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The ‘problem’ of the psychological contract considered

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Summary This response to Guest’s (1998) Commentary addresses some common misconceptions in popular writings referencing psychological contracts. © 1998 John Wiley & Sons, Ltd.

David Guest’s (1998) complaint about the ‘problem’ of the psychological contract gives me a welcome opportunity to comment on the distinctive—and perhaps misunderstood—aspects of the concept of the ‘psychological contract’. I believe that Guest’s argument is based upon a series of misconceptions regarding psychological contracts and related empirical research. The purpose of this commentary is to respond to key misinterpretations and redress their potential adverse effects on our understanding of psychological contracts and the role they play in human behaviour.

Guest’s first misconception is the foundation of all that follow: that the psychological contract is based upon a metaphor inappropriately borrowed from law.¹ My response to this assertion mirrors the sentiments reflected in a 1980’s bumper sticker: ‘The Moral Majority is Neither’. There are two misconstructions in Guest’s statement: first, that the psychological contract is an inappropriate borrowing from law; and second, that it is a metaphor rather than a scientific construct.

The psychological contract and law

By definition, a psychological contract is the perception of an exchange agreement between oneself and another party (Argyris, 1962; Levinson, 1962; Rousseau, 1989; Rousseau, 1995). The

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¹ The actual statement Guest makes, ‘... rather it is a hypothetical construct, drawn, probably inappropriately, from a legal metaphor’ indicates the construct of a psychological contract is drawn *from* a metaphor. Which metaphor is unspecified.

perception of mutuality, not necessarily mutuality in fact is the heart of the psychological contract.² Scholars on the subject have not equated psychological contract with a legal contract; the confusion between the two is more often characteristic of lay people who first encounter the concept.³ In contrast, scholars typically take pains to *differentiate* one from the other (e.g. McLean Parks and Schmedemann, 1994). Moreover, legal scholars and social scientists cite one another in their efforts to explain how people think about agreements (see for example, Slain and Stolle's (1995) use of psychological contract theory to explain how people interpret written legal contracts). In developing psychological contract theory, two legal scholars, Patrick Atiyah and Ian Macneil, have been particularly influential. Atiyah's important book 'Promises, Morals and the Law, (1981) makes it clear that all promises and binding obligations have to be understood in terms of the social context in which they arise:

The assumption that promises do in general create binding obligations entails (if one rules out of account divine morality) a social group whose judgement determines the initial question of entitlement. The fact of expectations without the judgement, does not suffice . . . If we ask how society determines the question of entitlement . . . the answer is largely a sociological one. (Atiyah, p. 129)

It is the social group that creates the rules upon which such judgements are based. Note that Atiyah is arguing that it is sociology in general, not law *per se*, that defines obligations and entitlements. Scholars interested in psychological contracts have reached beyond the answers sociology can provide to include the psychological processes that influence the interpretation of promises exchanged between parties.

Macneil (1985) takes the matter one step further. In essence, he argues that all legal contracts are fundamentally psychological, even those formally written and executed with a roomful of lawyers surrounding the principals. In effect, all agreements between people are subject to interpretation. Therefore, psychological contracts—that is, the beliefs individuals hold regarding exchange agreements—can arise in a myriad of circumstances, from employment to customer–firm relations to doctor–patient interactions, where there are written as well as unwritten agreements (Rousseau, 1995). In this manner, psychological contract research can inform legal scholars about the psychological processes underlying the behaviour of contract parties.

It's not a metaphor, it's a construct

Guest asserts that 'the psychological contract fits somewhat awkwardly within conventional psychological analysis. It is not a theory; nor is it a measure'. But we know that the psychological

² Guest is incorrect in his assertion that I have defined psychological contract without considering the role of mutuality. The key issue regarding mutuality is that it is the *perception* of mutuality and not necessarily mutuality in fact that gives rise to creation of a psychological contract (see Rousseau, 1995, pp. 10, 20–21).

³ Scholarly writings on the psychological contract typically cite Argyris and Levinson as a foundation and reference legal writings to display how the psychological contract differs from a legal one; see Ho (1997) for a study of citations in psychological contracts research.

