Tekniska Högskolan (KTH) or equivalent. However, the actual job description was quite different. However, all employees had autonomous rolls with a lot of freedom. The global subcontractor had line-workers as a part of the core competence and naturally, these had very strict working conditions. Therefore, these workers were not paid any attention in the study, instead the focus were on those in the knowledge intensive division. Two of the companies had their headquarter abroad (travel science and the global subcontractor. The other two companies had theirs in Sweden. When looking at the specific department or division they were fairly similar. However, looking at the corporate group the size differences was huge. Below their approximate size and the specific interviewees for each company.

Company	Employees (approx.)	Interviewees
IT-Consultancy	200	Jane, Ture
Global Subcontractor	15 000	Göran
Communication science	70 000	Peter
Travel science	1 000	Carin, Marina

## The Recruitment process

All the companies started by writing a requisition that accounted for why they needed in the new employee, how many they needed, short or long-term perspective and specific job description. The manager that required the new employee in his unit usually wrote this; in some of the cases the HR department was also involved. Afterwards, the requisition needed to be approved by their superiors'. One thing that was evident was that, the larger the company was the more people were involved in approving the requisition, whilst in the smaller company less people was involved. One thing that they all had in common was that usually only recruited a few candidates at the time, one company said that they occasionally hired numerous employees at a time, but it was more of an exception.

After that their requisition has been approved two of the companies contact recruitment agencies. They help the companies with the advertisement and the first screening. The other two companies do not use recruitment agencies but do all of the work themselves. In those cases each manager is responsible for his personnel and his recruitment process. However, the head of department is often involved in the process to provide a second opinion. In one of the companies they used presumptive slot, where potentially useful candidates were. The reason for this presumptive slot was that the candidate could have long terms of notice or there weren't room for him at the moment. They also had bonus system for employees if they recommended a friend who was later hired.

What is consistent in all of the companies is how the advertisement is structured and how it was posted. One company expressed a concern that the recruitment agencies sometimes rushed the process in order to be able to take more assignments, as a result, the quality of the final candidate was sometimes very poor. "Therefore, the recruitment company only get paid when I'm actually hire someone" Göran (2011).

When they receive the applications, the manager and/or the HR department screen them, and narrow them down to approximately 3-5 candidates. These candidates were called for the first interview. All the companies had at least one interview ranging to up to three depending on the circumstances. One of the company that used a recruitment agency, usually asked for a personality test for the two top candidates. In that company the second interview commonly worked as a hiring meeting, the time

the candidate would get the contract of employment. Another company stressed the importance of personal contact, which in their eyes made tests superfluous.

If there is a 50/50 situation between an internal and external candidate, the internal always gets it (Göran, 2011). We know so much more about the candidate so we know that he/she will do a good job.

When they decided whom to hire they called up the candidate or called him in for a meeting. When they received the contract of employment all the companies also had contract of secrecy, additionally, one of the company had a medical examination, which the candidate needed to pass before signing the contract of employment. One company stressed the importance that the decision of employment was two-sided, it is also a decision the candidate needs to take.

The single most important thing of the recruitment process was that of the job description. Peter (2011) “ it is of utter importance that the job description is honest and that it is easy to understand, avoiding fluffy labelling” Furthermore, Jane (2011) it is important “that we are looking for the right person”. Göran (2011) regards the interview to be the most important part of the recruitment process. In the interview you have the possibility to have direct meeting. Furthermore, you cannot disregard your intuition and the fact that it grows of significance when you have more experience.

### **The Advertisement**

The advertisement is posted both internally (intranet, ads at the office) at the company and externally (newspapers, homepages for job searching). In the ads they usually have a brief introduction about the company and in one company it is customary to have a picture about their specific area. Then, they have a detailed job description, what they are looking for and what the position requires. Furthermore, in all of the companies, the use a template advertisement, which is adapted and changed due to the position and the media. In those companies who used recruitment agencies the advertisement is created in collaboration between the manager and the recruiter. However, they also start out from a template. A thing that was particularly discussed was what of the job description and what messages they wanted to communicate. In the companies there was a big difference about how many different persons that was involved in the advertisement, ranging from two to four persons. The one that always

was involved was the manager of the group and a member of the HR team, others that was involved in some cases was graphical designers, public relation officer and the HR executive. The major problem that surfaced in those companies that used a recruitment agency was sometimes that it was problematic to describe what they actually were looking for and to convey the mentality of the company. Peter (2011) “It is important that the mentality of the company is accounted for in the advertisement and it is sometimes hard for a person that has no experience of working in the company to understand it”. One of the companies expressed that the most important thing of the advertisement was to attract as many applicants as possible, whilst, two stressed the importance of communicating what you really was looking for, avoiding misunderstandings.

