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## **Psychological Contracts**

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The psychological contract has captured the attention of researchers as a framework for understanding the employment relationship. In terms of research, there has been an exponential growth in publications on the topic in the last 15 years (following the publication of Rousseau's 1989 article) giving the impression of a relatively new concept. Its introduction can however be traced to the 1960s. The concept developed in two main phases: its origins and early development covering the period 1958 to 1988, and from 1989 onwards. This chapter begins with a review of the initial phase in the development of the psychological contract highlighting the commonalities and differences amongst the early contributors. We then review Rousseau's (1989) reconceptualization of the psychological contract, as this has been very influential in guiding contemporary research. The two distinct phases in the development of the psychological contract have given rise to a number of key debates which we discuss prior to outlining an agenda for future research.

### **Historical Development of the Psychological Contract**

In tracing the development of the psychological contract, we focus on the seminal works of Argyris (1960), Levinson, Munden, Mandl and Solley (1962) and Schein (1965). We also review the work of Blau (1964) and Gouldner (1960) as these represent the foundational ideas of social exchange theory upon which subsequent theorizing on the psychological contract draws.

#### **Classical early studies**

Although Argyris (1960) was the first to coin the term psychological contract, the idea of the employment relationship as an exchange can be traced to the writings of Barnard (1938) and March and Simon (1958). Barnard's (1938) theory of equilibrium posits that employees' continued participation depends upon adequate rewards from the organization. Here lies the idea of a reciprocal exchange underlying

the employee-organization relationship. This was elaborated upon by March and Simon (1958) in their inducements-contributions model. They argued that employees are satisfied when there is a greater difference between the inducements offered by the organization and the contributions they need to give in return. From the organization's perspective, employee contributions need to be sufficient enough to generate inducements from the organization, which in turn need to be attractive enough to elicit employee contributions. The work of March and Simon (1958) is rarely acknowledged in the psychological contract literature (Conway & Briner, 2005) but the idea of a reciprocal exchange bears a remarkable resemblance to a core tenet of the psychological contract.

Argyris (1960) viewed the psychological contract as an implicit understanding between a group of employees and their foreman, and argued that the relationship could develop in such a way that employees would exchange higher productivity and lower grievances in return for acceptable wages and job security (Taylor & Tekleab, 2004). Argyris (1960) believed that employees would perform at a higher level if the organization did not interfere too much with the employee group's norms and in return employees would respect the right of the organization to evolve. The defining characteristics of this first explicit conceptualization of the psychological contract viewed it as an exchange of tangible, specific and primarily economic resources agreed by the two parties that permitted the fulfillment of each party's needs.

Subsequently, Levinson et al. (1962) introduced a more elaborate conceptualization of the psychological contract that was heavily influenced by the work of Menninger (1958). Menninger (1958) suggested that in addition to tangible resources, contractual relationships also involve the exchange of intangibles. Furthermore, the exchange between the two parties needs to provide mutual

satisfaction in order for the relationship to continue (Roehling, 1996). Levinson et al. (1962) based their definition of the psychological contract on the data they gathered in interviewing 874 employees who spoke of expectations that seemed to have an obligatory quality. They defined the psychological contract as comprising mutual expectations between an employee and the employer. These expectations may arise from unconscious motives and thus each party may not be aware of the own expectations yet alone the expectations of the other party.

The findings of Levinson et al's (1962) study highlighted the role of reciprocity and the effect of anticipated satisfaction of expectations. Specifically, the emphasis on the fulfillment of needs created a relationship in which employees would try and fulfill the needs of the organization *if* the organization fulfilled the needs of employees. Thus, the employee and organization held strong expectations of each other and it was the anticipation of meeting those expectations that motivated the two parties to continue in that relationship. Taylor and Tekleab (2004) note that the work of Levinson et al. (1962) contributed in the following ways: the two parties in the contract are the individual employee and the organization represented by individual managers; the psychological contract covers complex issues – some expectations are widely shared, others are more individualized and the specificity of expectations may range from highly specific to very general; the psychological contract is subject to change as the parties negotiate changes in expectations that may arise from changes in circumstances or a more complete understanding of the contributions of the other party.

Although Schein's (1965) definition shares some similarities with Levinson et al (1962), he placed considerable emphasis on the matching of expectations between the employee and organization. The matching of expectations and their fulfillment is

crucial to attaining positive outcomes such as job satisfaction, commitment and performance. Consistent with this, Schein (1965) by implication highlighted the importance of understanding both the employee's as well as the employer's perspective. Schein went further than previous researchers in discussing how organizations might express the organization's psychological contract through its culture.

### **Divergences amongst early contributors**

The initial phase in the development of the psychological contract is marked by divergences between the early contributors. In particular, the work of Argyis (1960) stands apart in several ways. First, the psychological contract captures an implicit understanding of the exchange of tangible resources between employees and an organizational representative. As noted by Conway and Briner (2005), this view of the psychological contract was a simple although an underdeveloped one. It is not clear, for example, how the implicit understanding developed and what it is based on. Furthermore, Argyis (1960) presented the narrowest view of the psychological contract in terms of its focus on tangible resources. In contrast, Levinson et al. (1962) and Schein (1965) viewed the content of the exchange as including both tangible and intangible resources.