I have, however, encountered managers who do equate the psychological contract with a legal one. Generally, the confusion enters into their belief that if a legal contract is not in existence between two parties then neither has any business believing that there are any obligations between them (i.e., if you aren't legally accountable, there is no agreement). An interesting discussion can be generated in such situations by asking people the following question: 'Why do you tip at a restaurant to which you might never return?'

contract is a construct (Ghiselli, 1964; Roberts, Hulin and Rousseau, 1978), as are satisfaction, commitment, group cohesion, leadership, and a myriad of other phenomena studied in organizational behaviour and industrial/organizational psychology. The 'awkwardness' Guest asserts appears to be nothing more than normal social science, where constructs are operationalized through formal measures and theories are developed that place the construct in a network of relations with other constructs. In any case, it is difficult to determine how to effectively use the model of psychological contract Guest provides in his Figure 2, since the construct of psychological contract does not even appear. Constructs are unobservable by definition (Ghiselli, 1964), but in the case of Figure 2, Guest may be going too far.

To empirically study a construct, we operationalize it using indicators that are established to have construct validity. Evidence of construct validity exists when the measures used to operationalize a construct yield results consistent with the theory or nomological network in which the construct is presumed to fall. The substantive issue is whether these measures support the theory in which the construct of psychological contract arises. Although empirical research upon psychological contracts is relatively recent, and questions of validity abound in any emerging research area, a considerable amount of supporting research already exists.

Construct validity has been supported for a variety of operationalizations of psychological contracts. First, researchers consistently find that psychological contract violation is *distinct* from unmet expectations. Robinson, Kraatz and Rousseau (1994) found that violated contract terms evoked much more intensely negative responses than did unmet expectations, a finding predicted by psychological contract theory (Rousseau, 1989; Rousseau and McLean Parks, 1993; Rousseau, 1995). Robinson (1996) found a similar effect. Psychological contract theory predicts that this differential effect can be attributed to greater reliance losses associated with unfulfilled contract terms and the negative signals regarding the employment relationship that they engender (Rousseau, 1995).

Additional evidence of construct validity is found in the highly differentiated responses of individuals with relational contracts versus those with transactional ones. Transactional contracts are positively related to careerism (Rousseau, 1990), lack of trust in employer (Rousseau and Tijoriwala, 1996), and greater resistance to change, while relational contracts are negatively related to careerism and positively related to trust and acceptance of change (Rousseau and Tijoriwala, 1996). Guest's 'urgent need to demonstrate that the contemporary one-sided perceptual focus of the psychological contract advocated by Rousseau can be distinguished from well-established constructs such as job satisfaction and organizational commitment', is a non-issue. As W. I. Thomas said, 'if men define situations as real, they are real in their consequences'. To this end, there is evidence that an employer's failure to fulfil its obligations has a long-term impact on subsequent employee citizenship behaviour (Robinson and Wolfe Morrison, 1995).

Despite Guest's criticism, for which he provides little if any empirical support (although I believe he omits empirical evidence, such as above, that refutes his case), we find substantial evidence that contemporary psychological contract research is both specific and rigorous. Note that 'rigorous' doesn't mean quantitative or qualitative, narrow or broad; rather, it means developing operationalizations of constructs that yield observed scores that conform with predictions, converge with indicators that are theoretically related and diverge from others that are theoretically unrelated. In the end, metaphors do not explain variance in behaviour, nor do they give rise to predictions that can be confirmed. Constructs—and the theories in which they are embedded—do.

Two other assertions Guest makes also necessitate correction. First, the psychological contract was never 'redefined' as a perception. That is what it always has been. The credit for this insight belongs to Levinson (1962) and Argyris (1962) who recognized that workers' beliefs about their

exchange relations exert force upon their interactions and behaviour in the workplace. (For a very good treatment of the history of the development of the concept of the psychological contract, I recommend a fascinating paper by Roehlig, 1996.) Second, Guest asserts that no one has yet researched or addressed the origins of an individual's psychological contract; however, the emergence of psychological contracts in employment has been addressed in numerous writings on contract making (e.g., Guzzo and Noonan, 1994; Guzzo, Noonan and Elron, 1994; Rousseau, 1995, pp. 24–54).