### **The Interview**

As mentioned, two of the companies used the services of a/several recruitment agencies; in those cases they conducted the first interviews with around 15 candidates, which they then forwarded the top three to the company. The recruiting manager then conducted interviews with all candidates. The first interview works as a way of describing what the job entails and to present the company and its values. In addition it also works as a way of bonding with candidate. Peter (2011)“ it is crucial that the candidate posses the right mind-set for the job and for our company”. For two of the companies the first interview served as getting to know the candidates personality, his potential fit in the company and his technical competence.

In two companies the recruiting managers had the main responsibility for the recruitment, in those cases he or she conducted the first interview. However, sometimes the department manager also was involved in the interview, but that called for a special situation i.e. if the recruiting manager is fairly inexperienced or if the candidate is of senior stature.

Usually during the second interview they were both the department manager and the unit manager. Sometimes they also had the possibility to meet the employees and view the workplace; this was approach to see the group dynamics. If it went to a third interview it was more to straighten some question marks, a desire for the managers boss to meet the candidate or if they had some questions with more sensible nature. Furthermore, in one company the references were called between the second and the

third interview. In those cases that they had a third interview, this meeting also functioned as a formal meeting of hiring.

Others used a template with pre decided questions for the first interview, ranging from qualifications to future development i.e. questions like “what kind of demands to have for us as an employer” and “is there something that you don’t want to work with”. This company stressed that the interviewer of course had the possibility to alter the question depending on the candidate, so no interviews were the same.

### **Employer obligations**

The companies are obligated to provide the employee components as salary, advancement and career development, pay after performance, competence and training sessions, job security and support with personal problems. Below, empirical material describing these issues will be presented.

All the companies discussed salary during the interviews. However, there were differences, especially when in the process this was talked about. Two of the companies had it as they said early in the first interview. It was said that “if we are to far away when in comes to salary it is best to part early in the process, otherwise we are only wasting each others time” (Göran, 2011). The other two had it as late as possible, in the last interview. They said that it was unnecessarily to talk about that before they had decided upon whom to hire. Those who advocated having the discussion late in the process acknowledge that it happened occasionally, but only if the candidate asks. One of those stressed that it sometimes were seen as bad omen of the candidate asked about the salary, that it is all about the money, which potentially could harm the company’s familiarity setting.

In the two biggest company’s, they emphasised their size and their international organization. So if the candidate wants a career there are good possibilities to move within the company. However, all said that the subject mostly came up if the candiade specifically asked for it. Furthermore, it was implicitly discussed during the interview with questions like “ what do you think about your development” They also stressed that “everybody doesn’t want that development” Carin (2011). Because “That will lead to that you don’t have so much time for technology, focusing more on administrative duties” (Jane, 2011). In one of the company it was mentioned that they had succession plan for most of the positions, this meant that the candidate should be



able to replace his/her boss in the long run. Therefore, it was important to ask about the candidates' development and career goals.

The smallest company of the four expressed that due to the size of the company advancement possibilities was hard to offer, there is simple just a couple of steps. Therefore, this was not really discussed. Two companies had a bonus system, whilst two didn't. In those companies that had one, this was just mentioned rather quickly. The other two said that although that they don't have a bonus system the wage is individually set which means that if you do a good job it will show in your salary bag.

What was evident was that all four stressed that training and learning was apart of the daily activities, i.e. learning by the more knowledgeable. Furthermore, it was seen as an imperative to the personal development and to manage their job. All the companies work in highly technical business that changes continuously. Consequently, you need keep up with the development (Carin, 2011). Although, the biggest company stressed this an advantage of working in a bigger company, it is never a problem to attend seminars or sessions. On the other three there were more restrictive and said that it happens but is nothing we send the employees regularly on. In those cases it was the manager who decided if the position required it. Therefore this is not really communicated.