Second, although Schein (1965) and Levinson et al. (1962) conceptualized the psychological contract as encompassing expectations, Levinson et al. (1962) viewed these expectations as having an obligatory quality where the parties believe the other to be duty bound to fulfill those expectations. At the same time, however, Levinson et al (1962) did not see these expectations as being based on promises but rather on needs (Conway & Briner, 2005). Schein's (1965) primary emphasis was on the matching of expectations between the employee and organization. The outcomes

(positive or negative) of the psychological contract were contingent upon the degree to which the two parties were in agreement in terms of expectations and their fulfillment. In addition, Schein (1965) gave greater prominence to the organization's perspective and considered ways in which the organization could express the type of psychological contract it wished to develop. In fact, Schein's (1980, p.99) subsequent position on the importance of considering both perspectives is illustrated in the following: " We cannot understand the psychological dynamics if we look only to the individual's motivations or only to the organizational conditions and practices. The two interact in a complex fashion that demands a systems approach, capable of handling interdependent phenomena".

Thus, the early phase in the development of the psychological contract is marked by differing emphases and an absence of acknowledgment of how one conceptualization relates to prior work. This lack of cumulative work created ambiguities that come to the fore in terms of current debates in the field.

### **Social Exchange as theoretical foundation of Psychological Contracts**

Running parallel and independently to the early psychological contract work, the seminal works of Homans (1958) Blau (1964) and Gouldner (1960) characterized the beginnings of social exchange theory, and were themselves influenced by the earlier work of Mauss (1925) and Malinowski (1922). Homans (1958) provided a skeleton theory of exchange in the context of how individuals interacted within groups (Coyle-Shapiro & Conway, 2004) that was developed by Blau (1964). We focus on the work of Blau (1964) and Gouldner (1960) as together, their work represent the foundational ideas of social exchange theory (for a more comprehensive review see Coyle-Shapiro and Conway, 2004; Cropanzano and Mitchell, 2005).

Blau (1964) differentiated social from economic exchange along a number of dimensions: specificity of obligations, time frame and the norm of reciprocity. In short, economic exchange is one in which the obligations of each party are specified, the mechanism in place to ensure fulfillment of those obligations is the formal contract and the exchange has a limited time frame. In contrast, social exchange involves unspecified obligations where one party needs to trust the other that the benefits received will be reciprocated. The reciprocation of benefits enhances trustworthiness which in turn facilitates the ongoing conferring of benefits and discharging of obligations over the long term. In short, social exchange theory examines how social exchange relationships develop in engendering “feelings of personal obligations, gratitude and trust” (Blau, 1964, p.94). The exchange of economic and socio-emotional resources and the adherence to the norm of reciprocity play a critical role – the actions of one party contingent upon the reactions of the other and it is this contingent interplay that characterizes how social exchange has been applied to the employment relationship.

The norm of reciprocity plays an important role in the development of social exchange relationships by perpetuating the ongoing fulfillment of obligations and strengthening indebtedness. Gouldner (1960) argued that the norm of reciprocity is universal and that individuals should return help received and not injure those who have previously helped them. He distinguished between two types of reciprocity: heteromorphic and homeomorphic reciprocity. The former captures an exchange where the resources exchanged are different but equal in perceived value; the latter captures exchanges where the content or the circumstances under which things are exchanged are identical. Regarding how the norm of reciprocity operates, Gouldner (1960) argues that the strength of an obligation to repay is contingent upon the value



of the benefit received – highly valued benefits create a stronger obligation to reciprocate.

The work on social exchange theory shares some common elements with psychological contract theory. First and foremost, both view exchange relationships as comprising tangible and intangible resources governed by the norm of reciprocity. Second, each party brings to the relationship a set of expectations/obligations that they will provide in return for what they receive. However, the other party to the exchange (i.e. the organization) received more explicit consideration by psychological contract researchers while the norm of reciprocity was more prominent and theoretically refined by social exchange theorists.

### **Recent Research**

Rousseau's (1989) seminal article on the psychological contract is credited with reinvigorating research on the topic. We start by reviewing her definition and how it departed from earlier work. Three strands of contemporary research are presented: formation, content and breach of the psychological contract.

#### **Rousseau's reconceptualization of the psychological contract**

Rousseau's reconceptualization of the psychological contract signals a transition from the early work to what is now considered contemporary research. She defined the psychological contract as an individual's beliefs concerning the mutual obligations that exist between him/herself and the employer. These obligations arise out of the belief that a promise has been made either explicitly or implicitly and the fulfillment of promissory obligations by one party is contingent upon the fulfillment of obligations by the other. Therefore, the psychological contract comprises an individual's perception of the mutual obligations that exist in the exchange with his/her employer and these are sustained through the norm of reciprocity.

This conceptualization differs from the early definitions in a number of ways. As Conway and Briner (2005) highlight, while the early work emphasized expectations, Rousseau defined the psychological contract in terms of obligations. This appears to be similar to what Levinson et al (1962) had in mind in their use of expectations that had an obligatory quality which created a sense of duty to be fulfilled. The focus on obligations brings Rousseau's definition of the psychological contract very close to Blau's (1964) social exchange theory. However, although these researchers are conceptually close in capturing the nature of the exchange, they diverge in terms of its development. Rousseau (1989) is perhaps the clearest in presenting obligations arising out of a perception that a promise has been made to commit to a future action. The idea of obligations based on promises is very different from Levinson et al.'s (1962) position that expectations arise from needs. Blau (1964) remains more ambiguous in terms of how obligations arise except that they are based on benefits received. Whether these benefits are based on the donor's recognition of the recipient's needs or the donor's promises to provide benefits is unclear in Blau's (1964) work.

