

Psychological Contracts: Effect on International Assignments *

This Knowledge Bite discusses what psychological contracts are and how they impact international assignments. The importance of this impact is often underestimated.

A **psychological contract** is an unwritten contract between managers and other members, usually employees, of an organization. This type of contracts is about the expectations that both parties have of each other and includes “the set of expectations the employees have concerning how they will be treated by management and by other employees” (Stroh et al., 1998, p. 113). The contract also affects both parties’ commitment to the organization, and can influence the assignment and/or the level of commitment after repatriation. There are two types of psychological contracts, the transactional contract and the relational contract. Transactional contracts focus primarily on economic issues that take place within a certain time frame. These contracts tend to be “one-time affairs” that have narrow terms of exchange, and have a specific substance of the transaction, such as money or working hours, which can easily be measured (Rousseau, 1989; Stroh et al., 1998, p.114).

In comparison, relational contracts are not only economic exchanges, but are also socio-emotional. These contracts tend to be open-ended or without specific time frames. The substance of these transactions is more variable, more difficult to measure, and can be more subjective than a transactional contract (Stroh et al., 1998). Relational contracts are especially important when dealing with expatriate managers. Even though the assignment is just a single episode, the expectations about what will occur during and especially after the assignment are “closely intertwined with broader, dynamic expectations the individual has about his/her career within the firm” (p. 114). When looking at repatriation, these expectations can affect both the work and the private areas of the employee’s life. The influence of the psychological contract, in addition to sometimes unrealistic expectations, makes it even more important to clearly define tasks, expectations and long-term goals. The extent of capital gains, such as profits for the organization, and career advancement made by the expatriate both depend on his/her adjustment during and after the assignment, which will be strongly influenced by the relative

psychological contract (Haslberger & Brewster, 2009).

Cultural, relational and psychological stresses tend to have the greatest impact on cultural adjustment (Koveshnikov et al., 2014). One way that these stress factors influence cultural adjustment is through the psychological contract and the expectations that the expatriate has about the international assignment (Haslberger & Brewster, 2009). While psychological contracts and cultural adjustment are, at least superficially, two separate subjects, they are both based on expectations. This means that employees will be especially sensitive to any feelings of misplaced trust or perceived company promises that are seemingly broken. These include lack of support in the transition or an unexpectedly high cost of living without commensurate compensation (Haslberger & Brewster).

In summary, the extent to which expectations derived from a psychological contract are fulfilled impacts the commitment that expatriates have to an organization, both during the assignment and after their return. It is therefore imperative that organizations and potential expats recognize the importance of psychological contracts and pay sufficient attention to develop a realistic one.

Literature

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