One of the company are active in a very unstable industry, which in some cases was told to the candidate so he wouldn't go buying a house or invest large amount of money, because you will never know. This was more an exception than rule. Another company actively communicated that they we grow slowly and that we actually have more enquiries than we have employees. Therefore, we do not need to fire people in short recessions; this was seen as a way of providing job security for the candidate.

All of the studied companies had health benefits, what was interesting was that the bigger companies didn't really say anything because they saw it as norm in the business. However, the smaller companies were more actively communicating that they had the health benefits as it were seen as more.

### **Employee obligations**

A great variety/or not/ turned out regarding the issue of what the companies perceive that the employee is obligated to do. The different components became clear in relation to overtime,

loyalty, they will do the little extra, demand to potentially change city, not to help competitors and protection of company secrets and to spend at least a couple of years in the organisation.

Overtime is something that exists, however, none of the companies saw it as desirable, "Overtime is something that neither the company nor the employee wants". Peter (2011). Furthermore, if overtime were needed the employees themselves came in extra early; they felt an obligation to do that in order to reach the company goals. This was communicated through different ways, one company said that they advocated balance in life, another, that they actively communicate that an ordinary working week is 40 hours. Furthermore, vacation days were something that was seen as more important when interviewing more senior candidates (Jane, 2011).

It was also mentioned that they have flexible working hours, which meant that the employee had the possibility to work in the way he saw fit as long as he fulfilled his goals.

Loyalty was not actively communicated. However, all the companies saw this as a common sense from the employee. One company had introduction before employment, where they attended such matters. If the employee for some reason disregarded that, they new employees have probationary employment, which made them easy to be terminated. They will do the little extra was not specifically talked about, it was also seen as more of common sense, a prerequisite in accordance with loyalty. And as mentioned, in two of the companies the wage is individually set, so if you constantly do the extra 9 hours it will be beneficial for you.

For special positions that required a lot of traveling or if a move is predestined, this is always mentioned in the advertisement to not create any misunderstandings or deceive the candidate. However, none of the companies had any fundamental demands about a potential move. The closest to that was the consultancy firm that informed the candidates about how it is to work as a consultant. You can work two years at Hisingen and then need to move another office in the Gothenburg region.

Due to specific businesses that those companies are in they all had secrecy agreements, which the potential candidate signs when given the contract of employment. These agreements apply during the employment of the candidate and a couple of years after leaving the company. The consultancy firm's employees often signed contracts, one at the consultancy firm and one at the client. Furthermore, they had a paper that

the employee signed when leaving the company, to clarify that he understood and honoured the secrecy agreement.

There were no formal demands to stay for a couple of years. However, it was said, “you don’t apply for a job and then after couple of weeks just quit” (Peter, 2011). Nevertheless, most companies emphasised that only hire a few employees at a time and that they prefer continuity, this is discussed in a dialogue with the employee.

Naturally, “if the employee receives a profitable offer that we cannot match there is no grudge”. In the consultancy firm it sometimes happen that the employee like it at the client and starts working there, but, “we see it as an opportunity to build a better relationship and to get more assignments in the future” Ture (2011).

## **Discussion**

According to Ullah (2010) the challenges for the companies to succeed in today’s business climate comes to down to utilizing the resources in the right manner. One way of doing this is to be aware of the psychological contract and its subjective nature. By doing, so the employees of the company will experience extra job satisfaction and probably stay for longer time in the company.

At companies there were a lot of things that were done in the same way and by the same people. Two of the companies used recruitment agencies and found it sometimes hard to manifest their ideas. In all cases the recruitment process was seen as linear process that had to go through a couple predestined decision makers and steps. It always started with a discussion with the manager over the position, followed by advertisement and interviews. What was eminent was that the bigger companies had more decision makers involved in the process. They used templates that were adapted to the current position and situation both in the advertisement and during the interview. Although, there were differences in size the process overall was fairly similar, what was different was the amount of people involved.