A second point of departure, in particular with the work of Schein (1965) who emphasized matching of expectations between the employee and organization, was Rousseau's (1989) emphasis on the psychological contract residing "in the eye of the beholder". The importance of the two parties having "matched" expectations was downplayed by Rousseau (1989) who emphasized instead an individual's perception of agreement. Therefore, the psychological contract shifted from capturing the two parties to the exchange and their contingent interplay to an individual's perception of both parties' obligations in the exchange.

The emphasis on needs versus promises has implications for the factors that shape the psychological contract. Given that Levinson et al. (1962) and Schein (1965) viewed expectations as arising from needs, the degree to which the other party can influence those needs is constrained and the critical element becomes the extent to which each party can fulfill those needs. In contrast, as Rousseau (1989) focuses on perceived promises, the organization's influence on an individual's psychological contract through explicit and implicit signals is much greater. However, the degree to which an organization can shape an individual's psychological contract is contingent to some extent on an individual's schema which serves to guide an individual's interpretations of obligations and allows an individual to operate in a loosely pre-programmed unconscious manner until something out of the ordinary happens.

The distinguishing feature of Rousseau's (1989) reconceptualization of the psychological contract was locating it at the individual level. In doing so, it captured the psychological contract as a mental model of the exchange which in turn influenced what an individual contributed to that relationship rather than as an agreed upon exchange between the employee and the organization. Consequently, Rousseau (1989) emphasized the 'psychological' in psychological contracts.

### **Contemporary research**

Although a prominent strand of contemporary research has focused on the consequences of contract breach, two other strands of research merit attention: the formation of the psychological contract and its content.

#### *Formation of the Psychological Contract*

Rousseau (2001) proposed that psychological contracts are grounded in an individual's schema of the employment relationship. This schema develops early in life when individuals develop generalized values about reciprocity, hard work and

these values are influenced by family, school, peer group and interactions with working individuals (Morrison & Robinson, 2004). Before individuals first employment experience, they have developed assumptions about what they should give and receive in an employment relationship and it is this schema that influences how an individual interprets the cues and signals from the organization.

The socialization period seems to be particularly important in terms of organizational influences in shaping an individual's psychological contract. Once an individual's schema is fully formed, it becomes highly resistant to change; also during the early socialization period, newcomers are more inclined to search for additional information to "complete" their psychological contract thereby reducing uncertainty. Tekleab (2003) found that higher levels of socialization reduced employee perceptions of employer obligations during the first three months of employment. Thomas and Anderson (1998) found that new army recruits adjusted their psychological contract over an eight-week period and this change was influenced by social information processing that "moved" their psychological contract closer to that of experienced soldiers. DeVos, Buyens and Schalk (2003) found that newcomers changed their perception of employer obligations based on the inducements they had received and also, newcomers changed their perceptions of what they had promised based on what they had contributed. Dulac, Coyle-Shapiro and Delobbe (2006) showed that newcomer proactivity and socialization tactics were important in influencing newcomer evaluation of their psychological contract during the first year of employment.

Additional organizational influences include human and structural contract makers (Rousseau, 1995). Human contract makers (recruiters, managers and mentors) play an important role in communicating reciprocal obligations to

employees and in particular, the line manager (Guest & Conway, 2000). Structural contract makers (human resource management practices) have been positively linked to the number of promises made to employees as perceived by managers.

Notwithstanding organizational influences, individual factors still shape how individuals construe their psychological contract and how they enact contractual behavior. Raja, Johns and Ntalianis (2004) found that personality predicted psychological contract type, while Coyle-Shapiro and Neuman (2004) found that exchange related dispositions influenced employee reciprocation. Robinson, Kraatz and Rousseau (1994) argue that self-serving biases cause individuals to over-estimate their contributions and under estimate the costs of the inducements to organizations.

Pre-employment experiences, individual dispositions and organizational influences play an important role in shaping the psychological contract in its formation stage. In contrast, there is little empirical research that examines how psychological contracts are changed. Once formed, psychological contracts are quite stable and resistant to change (Coyle-Shapiro & Kessler, 2000; Rousseau, 2001), and we know little about the conditions under which psychological contracts are more amenable to change.

### *Content*

In light of the subjective nature of the psychological contract, researchers have attempted to categorize psychological contract items (e.g., job security, interesting work, career prospects, pay, training and developmental opportunities, autonomy in job) in terms of two underlying dimensions: transactional and relational. The distinction between the two draws upon the legal work of MacNeil (1974; 1980) and also parallels Blau's (1964) distinction between economic and social exchange. Transactional and relational contracts can be differentiated based upon their focus,

time frame, stability, scope and tangibility. Transactional contracts contain highly tangible exchanges that are economic in focus; the terms and conditions remain static over the finite period of the relationship and the scope of the contract is narrow. In contrast, relational contracts contain tangible and intangible exchanges; are open ended and the terms of the contract are dynamic; the scope may be broad in that there is spillover between an individual's work and their personal life.

