

Research on the Reconstruction of Employee Psychological Contract and Management Strategies in Organizational Change

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Abstract: *With the increasingly fierce competition in modern society, organizations need to constantly adjust their strategic goals to adapt to the constantly developing and changing market environment in order to leverage their core competitiveness. However, no matter how a company changes its organizational structure, talent must always come first. All organizational change actions require the support of talent. For talent management, it is an important component of organizational management. Starting from the perspective of psychological contract, this article seeks to identify a series of reasons that lead to the breakdown of employees' psychological contracts during the process of organizational change, and analyzes the changes in employees' psychological contracts at different stages of organizational change. Based on the changes in employees' psychological contracts at different stages, relative winning management ideas are sought. It is hoped that this article can provide some reference for organizations undergoing organizational change in terms of psychological contract management ideas.*

Keywords: Psychological contract management; Organizational change; Psychological Contract Reconstruction.

1. Introduction

In today's society, the sustained development of the economy is inseparable from the support of industries, and the development of industries directly drives the progress of the economy. With the continuous transformation of productivity, the speed of market development and change has become increasingly fast. The constantly changing demands of modern consumers have led to increasingly fierce market competition, and the frequency of industry updates and elimination is also increasing. Enterprises are facing the risk of being eliminated by the market at any time, therefore, the internal and external competitive pressure and challenges of enterprises are gradually increasing. In order to ensure sufficient survival space in the market, enterprises must enhance their adaptability to the market and strengthen their innovation capabilities to highlight their core competitiveness in the market. Therefore, enterprises will continuously break down and integrate their internal management and organizational structure according to market demand during the development process. This series of measures has put the organizational structure of the enterprise in an unstable state. In the process of integrating, rebuilding, and merging its own resources, accompanied by the updating and elimination of

departments, this series of changes has brought a series of psychological impacts to internal employees, especially those who joined the company in the early stages of creation or development and have worked in the company for a long time.

With the continuous deepening and refinement of disciplinary fields, the continuous advancement of science and technology, and the continuous deepening of academic research, the research direction of enterprises has gradually shifted from simply improving productivity at the technical level to shaping and strengthening corporate culture through humanistic care. The development of modern enterprises is no longer limited to focusing solely on material benefits, but more on the core driving force of the enterprise - namely, people themselves. In this process, the importance of a company's qualification behavior and corporate culture in promoting its development gradually becomes equally important. Due to the fact that enterprises will adjust their organizational structure in response to changes in the economic environment, only by strengthening the construction of corporate culture, enhancing employees' confidence and sense of belonging, and ensuring that employees' career goals are synchronized with the company's long-term strategic planning, can employees always maintain a positive and optimistic attitude when facing organizational changes. Only in this way can enterprises achieve more sustainable and stable development. Therefore, at every stage of organizational change, companies must closely monitor the potential impact of the change on employees, take measures to avoid negative emotions caused by information asymmetry or uncertainty, and thus bring unnecessary risks and losses to the company.

2. Definition of Concept

2.1 Psychological Contract

Psychological contract plays an extremely important role in human resource management and organizational behavior management in the people-oriented business philosophy, and is considered one of the core concepts. This concept was first proposed by the renowned organizational psychologist Professor Argyris in the United States. Subsequently, scholars such as Levinson, Denise Rousseau, and E. H. Schein conducted in-depth research and further improved it. The psychological contract describes a series of intangible, implicit, and undefined expectations that exist between an organization and its members. These expectations are widely present at all levels of the organization and among its members, and they constitute psychological expectations without formal written regulations. Although this type of contract is not a physical or legal contract, it can have a similar impact to tangible contracts and have a profound effect on the internal operations of the organization and the behavior of its members.

Psychological contract represents an intangible, informal connection between an organization and its employees. This connection is not only based on the terms of a written contract, but also on mutual understanding and tolerance between employees and the organization. Psychological contract can be seen as a link between the two, reflecting a common understanding and recognition of each other's responsibilities and obligations between employees and organizations. The depth of employees' understanding of the company, the quality of their work performance, and their recognition of the company culture can all be considered based on the psychological contract. When the psychological contract is in a healthy state, employees often exhibit a positive and proactive work attitude, possess high work enthusiasm, and have a relatively strong sense of belonging to the organization. In this situation, employees are able to actively exert their subjective initiative in the work process, closely integrating their personal career vision with the organization's development strategy, thereby fundamentally improving work efficiency and increasing organizational performance. On the contrary, if employees have a relatively negative psychological contract, their attitude towards work will also

become negative accordingly. This negative psychological contract may lead employees to reduce their work effort, and even harm the interests of the organization in pursuit of personal gain at work. Such behavior undoubtedly has a negative impact on the stability and development of the organization.