### Theoretical implications

The advertisement is sometimes the first contact you have with the company. To some extent it is also the thing that sets the “rule of the game” i.e. what is regarded as important and interesting from the companies perspective. According to Rousseau (1995) the advertisement can be considered to be secondary contract makers, it convey messages about future promises and obligations. In all of the companies the advertisement was roughly divided in into three parts. First, there was a brief description about the company. Followed by a short job description and in the end, what characteristics and qualities they were looking for. All of these contribute to the creation of the psychological contract. To some extent it can be said that depending on how explicit the advertisement are regarding the factors that influence the psychological contract, the more extensive is the contract. As mentioned by Robinson, (1996) the psychological contract is not just what is said but also what is not said. Therefore, being more explicit in the advertisement can potentially have both negative and positive effect, depending on how it is said. Consequently, it is hard to say whether or not the companies should disclose more in the advertisement. It can be kept in mind that, Rousseau (1995) warned us for overselling the job. Based on the results from this study it can be stressed that it is better to play safe in the advertisement because it is easier to misunderstand written words than spoken. If the candidate perceives the advertisement as trustworthy this will contribute to higher prior trust and influence each parties behaviour towards one another (Robinson (1996). As a result, this also leads to that it plays instrumental how the candidate evaluates the contract towards the employer.

What was consistent in all companies were that they all used templates in the advertisement which they adapted to fit the actual position. The biggest difference was not in the content of these templates but how many different contract makers that were involved. Aligned with Rousseau (1995) the most decentralized organisation had the most contract maker’s people involved, whilst the more centralized ones had less contract makers involved. In this case it was primary contract makers (the manager, recruiter, graphic design departments etc.) that constructed the secondary contract maker (the advertisement). From the company’s point of view enrolling more people in the advertisement was a way of doing it better. However, although it could be beneficial to have a more expertise involved in the process it could also send mixed

messages in the different parts of the advertisement, confusing the candidate. And maybe more important, damaging the future psychological contract. It appears, as it could be beneficial for the organisation to align all their different departments and to create a consensus around what is actually needed

The interview is the candidates' first real contact with representatives from the company or as Rousseau (1995) calls them, the company's human contract makers. In all studied companies this person have some responsibility for the recruitment. Some of them were HR specialist focusing entirely on HR issues; this was the case in two companies whilst in the other two it was managers with recruitment responsibilities. According to Wanous (1992) the recruiter has the responsibility to conduct a realistic recruitment. In that way providing all necessary information so that the candidate can do a valid choice. In my study all the involved in the first interview had recruiting responsibly regardless of their title either has HR Specialist or recruiting manager. Therefore, no matter their official role at the company they provided a job description. And probably for the candidate he was seen as recruiter.

As in the advertisement, most companies also used a template during the interview. Similar to the advertisement, this template that can be regarded as secondary contract maker as it is part of the companies procedures and processes (Rousseau, 1995). It is created by primary contract makers and also used by primary contract makers. The idea with the template is that the interviewer does not miss important questions during the interview and also to provide important information for the candidate. However, it was stressed by the companies that the interviewer had the possibility to ask follow up questions and it was far from being a rigid construction. Therefore, the interviews should tend to look the same the only thing that is different is the candidate. This was also stressed during the interviews that much of content the psychological contract was not communicated unless the candidate asked.

As mentioned two of the companies used recruitment agencies, which conducted the first interview. In that interview it has been identified two somewhat antagonistic ways that could build or diminish the prior trust towards the organization. Firstly, if the candidate perceives the recruiter at the recruitment agency to be knowledgeable and competent, he will influence the psychological contract by

contributing to higher prior trust (Robinson, 1996). Secondly, if it is the opposite, if the recruiter is perceived to be incompetent it can potentially lead to lesser trust towards the organisation. Consequently, whether or not the candidate perceives the agency to be knowledgeable will be instrumental in how the prior trust is built up before the meeting with the company. Therefore it is important that you chose your recruitment agency wisely. No matter if in the end the recruitment agency actually find the right candidate the foundation for the psychological contract can be impaired leading to perceived violations/breaches in the future.

If the candidate perceives the recruiter at the recruitment agency knowledgeable he will be incorporated in psychological contract. To what extent is hard to say but it can be argued that it is likely that it is to a lesser extent than the company's recruiter. This can be due to three things. Firstly, based on the interviews it seems as the candidate distinguish between different agents. An example of this is that the recruitment agency does not have the same amount of information regarding the company and the vacant position therefore it is less likely that he is incorporated in the contract. Secondly, the recruiter at the agency is merely an obstacle on the way. Regardless if the candidate gets the job or not, he will not meet this person again. Making the meeting less important looking at the future career. However, this is also two-sided coin, if the candidate like the company he will not be in any file, diminishing his future chance of being an employee. On the other hand, it is possible that the company will use the same recruitment agency and they will have old info about the candidate. Lastly, the interview took place on in the recruitment agency's office. As a result the candidate is not influenced by the company culture, which in many cases are very important for the psychological contract (Rousseau, 1995). As an initial step it is important to reflect upon who shall be incorporated as a contract maker in the company and how this should be organized.