The conceptual distinction between transactional and relational contracts is clear. Rousseau (1990) argues that they represent anchors on a continuum such that a psychological contract can become more relational and less transactional and vice versa. However, the empirical evidence is not so clear cut in terms of supporting the transactional-relational distinction. In interpreting the empirical findings, one should bear in mind that researchers have operationalized the psychological contract in terms of specific obligations and a features based measurement approach may lend itself more easily to capturing the relational-transactional distinction. The key issue is the crossover of items (Taylor & Tekleab, 2004). For example, training may be a transactional or relational item (Arnold, 1996) and one study supports training as an independent dimension (Coyle-Shapiro & Kessler, 2000). Attempting to classify psychological contract items into relational-transactional factors has not yielded consistent results.

An alternative approach captures the features of the psychological contract. O'Leary-Kelly and Schenk (2000) operationalized relational and transactional contracts in terms of four dimensions: focus, time frame, inclusion and stability using a 15 item measure. Sels, Janssens and Van den Brande (2004) extended the number of dimensions to six to include tangibility (the degree to which the terms of the psychological contract are explicitly specified), scope (the extent to which the

boundary between work and personal life is permeable), stability (the extent to which the psychological contract is subject to change without negotiation), time frame (the perceived duration of the relationship), exchange symmetry (the extent to which the relationship is unequal) and contract level (the extent to which the contract is regulated at the individual or collective level). These two studies provide empirical support linking the features of the psychological contract to outcomes. O’Leary-Kelly and Schenk (2000) found that relational contracts were negatively associated with intentions to leave the organization. Sels et al. (2004) did not classify their dimensions into relational and transactional contracts but nonetheless found that the dimensions of long-term time frame, an unequal employment relationship and a collective contract level were positively associated with affective commitment.

So, in light of the empirical evidence, the question needs to be raised as to whether the transactional-relational distinction matters? Rousseau (1990) found that relational employer obligations were associated with employee relational obligations (e.g., job security in return for loyalty) and transactional employer obligations were associated with transactional employee obligations (e.g., high pay for high performance). These findings would support Gouldner’s (1960) homeomorphic reciprocity in that the resources exchanged are similar. Together with the empirical evidence of the features based approach, the emerging conclusion is that the type of psychological contract matters in terms of defining the potential resources to be exchanged and the nature of those resources. The difficulty for researchers is how to best capture the transactional-relational distinction.

#### *Consequences of Contract Breach and Violation*

A dominant emphasis of current research has focused on the consequences of perceived contract breach on employees’ feelings, attitudes and behavior. This topic

has attracted considerable research attention and, consistent with Rousseau's (1989) definition, this has been investigated from the employee perspective – when employees perceive that the organization has failed to fulfill its obligations. Employees experience contract breach quite frequently (Conway & Briner, 2002; Lester, Turnley, Bloodgood & Bolino, 2002; Robinson & Rousseau, 1994). Coupled with its role in explaining the consequences of the psychological contract, it is not surprising that it has received considerable attention (see Robinson & Brown, 2004 for a review).

Researchers used psychological contract breach and violation interchangeably until Morrison and Robinson (1997) distinguished between the two in terms of cognition and emotion. Contract breach captures a cognitive awareness that one or more obligations have not been fulfilled and contract violation captures the emotional experience that arises from the recognition that a breach has occurred (Morrison & Robinson, 1997). Contract violation would include emotional distress, feelings of betrayal, anger and wrongful harm that result from the individual's perception that although they have kept their promises to another party, the other party has broken their promises to the individual. Therefore, one can recognize a breach has occurred yet at the same time not experience feelings of violation. In empirical research, the overwhelming emphasis has been directed to examining the consequences of perceived contract breach while the consequences of violation are under researched.

Empirical evidence suggests that contract breach leads to reduced psychological well-being (Conway & Briner, 2002), increased intentions to leave the organization (Tekleab & Taylor, 2003; Turnley & Feldman, 1999), reduced job satisfaction (Tekleab & Taylor, 2003), trust in the organization (Robinson, 1996), organizational commitment (Coyle-Shapiro & Kessler, 2000; Lester, Turnley,



Bloodgood & Bolino, 2002), lower employee obligations to the organization (Coyle-Shapiro & Kessler, 2002; Robinson, Kraatz & Rousseau, 1994), and more cynical attitudes toward the organization (Johnson & O'Leary-Kelly, 2003). In terms of behavior, contract breach negatively affects in-role performance and extra-role behaviors (Lester et al., 2002; Robinson & Morrison, 1995). There have been a few studies that have examined moderators in the breach-outcome relationship. Conway and Briner (2002) found that the greater the importance of the promise, the stronger the negative reaction to breach, while Kickul, Lester and Finkl (2002) found that procedural and interactional justice moderated employee responses to breach. Even fewer studies have examined the relationship between breach and violation. One study by Dulac, Coyle-Shapiro, Henderson and Wayne (2006) showed that violation fully mediated the effects of breach on employees' affective commitment and trust. Raja et al. (2004) found that equity sensitivity and external locus of control enhanced the relationship between breach and violation. The relationship between perceptions of breach and feelings of violation merits additional research. In addition, what is the relative effect of cognition and emotion on outcomes is another avenue for investigation.