2.2 Organizational Change

In the long river of social development, the only unchanging law is change itself. With the sweeping waves of globalization, digitization, and intelligence, they are reshaping the face of modern markets at an astonishing speed, bringing unprecedented demands and challenges. In such a complex and ever-changing market environment, if an organization wants to achieve sustainable development and solidify its position in a fiercely competitive market, it must constantly pursue innovation and make structural adjustments. The structural adjustment of an organization is a continuous process that requires the organization to have the courage to break through old frameworks and operating models, fundamentally re-examine and transform the organization's starting point and goals. This involves restructuring the organizational structure, reconfiguring power allocation, and readjusting interest relationships, with the aim of building a new organizational structure that can adapt to market changes and meet emerging needs. However, in this process of development and transformation, due to the uncertainty and cognitive biases of the future, employees' mentality and expectations often experience a certain degree of fluctuation and change. Therefore, with the structural adjustment of the organization, the psychological contract between employees and the organization will also be affected accordingly, and both parties need to work together to adapt and adjust.

American scholar Kurt Lewin first proposed the organizational change stage model in the 1940s. In terms of the degree of organizational change, it is mainly divided into three stages, namely the organizational change theory of "thawing change freezing".

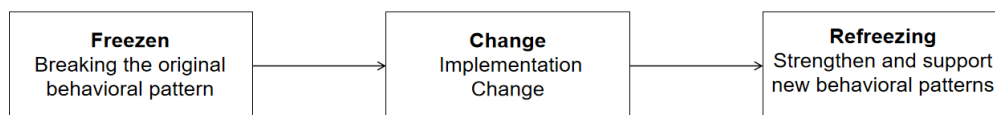


Figure 1: Lewin Organizational Change Model

The concept of unfreezing can be understood as breaking established behavioral patterns and habits. For an organization, it involves the process of management and employees recognizing and understanding the upcoming organizational changes. In this process, organizations need to clarify their goals and directions for future change and development, laying the foundation for the change. During this period, the task of organizational management is to communicate a clear vision for change to employees, establish their confidence in the change, and strengthen their psychological security to ensure they can adapt to the upcoming changes. At this stage, the organization will examine and break through key elements such as the existing organizational structure, communication methods, and decision-making processes, and then rearrange and optimize them based on the transformed organizational form to ensure a smooth transition to the new stage of development.

The period of change refers to the process of transitioning from the original stage to a new stage. The period of change has also been regarded as a specific implementation manifestation of unfreezing all change plans. At this stage, the organization mainly makes a series of plans, schemes, means, and goals based on the thawing period, and reforms and innovates the existing organizational structure, communication methods, and organizational models. At this stage, the organization has already begun implementing changes, and employees will be in a wait-and-see state towards the changes in the organization. The psychological contract of employees will also shift from initial anxiety to acceptance. During the period of change, organizations should provide sufficient psychological counseling to

employees, even if the situation of organizational change is made public to employees, to help them adapt to various aspects of organizational change from the source.

Refreezing is a critical stage after organizational change to ensure that the enterprise can maintain its new state for a long time. Its core purpose is to prevent the organization from returning to its old state before the change over time. The freezing stage is a decisive factor in the success or failure of organizational change, ensuring that the results of the change can be maintained and developed for a long time. At this stage, the organization needs to quickly find a stable state of development equilibrium, ensuring that the new organizational culture, system, and structure brought about by the change can be stabilized and not easily changed due to changes in the external environment or internal forces. The freezing stage breaks the psychological contract of employees, and they will gradually form their own views and understanding of the new organizational structure and culture based on the new organizational structure. At the same time, employees will also adjust their work styles, behavioral habits, and psychological expectations according to the adjusted structure of the organization, in order to adapt and integrate into the changed organization more quickly. Although employees have the ability to adjust themselves to the post organizational change state, this does not mean that the organization can ignore the psychological contract status of employees during and after the re freezing phase. On the contrary, at this stage, organizations should pay more attention to the psychological contract of employees, strengthen and consolidate their psychological contract with the new form of the organization through positive relaxation management, and ensure that employees can grow together with the organization and face future challenges together.

3. Analysis of Employees' Psychological Contracts in Different Periods of Organizational Change

The original intention of organizational change is inevitably for the better, but organizational change also has a huge impact on employees' psychological contracts, especially after organizational mergers and reorganizations, organizational change may cause violent reactions among internal employees. Based on the psychological contract reactions of employees at different stages of organizational change, the author conducts the following analysis on the psychological contract of employees at different stages of organizational change.