Some companies had the future manager doing the second interview or at least present. In accordance with Rousseau (1995) the manager has a key role in the breaches in the contract. Therefore, it appears important that the future manager of the position is present during the recruitment process. Although, he or she might have more of a recruiter role it is very important that he knows what obligations the contract rests on, because it builds mutuality with the employee, which is considered

to be what the leader-employer relationship relies on (Rousseau, 1995). Regardless, of what role the manager and recruiter plays it is clear that it is an agent-to-principal relation with the employee (Rousseau, 1995). However, Rousseau (1995) stress that the manager can also play multiple role and that it is the most complex that the candidate still perceive the manager as an recruiter and consequently as a agent for the organisation. However, in some of the cases reported here the candidate had the possible to meet the co-workers as a way of looking at the group dynamics and seeing what the job is all about. This is the only principal-to-principal relationship a found, the other relationships were as mentioned agent-to-principal (Rousseau, 1995). This is interesting because the candidate was sometimes given the opportunity to meet a co-worker, in order to test the group dynamic and as a work sample. However, it might be possible for the candidate to get less flattering information about the job. I stress that although that he chosen by managers it is the most honest meeting during the recruitment process due to the relationship that both parties is just represent each other.

For those companies that had HR-specialist a think it is very useful to bring in a manager for the potential group. Although, according to Wanous (1992) it is the recruiter that supposes to provide the realistic recruitment. Therefore, it could be beneficial to use a manager that has deeper and more covering information about the job. It is here argued that a centralized HR function would probably find the right person accurately but a manager has better chance of establishing a psychological contract that will hold. Consequently, using both a manager and a HR specialist would be the most efficient way of both finding the right candidate and to retain him.

It is said that when larger companies hire specialist or people for higher positions they tend to use recruitment agencies (Capotondi, 2003). According to the theory the recruitment agency have superior people network and is more knowledgeable when it comes to recruitment. Consequently, leading to a perfect match. This is furthermore said to save the company money by “doing it right the first time”, and avoiding hiring the “wrong person”. In the light of the psychological contract, it is no longer black or white. As was found in the study, those companies that used recruitment agency’s found it at times hard to explicitly explain what their culture was all about. Add to that, what the positions at the company actually entailed. It was expressed that it was

hard to say exactly what it was but as an employee or ex-employee of the company it was crystal clear. Sometimes it resulted in candidates that had all the right credentials but lacked the right mind-set. Consequently, this person was not hired and the recruitment agencies were called to elaborate the ideas and then send more candidates.

Yet another dimension of the psychological contract is that several persons are involved. As mentioned the psychological contract is contract that can have several contract makers and in order for the contract to be most effective these contract makers must be known to both parties (Conway & Briner 2005). Often all these contract makers contribute to one single contract, no matter who actually did the promise (Conway & Briner, 2005). One problem with multiple contract makers is that it could potentially lead to somewhat contradictory information or more precisely, obligations and expectations, which will affect the contract. What effects it will contribute with is unclear, but it calls for more reflection at the companies regarding who or whom shall be involved in the process and to get all parties communicating the same meaning.

As a result, my study indicates that if there has been a misunderstanding between the company and the recruitment agency they expose themselves of the risk of communicating the wrong messages to the candidate. Although, it might be common knowledge that recruitment agency's serve a purpose in the recruitment industry and that they are very knowledgeable. Even so, the company need to consider what kind of messages they want to send and the fact that there might be other reasons influencing the decision. By doing the recruitment in-house it is easier to decide who should be able to make contract in the role as an agent. In addition, it is easier to give the respondent more coherent information.

The major problem with the contract is its subjective nature. Therefore, it does not matter how much the recruiters plan or try to control it. Ultimately, it comes down to what the potential recruited candidate make out of it. However, this is not a way of saying that one should totally neglect the factors (i.e. advertisements, contract makers etc.) that affect the contract but the companies out there should be aware of that.