Thus, the weight of the empirical evidence strongly supports the negative consequences of contract breach. Although the negative ramifications are clear, the potential explanations for this effect warrant empirical examination (Robinson & Brown, 2004). The overwhelming emphasis of empirical studies have focused on employee perceptions of employer contract breach, the consequences of employee contract breach are comparatively neglected (an exception is Tekleab & Taylor, 2003). Future research could examine whether contract breach leads to a spiraling of tit for tat breaches between the employee and employer.

## **Key Debates**

There are a number of debates, challenges and unresolved issues in the domain of the psychological contract, and our aim here is to highlight some of the important debates.

### **Conceptualization of psychological contract**

Although Rousseau's (1989) reconceptualization of the psychological contract remains the most prominent, there is some debate as to what the psychological contract is capturing. The use of varying terms such as expectations, obligations and promises has injected some controversy. As argued by Conway and Briner (2005), the differences between expectations, obligations and promises are important yet not widely discussed potentially reflecting a limited concern with definitional clarity. Promises involve expectations, but expectations may not necessarily involve a promissory element (Rousseau & McLean Parks, 1993). Expectations may arise based on past experience, probabilistic beliefs about the future whereas promises are based on communication or behavior of another party that leads an individual to believe that a promise has been made. As Conway and Briner (2005) argue the key difference is that expectations represent a general stable belief of whether something will or should happen in the future (e.g., I will probably get a promotion at some point) whereas a promise is a specific belief that something will happen based on communication or behavior of an intention to do so (e.g., my line manager told me that I will get promoted if I successfully reached a certain performance level).

Only obligations arising from explicit or implicit promises are part of the psychological contract (Morrison & Robinson, 1997). Therefore, obligations that arise from past employment relationships or moral values are not included in the psychological contract unless they were conveyed in a promissory manner to

employees. Given that researchers use all three terms to capture the psychological contract, it suggests that a broken promise is given the same significance as an unmet expectation. If the psychological contract encompasses beliefs about promises, expectations and obligations, it then becomes a loosely defined construct with weakened analytical power (Conway and Briner, 2005). To what extent promises, obligations and expectations represent the essence of the psychological contract deserves greater scrutiny.

Exchange and reciprocity are central to the psychological contract as evidenced in the use of the terms “reciprocal obligations” or “reciprocal exchange agreement”. However, what remains unclear is whether this exchange occurs at a general level or whether a specific inducement is offered in return for a specific contribution. Consistent with social exchange theory, the emphasis of the empirical research has been on capturing the exchange at a general level. In other words, the organization offers a range of inducements (pay, promotion, training, interesting work) in exchange for a range of employee contributions (performance, effort, flexibility). Researchers have argued that the resources exchanged are underspecified (Conway & Briner, 2005). Here, the work of Foa and Foa (1975) might provide a useful starting point in specifying what is exchanged. Foa and Foa (1980) argued that resources sharing similar attributes in terms of particularism and concreteness are more likely to be exchanged with one another (homeomorphic reciprocity). The idea of a contingent exchange between employee and employer needs to address “what is contingent upon what?” rather than “everything is contingent upon everything”. Greater specification of resources would begin to unravel the degree of contingency that underlies exchange relationships.

### **The employer’s perspective**

The question of employer representation presents one of the major ambiguities in the psychological contract literature, and just who represents the employer is a subject of debate. As a consequence, the employer perspective on the contract has remained largely under-developed in psychological contract theory, although there seems to be an emerging consensus developing that the employer's perspective to the exchange with employees should be included in psychological contract research (Guest, 1998; Taylor and Tekleab, 2004).

A key issue when examining the employer perspective is that the employer side is most often represented by multiple agents (Shore, Porter & Zahra, 2004). Organizations recruit, select, socialize and provide different inducements without specifying who personifies the organization in these activities (Liden, Bauer & Erdogan, 2004). Consequently, who represents the organization has yielded a number of different positions. The first position examines the exchange relationship at the dyadic level between employees and their immediate managers (Lewis and Taylor, 2001; Tekleab and Taylor, 2003). Lewis and Taylor (2001) argue that immediate managers play three important roles in forming, maintaining and monitoring employees' psychological contracts. Employees usually have most contact with their immediate managers who often take the role of representing the organization's expectations to the employee and directly evaluate and respond to employee behavior at work. Guest and Conway (2000), however, challenge the view that immediate managers could be considered as organizational representatives. They argue that managers need to perceive themselves as representing the organization in order to be considered as "legitimate" organizational representatives. Guest and Conway (2000) also point out that employees may not perceive line managers as organizational representatives unless they occupy a high position in the organizational hierarchy.

The second position views the relationship at a global level between senior/middle level managers and employees (Coyle-Shapiro & Kessler, 2002; Porter, Pearce, Tripoli & Lewis, 1998). The argument presented is that decisions that affect the employment relationship are usually made by those higher up in the organization's hierarchy. For instance, Porter, Pearce, Tripoli, and Lewis (1998) examined the psychological contract perceptions of high-level executives, and argue that high-level executives are in the best position to know about employer inducements offered to employees. A similar argument was made by Guest and Conway (2002), who examined the role of organizational communication in influencing perceptions of psychological contract breach.