3.1 Changes in Employee Psychological Contracts during Different Periods of Organizational Change

The macro social environment is rapidly changing with the advancement of science and the improvement of productivity and technological level. Organizations are facing complex and ever-changing objective environments, as well as changes in resource allocation. In order to achieve long-term development and maintain their market competitiveness, organizations must adapt to changes in the external environment. In today's increasingly competitive environment, overly redundant organizational structures are no longer suitable for the development of modern organizations. A redundant organizational structure not only consumes organizational resources excessively, but also leads to increasingly fierce internal competition, increasing the operational costs of the organization. To avoid the negative impacts mentioned above, organizational change in modern society has become particularly important. Currently, various organizational changes mainly focus on investing in science and technology to achieve the ultimate goal of reducing organizational costs and increasing efficiency. However, most organizations currently overlook the importance of employee psychological contracts in the process of change.

According to the three periods of organizational change mentioned earlier, employees' psychological changes in July vary for different periods.

Firstly, during the process of organizational unfreezing, most organizations do not extensively and deeply promote and guide the upcoming organizational changes. On the contrary, most information about organizational change is disseminated through private communication among employees. This approach leads to employees lacking a clear understanding of key information such as the reasons for organizational change, the methods of organizational change, and the goals of organizational change, which in turn makes employees feel confused and uncertain psychologically. Due to the lack of clear information, employees often do not know whether their career goals and plans match the organization's planning strategies, which further leads to a lack of understanding and even confusion and perplexity towards organizational change behavior. Ultimately, this lack of understanding may translate into negative, resistant, and rebellious emotions among employees in terms of behavior and work attitude, thereby affecting the overall process and effectiveness of organizational change.

Secondly, during organizational change, in the absence of communication between the organization and employees on issues related to organizational change, most organizations are overly optimistic about the closeness of employees' psychological contracts, their psychological resilience, and their expectations for the execution of organizational change activities. The organization lacks a professional team to provide correct guidance on employees' psychological contracts. Most organizations adopt a relatively simple approach to organizational change, which involves directly implementing the change and notifying employees of the change results once it is completed. This makes other employees in the organization feel confused, except for some managers in core positions. This behavior will greatly shake the psychological contract of employees. After the organizational change is completed, there will inevitably be some changes in the organizational structure. For employees whose rights have changed and their positions have not undergone significant adjustments, their psychological contract is not stable. Even if the job responsibilities and content of these employees have not changed much, their colleagues and subordinates may undergo significant changes, which require some time for adjustment. During the period of change, due to the excessive communication costs and conflict resolution work during the adjustment process, some employees may feel that their current income level and workload do not match, resulting in an imbalance in their psychological contract.

Finally, regardless of how much the psychological contract of employees is affected during the freeze and change periods, the organization has already completed the organizational change by the time of re-freezing, and the psychological contract of employees is forced to enter a new psychological contract cycle with the organizational change. Employees are forced to accept the changed organizational environment, culture, and management style. Due to employees' insufficient understanding of organizational change in the early stages, and being forced to accept various changes after organizational change in the current period, most employees find it difficult to integrate the previously established psychological contract vision with the current organizational strategic goals, and even some employees have violated and broken their original psychological contract due to the inability to adjust it consistently. As a result, some employees may resign or retain their trust in the organization. At the same time, even if the organization completes the change, there may still be some systems that have not changed with the organizational change, such as incentive mechanisms. Once the incentive mechanism is not adjusted with organizational change, there will not be greater fluctuations in employees' psychological contracts. After organizational change, employees hope that the organization can see the efforts they have made due to the change and receive certain rewards. At the same time, employees also hope that the organization can delegate more power and have more freedom in their work after further changes. However, due to the organization still using outdated incentive methods, the efforts and

changes made by employees for their work become useless, ultimately leading to the breakdown of their psychological contract.

3.2 Analysis of the Reasons for the Changes in Employee Psychological Contract during Organizational Change Period

With organizational changes and adjustments, employee psychological contracts will be strongly impacted by organizational changes. Organizational change involves the redistribution of production methods and resource allocation, which undoubtedly increases the pressure on employees. Once this pressure exceeds the psychological contract limit of employees, the psychological contract of employees collapses, making it more difficult to establish a psychological contract between employees and the organization. According to the three periods of organizational change, the reasons for changes in employee psychological contracts are mainly due to different periods of organizational change.