When comparing the theoretical standpoints regarding psychological contract with the material collected in this thesis, describing the procedures and experiences among recruiters it seems that many researchers have a rather simplistic view of the psychological contract. Mainly, this is showed as the researchers in this field tend to focus after the time of hiring and afterwards, just taking a snapshot between two points in time (Conway & Briner (2005). Although, they account for the interaction between several parties most of them has disregarded viewing the psychological contract as process. Therefore, limited theoretical or empirical attention has been directed towards this (Conway & Briner (2005). Based on my empirical material it turned out that the psychological contract starts a long time before that. More precisely, the first interaction with company was emphasised by the interviewed recruiters. This first contact could range from an actual meeting to seeing a commercial on the TV. Thus this contract is not really a sealed agreement as it is still vacant one, just waiting to be realized.

This also leads to that the psychological contract process do not include just one contract but several, all of which is continuously developed and maintained. Conway & Briner (2005) stress the lack of attention to the fact that there are several contract makers but it ends up with just contract, towards the “organization”.

However, in the light of the psychological contract, these sleeping contracts are not worth anything until before people have agreed in some way to be obligated, and that is how obligations occur (Rousseau, 1995). Aligned with Rousseau (1990) these contracts do not seem to be mutual, but more asymmetric. Consequently, leaving one party promising more than the other.

### **Managerial implications**

During the whole process it is important to build trust and to be consistent in the information that is provided for the candidate. If you are successful in doing that it is less possible that the candidate perceives the psychological contract to have been breached (Robinson, 1996). For the companies interviewed in this study, the trust issued turned out to be multifaceted and hard to fully control. Trust is something that was advocated to be created in various ways and on various levels. Furthermore, in

the end, it came down to the subjective thoughts of the candidate. It would possible be the case that companies that are well known (or known at all for that matter) have higher prior trust, which could help the psychological contract. However, it could potentially also lead to less prior trust if the candidate associates the company with something negative. For many of the big companies the brand name and image can help and hinder the specific department i.e. the brand name can be associated with “winner takes it all” mentality” while a specific department necessarily do not share that mind set. In my study three out of four have a globally known name, which potentially could help the companies to establish trust and as result experience less breach of the contract.

According to Zucker (1986) trust just do not exist by itself, but must instead be seen as a result of a dynamic process that evolves over a long time. Furthermore, it can be noted that it is said that trust facilitate trust (Switzer et al, 2010). In this sense it is important for the company to communicate a picture of themselves, which could benefit their core competence and culture. Furthermore, it is essential that they also think of the potential impact that employees, customers and ex-employees communicate to their new companies, families and friends etc. Of course, it is out of the companies control to fully manage their environment, but they should try in order to succeed.

## **Conclusion**

As mentioned in the introduction of this paper, the aim of this study has been to examine to what extent companies establish psychological contracts with their future employees, and in addition, to investigate in what way and where in the recruitment processes it takes place.

When comparing the theories describing the psychological contract with the results from my study, there were especially three these that were more important than anything else trust, the contract makers and the candidate.

Trust can be seen the glue that hold the different parts of the psychological contract together. Brand name, image, employees is just some things that meet the candidate on their initial contact with the company. Furthermore, all the steps in recruitment process from advertisement to the employment contract also breathed trust. It is

important to be trustworthy and facilitate a trusting relation to the candidate. This works as foundation that the psychological contract rests on. If the foundation is solid, then the psychological contract is stronger and can tackle difficulties better. Consequently, the employees work better and stay longer.

The companies enrol more people in the recruitment process as a way of getting a second opinion or just to make up their mind. However, as my results indicate this might lead to increasing the success rate when choosing the candidate but can also lead damaging the psychological contract by sending mixed messages. As a result, it can also lead to an increased employee turnover related to breaches in the psychological contract. Based on this it can be argued that incorporating both the future manager and recruiter is the optimal way, as long as there is a consensus. Here it is argued that a strong culture would help. However, I stress that enrolling both managers and recruiter will be beneficial because of the complementary competence and that it would result in more success in both finding the right candidate but even more importantly to retain him.

As the key ingredient, the thing that distinguishes the contract from one another is the candidate. The candidates' involvement is by far the most important aspect of the psychological contract. Firstly, companies tend to standardize their routines; therefore, the only difference is the different candidates. Secondly, the things that the candidate perceives to be of importance will be talked about; consequently this will have a huge impact on the psychological contract. As a concluding remark, no matter whom the company enrol in their recruitment process and how they work with trust it all comes down to the candidates' subjective mind.

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