The roles of immediate and senior managers may be complementary in managing the employee-organization relationship. Coyle-Shapiro and Shore (in press) argue that one way of uniting these opposing views is to recognize that employees may develop multiple exchange relationships in their employment relationship – a distal relationship with senior managers and a proximal one with line managers. Therefore, while senior managers may be key decision makers in defining the broad parameters of the exchange (e.g., the type of reward system, promotion system and job security), managers lower in the organizational hierarchy have to enact those policies. Furthermore, lower level managers may develop a psychological contract with employees over specific issues such as autonomy, flexibility, for example. Irrespective of managerial level, managers in that capacity have a role to play in managing the psychological contract with employees whether they feel they are representing the organization or not.

Although the debate on who acts as employer representatives continues, there is evidence suggesting that managers, as employer representatives view the exchange

with employees as one adhering to the norm of reciprocity (Coyle-Shapiro & Kessler, 2002; Tekleab & Taylor, 2003). Two studies have also captured the employer's perspective as a way of assessing mutuality in the relationship (Coyle-Shapiro and Kessler, 2000; Dabos and Rousseau, 2004). The employer's perspective is very much in its infancy but represents a rich avenue for additional work, allowing a focus on the *interaction* between the employee and the employer.

### **Reciprocity and iterative exchanges**

The assumption that reciprocity explains the contingent interplay between employer and employee contractual behavior is rarely subject to explicit empirical investigation. Instead, the association between contract breach/fulfillment and outcomes is taken as evidence supporting the norm of reciprocity. It is surprising that the norm of reciprocity has not come under greater scrutiny given its prominence to the development, maintenance and termination of psychological contracts. Is reciprocity the explanation underlying exchange relationships? Conway and Briner (2005) argue that the psychological contract may provide goals (i.e. promises) which employees use to compare their behavior and regulate it to reduce the discrepancy between actual behaviors and goals akin to goal setting theory. Robinson and Brown (2004) emphasize that trust and injustice may be important explanations for the negative effects of contract breach beyond reciprocity. Future research needs to examine the extent to which reciprocity underlies the exchange relationship and also its relative effect vis a vis other potential mechanisms.

If reciprocity is the mechanism, what form does it take? Sahlins (1972) distinguished between generalized, balanced and negative reciprocity and this may shed light on how the exchange operates (see Cropanzano and Mitchell (2005) for a review). Further, Greenberg's (1980) theorizing on the motives underlying

reciprocity may also be a useful starting point to unraveling the intricacies of the process of reciprocation. Greenberg (1980) highlighted the notion that reciprocity may be driven by three different motives: 1) the desire to receive future benefits (utilitarian reciprocity); 2) the recipient's increased attraction to the donor; and 3) internal pressure to conform to the norm of reciprocity (normative reciprocity). Not only do we not know whether reciprocity is the explanation but if it is, we know comparatively little about how it operates.

The iterative process of the exchange has not been adequately captured in empirical research which starts from the position that perceived employer contract fulfillment provides the stimulus for employee reciprocation. This assumes a priori that employees have fulfilled their side of the exchange as employer contract fulfillment is *contingent* upon the employee fulfilling their contract. What happens when employees fulfill their obligations? A study by Conway and Coyle-Shapiro (2006) attempts to address this by examining the relationship between employee performance -> perceived employer contract fulfillment-> employee performance-> perceived employer contract fulfillment using longitudinal data. The study finds support for the norm of reciprocity irrespective of who makes the first "move" and therefore highlights that the outputs of one exchange transaction provide the input to the next exchange transaction. However, the ongoing iterative and contingent exchange has not been empirically examined in sufficient detail and although it poses a methodological challenge, it is critical to capturing the 'ongoingness' in the exchange relationship.

### **Emerging Research Agenda**

Recently, several researchers have noted that research into contract breach has reached its saturation point and led to an almost exclusive focus on the employee

perspective, using static research designs that repeatedly examine the same set of outcome variables (Conway & Briner, 2005; Taylor & Tekleab, 2004). Furthermore, psychological contract theory has also been criticized for lacking scientific rigor and abandoning its theoretical origins in social exchange theory (Guest, 1998). Where social exchange has been applied to psychological contract research, it is often applied in an implicit and uncritical manner (Coyle-Shapiro & Conway, 2004). In addition, there have been calls for developing more comprehensive conceptual models of psychological contracts (Taylor & Tekleab, 2004). We attempt to direct attention to three embryonic research areas that, if developed, could help further develop how we research and understand psychological contracts.

### **Alternative methodological approaches to examining psychological contracts**

Although the seminal works of Argyris (1960) and Levinson et al. (1960) used a qualitative approach (interviews) to collecting and analyzing data, the emphasis on qualitative research has been downplayed in contemporary studies of psychological contract in favor of quantitative cross sectional studies (a minority of studies have used a longitudinal study design). As stated by Taylor and Tekleab in their review of psychological contract research (2004, p. 279), “our literature review [...] has caused us to note, with more than little exasperation, that much psychological contract research seems to have fallen into a methodological rut”.

In a review of empirical studies on the psychological contract, Conway and Briner (2005) note that 10% adopted a qualitative approach. These studies examined the content of the psychological contract (Herriot, Manning & Kidd, 1997; Inkson, Heising & Rousseau, 2001), employee reactions to contract breach (Pate, Martin & McGoldrick, 2003), the impact of organizational changes on the psychological



contract (Saunders & Thornhill, 2005) and the processual nature of the psychological contract (Millward-Purvis & Cropley, 2003).