In the early stages of organizational change, employees are more concerned about the rights, work permissions, work status, and other aspects that they can have after the organizational change. The psychological contract center of employees is placed on future career development. At the same time, employees expect the organizational management to ensure that their rights and interests will not be greatly affected after the organizational change in various ways. However, in the early stages of organizational change, most information needs to be kept confidential and cannot be determined, so management cannot disclose more information to employees. This information asymmetry and insufficient communication lead to a deviation in employees' understanding of the concept of organizational change, and at the same time, employees lack organizational identification during their work period, increasing their sense of crisis. Especially in the early stages of organizational change, due to a large amount of uncertainty, employees lose their meaning or goals in the organization during the process of organizational change, resulting in a loss of direction for their work efficiency and organizational action. This puts employees in a disconnected state during conversations in the work environment, ultimately affecting their work emotions and efficiency.

Once organizational change begins and ends, the scope and allocation of all internal and external resources will be affected to varying degrees, which will affect the rights and interests of some employees. Once employee rights are involved, the psychology of different employees will be impacted to varying degrees, which makes the psychological contract of employees gradually unstable during the period of organizational change. At the same time, during the period of change, employees are uncertain about the future development and expectations of the organization, which makes them feel confused about their future career development. Some employees even magnify the organizational change, believing that the organization is deceiving themselves and no longer trusting the organization, thereby further increasing employees' negative emotions and gradually breaking their psychological contract. The change and adjustment of organizational management structure will also affect the psychological contract of employees. Due to changes in organizational structure, employees in the interest chain of the original organizational structure may feel anxious and uneasy about the change due to changes in their interests and power levels. If the organization does not guide the psychological contract of employees at this time, it may lead to the organizational change becoming difficult.

4. Psychological Contract Management Strategies in the Process of Organizational Change

When the environment is adjusted, the original behavior patterns and structures are broken, and employees' existing psychological contracts will change with organizational changes. According to

different periods of organizational change, organizations have different ways of managing employees' psychological contracts for different periods.

The thawing stage of organizational change and psychological contract management can be considered as the best stage for organizations to manage employees' psychological contracts. Organizations can design corresponding psychological contract reconstruction plans by setting goals in advance and rebuilding psychological contract objectives, laying a solid foundation for employees to establish new psychological contracts with the organization in the early stages of organizational change. At this stage, the organization must clarify the backwardness of its original structure or weaken the influence of the original organizational structure on employees' work in terms of working methods, so that employees can quickly structure the new organizational environment. On the other hand, organizations can use methods such as promotion or preheating to let employees understand what the organization is doing now and what it wants to become in the future. Through promotion, employees can have a deeper understanding of the mismatch between the current organization and the macro market environment. By establishing sufficient trust, employees can be "thawed" from the original organizational structure, and the new work mode of the organization can be naturally integrated into their current work. Through daily work, the organizational structure of employees can be transformed, thus connecting the psychological contract between the organization and employees more closely.

During the period of change, organizations should prioritize the use of standardized regulatory systems and a new organizational culture, and further align employees with the new structure of the organization through methods such as communication, spiritual encouragement, and collective hierarchical training. The period of change is the most intense period when the psychological contract between employees and the organization is severed. The period of change brings about a series of changes in both the internal and external environment of the organization. During this period, the organization should pay more careful attention to every detail of the changes in the psychological contract of employees. Based on the different time points of organizational change, a set goal should be established for the transformation of the psychological contract of employees. On this basis, through collective training, individual conversations, public change processes, and other methods, targeted and standardized guidance should be given to the psychological contract of employees to increase their cooperation with organizational change, so that the various plans for the transformation of the psychological contract of employees and organizational change can be mutually promoted and ultimately implemented.

During the unfreezing period, what organizations need is stability rather than change. In order to further increase the stability of the organization after the change, the organization can collect employee evaluations of the salary system, work scope, work methods, and other aspects of the organization through survey questionnaires, satisfaction surveys, and other methods. The evaluation results can be analyzed and confirmed to determine whether the employees have adapted to the organizational environment after the change, as well as their sense of identification with the transition and new identity in the organization after the change. Organizations also need to observe employees' daily work attitudes to confirm whether they have a positive or negative attitude towards the stable period after organizational change. If employees have some negative emotions during this period, they should be guided and corrected as soon as possible. In order to ensure the stability of employees' psychological contracts during the re-freezing period, organizations should clarify with employees the new identity of employees after organizational changes, so that employees can quickly integrate and adapt to the new organizational environment. By clarifying job responsibilities, increasing employees' organizational identity, and strengthening the psychological contract between employees and the organization through positive encouragement, the ultimate goal is to update employees' psychological

contracts and stabilize their cultural identity.

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