We illustrate the potential insights provided by three studies using alternative methodologies. First, Millward-Purvis and Cropley (2003) investigated contracting in the context of interviews conducted by parents looking for a live-in nanny to care for their children. These authors were interested in understanding how mutual expectations were addressed during the recruitment interview by the interviewing parents and their respective nannies among two different samples (first-time nanny – employer pairs and experienced nanny – employer pairs). Generally, relational expectations were referred to more implicitly whereas transactional expectations were discussed more explicitly. The study indicates the positive role of implicit means of conveying expectations in the process of psychological contracting. Implicit discussion was found to be more important to mutual understanding and trust than explicit discussion. This study demonstrated the complexities of contracting processes in arriving at a satisfactory formation of an exchange relationship – the intricacies could not have been captured through quantitative means.

The second study (Conway & Briner, 2002) adopted a daily diary approach to examining contract breach and exceeded promises over a 10 day period. The authors viewed the psychological contract as an ongoing chain of events whereby breach is both a cause of subsequent reactions (daily mood) and is the effect that stimulates a subsequent reaction. This study highlights the dynamic nature of the psychological contract and shows how it can be used to understand everyday fluctuations in emotions and daily mood. The authors conclude by stating that the exchange process captured by the psychological contract is an ongoing, unfolding and intra-individual level phenomenon that calls for more detailed in-depth study than the traditional

survey approach. The benefits of this approach allow researchers to track employees' immediate perceptions of contract breach and their affective reactions as they evolve over time.

The third interview study examines employees' experience of perceived contract breach using a critical incident technique (Parzefall & Coyle-Shapiro, 2007). The study offers a more complex understanding of contract breach that is located in an individual's schema. In particular, employees ascribed different meanings to breach (a specific breach to a complex chain of events), and this was influenced by their mental model of the employment relationship. In coping with an incongruous event, employees search for meaning that fit their flow of experiences where their emotions and actions are part of their sense-making process which may extend and unfold over time.

The small body of published qualitative studies and the potential of qualitative research to capture the complex nature of the psychological contract has been recognized (Conway & Briner, 2005). The few studies adopting alternative methodological approaches highlight that exchange processes and psychological contracting within an organization are more complex than is captured by survey research. Therefore, as the pressure is mounting for psychological contract research to broaden its scope beyond the examination of contract breach (Conway & Briner, 2005; Taylor & Tekleab, 2004) and to truly capture the individualized employment experiences, the use of qualitative methods and study designs may extend our understanding of exchange relationships and concurrently recognize that *relationships* are complicated. Qualitative research methods may be particularly well suited to addressing the psychological contract as a process and also highlighting the role of context in exchange relationships.

### **Psychological Contracts: Contribution to Social Exchange**

Psychological contracts, Perceived Organizational Support (POS) and Leader-Member Exchange (LMX) all draw upon social exchange theory. As social exchange theory provides a common theoretical foundation, how the three constructs are related and whether the psychological contract adds something unique to our understanding of social exchange relationships is an issue that needs to be addressed.

POS was developed by Eisenberger and colleagues (1986) to capture an individual's perception concerning the degree to which an organization values his/her contributions and cares about his/her well being. Within organizational support theory, when employees perceive that the organization is supportive, they will reciprocate by helping the organization achieve its goals (Eisenberger, Armeli, Rexwinkel, Lynch & Rhoades, 2001). LMX captures the quality of the interpersonal relationship that evolves between the employee and his/her manager (Graen & Scandura, 1987) and the empirical research stems from the assumption that leaders form qualitatively different relationships with different subordinates (Sparrowe & Liden 1997). LMX theory suggests that the relationships between leaders and employees can range from strictly contractual transactions to an exchange of unspecified benefits that extend beyond the formal job description (Liden & Graen 1980).

POS, LMX and psychological contracts rely on the norm of reciprocity as the underlying explanatory mechanism for its effects on employee attitudes and behavior. Empirical evidence is supportive of the link between POS (LMX) and organizational commitment (Eisenberger, Fasolo & Davis-LaMastro, 1990; Scandura & Graen 1984; Shore & Wayne, 1993; Wayne et al 2002), in-role performance (Eisenberger et al., 1986; 1990), organizational citizenship behavior (Settoon et al. 1996; Shore &

Wayne, 1993; Wayne et al 1997). All three constructs have been empirically linked to a similar set of outcomes.

There have been some attempts to distinguish between the constructs, and the research thus far seems to support their distinctiveness. Aselage and Eisenberger (2003) conceptually integrate POS and psychological contracts, while Coyle-Shapiro and Conway (2005) empirically demonstrate that POS acts as an antecedent and outcome to the components that comprise psychological contract fulfillment. Wayne, Shore and Liden (1997) empirically demonstrate that POS and LMX are different with a distinct pattern of antecedents and outcomes suggesting that two types of social exchange relationships exist in organizations. There is empirical evidence that suggests LMX may play an important role in affecting the degree to which employees and supervisors agree on each party's respective obligations (Tekleab & Taylor, 2003). Lewis and Taylor (2001) found that managerial responses to employee contract breach was dependent upon the quality of LMX.

Cropanzano and Mitchell (2005) review the foundational tenets of social exchange theory and argue that the seminal works contain conceptual ambiguity in terms of the relationship between "exchanges" and "relationship". The authors argue that the exchanges may alter the nature of the relationship, and the relationship may alter the nature of the exchanges. It is the distinction between exchanges and relationships that may provide the basis to uniting these three social exchange constructs under the social exchange umbrella. Dulac et al. (2006) empirically examine the relationship amongst the three constructs. Adopting the position that psychological contract breach/fulfillment represents an event that may disrupt or enhance the quality of relationship – in this respect, psychological contract breach is viewed as a potential interruption in an ongoing relationship, the authors demonstrate

that the quality of relationship an individual has (captured by POS and LMX) influences cognitions of breach and moderates how individuals respond to contract breach. In other words, the quality of the relationship influences how an individual interprets an event occurring in that relationship and also how he/she responds to that event. This idea seems to have merit both in terms of distinguishing between social exchange constructs and also in advancing our understanding of how exchange relationships work. Future research could distinguish between relationship quality and resources exchanged (or not exchanged) as a way of examining how relationships influence what is exchanged and the implications of what is exchanged (or not) on the subsequent quality of the relationship.

### **Complementary theories**

We now briefly turn our attention to potential complementary theories that may enrich our understanding of psychological contracts. First, sense-making may shed light on the intricacies of how employees interpret and respond to contract breach. Current quantitative research gives the impression that the relationship between contract breach and employee reciprocation is a simple and linear one (Conway & Briner, 2005). A psychological contract is a schema of the employee-employer relationship. It guides the individual's perception of incoming information, the retrieval of stored information and the inferences based on that information so that it is relevant to and preferably consistent with the existing schema (Fiske & Taylor, 1984).

Apart from Rousseau's (2001) theoretical work, there is relatively little knowledge about the psychological contract as a schema (Taylor & Tekleab, 2004) in terms of how it functions and changes (Morrison & Robinson, 1997). A perseverance effect is a major feature of a schema: schemas tend to persist stubbornly even in the

face of contradictory evidence that could potentially prove them false (Fiske & Taylor, 1984). Consequently, individuals tend to ignore contradictory and inconclusive information and tend to make the incoming information fit the schema rather than vice versa. At times, schemas do however change and there are certain conditions that cause individuals to question their schema (Louis & Sutton, 1991). One such event is the perception of contract breach that may conflict with an individual's existing schema and hence trigger conscious sense-making. This offers researchers a unique opportunity to examine how an incongruous event is interpreted, how the individuals make sense of it and how it influences their schema and subsequent action (Parzefall & Coyle-Shapiro, 2007). Further, existing studies on schema indicate that members of the same social system share cognitive structures that guide their interpretation and behavior (Louis & Sutton, 1991). Consequently, it would be interesting to examine the potential influence that group level schemas exert on individual psychological contracts or how individuals align their psychological contract schemas with those of their group.

Social influence may provide insight into how co-workers shape an individual's schema of the employment relationship. Current research has tended to treat an individual's psychological contract in a vacuum without considering the influence of co-workers, but some research now focuses on these interdependencies. Ho and Levesque (2005) provide empirical evidence that social influence plays an influence in how employees evaluate contract fulfillment. Therefore, although the psychological contract captures the exchange between the individual employee and the employer, its evaluation is subjected to the influence of third parties who remain outside the contract (e.g. co-workers). Future research could extend this line of investigation by examining the conditions under which the strength of social influence

is stronger/weaker and this would give greater prominence to the group context in which psychological contracts operate.

The organizational context may also provide a rich avenue for future research integrating social capital theory with psychological contracts. Leana and Van Buren III (1999) suggest that social capital can be seen as a psychological contract between a group of employees and organizational representatives. Hence, social capital theorists refer to an ‘organizational reciprocity norm’, which can be described as a force that makes the members of the organization behave and think in a certain way in their exchange relationships. Crucial to the creation of social capital is not only the stability and quality of a relationship between dyadic exchange partners, but the overarching organizational philosophy and corresponding norms with which different individuals enact that philosophy (Leana & Van Buren III, 1999). Social capital theory, like theories on networks could provide possibilities for psychological contract theorists to explore similarities and differences between psychological contract perceptions of groups of employees, and offer insights into the development and maintenance of employees’ psychological contract in organizational contexts.

## **Conclusion**

Our goal in this chapter was to review the literature on the psychological contract in terms of seminal studies, contemporary research, key debates and emerging research agenda. We highlighted that the psychological contract has become more ‘psychological’ as it developed while concurrently remaining consistent with the basic tenets of social exchange theory. We are at an interesting juncture in psychological contract research in terms of the continuing debate as to what the psychological contract is capturing, how the employer’s perspective fits with an individual-level subjective phenomenon and how best to capture the iterative nature

of the relationship. In outlining a future research agenda, we have highlighted the potential benefits to be realized from employing alternative research methodologies, the potential contribution of the distinction between ‘exchanges’ and ‘relationships’ as a way of integrating social exchange related constructs to provide a richer basis to examining *exchange relationships* and finally, complementary theories that may advance our understanding of the workings of the psychological contracts. We hope that the material covered serves as a guide to future work on the topic as there is much yet to be uncovered from studying such a fundamental aspect of organizational behavior.



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