Putting boundaries on the use of the concept

The confusing treatment that the concept of a psychological contract and related terms receives suggests the boundaries defining what is and what is not a psychological contract require reinforcement. One point on which I concur with Guest is the danger that psychological contract will become a 'pop' concept used to label phenomena for which it is inappropriate, thereby losing its analytic rigor. To retain its utility, the psychological contract, like any construct, must maintain the clear boundaries it already has. Happily, my observation has been that empirical researchers into the phenomenon of the employment relationship tend to use the concept consistently and, I believe, appropriately (see, for example, Barksdale and McFarlane Shore, 1997; Guzzo *et al.*, 1994; Robinson and Rousseau, 1994).

Contemporary researchers apply two boundaries to the concept of psychological contract. First, by definition, a psychological contract exists at the individual level, in the form of a person's beliefs regarding the terms of his or her exchange relationship with another. This concept is distinct from an *implied* contract, which refers to a third party's interpretation of an exchange agreement involving others (Rousseau, 1989; as operationalized in Rousseau and Anton, 1988; Rousseau and Aquino, 1993), and from *normative* contracts in which members of a social unit, such as a department or a team, share a common set of psychological contracts with another party, such as a supervisor or a firm, as described by Nicholson and Johns (1985). The qualifying adjective before the term 'contract' must be specified to assure mutuality of understanding.

The second boundary specified by psychological contract theory is that individual beliefs⁴ comprising the contract involve sets of reciprocal obligations—not expectations alone—to which both the individual and the other party are believed to have committed themselves. Obligations arising from the exchange of promises constitute the building blocks of the psychological contract. Although obligations are a form of expectation, not all expectations held by a person need to be promissory or entail a belief in mutuality or reciprocity. By definition, a psychological contract must be based upon a belief that a reciprocal exchange exists which is mutually understood. I believe the source of the confusion Guest cites is the more popular or managerial literature, which often uses psychological contract to refer to broad sets of employee expectations (e.g., Pickard, 1995).

⁴ Reading Guest's commentary was confusing to me from this perspective because of the unqualified use of terms such as 'promissory contract' or 'implicit contract'. Without becoming too caught up in terminology, it remains important to be consistent in usage when referring to legal contracts, psychological contracts, etc. One might prefer to say 'promissory agreements' or, simply 'promises'. The term 'implicit contract' in the present context appears too vague to be useful.

Why study the psychological contract?

Finally, I strongly dispute Guest's position that we should study the psychological contract simply because apparent changes in employment make it relevant. This attitude would allow pop culture and management fashion to drive social science. (Indeed, I argue psychological contracts have always been relevant in employment.) In no way is science immune from its context, and Abrahamson (1986) and Barley and Kunda (1992) provide substantial evidence that organizational and economic trends affect research. Further, how theory is applied certainly is shaped by the times in which the theory is used. However, recalling Lewin's statement that there is nothing so practical as a good theory, the key concern should be whether scholarly work on the psychological contract has built good theory: that is, theory that helps us explain phenomena that previously were unknown or not understood. I believe research on the psychological contract has in a relatively brief time provided new and important explanations for phenomena that are widespread in organizations. I will focus upon two such phenomena here.

The first is the critical role of perceived mutual obligations, the processes that give rise to them, and their role in individual responses to change. Researchers consistently find that unmet obligations generate far more intense and negative reactions than unmet expectations. Expectations based upon the creation of a psychological contract differ from other expectations, because they generate different consequences for the individual contract holder. Not only do such findings demonstrate the importance of psychological contracts in understanding employee responses in the workplace, but they highlight the critical role that *reliance losses* play in reactions to organizational change. Traditional micro-organizational behaviour research focuses on rewards or incentives that motivate behaviour in work settings. This focus on rewards ignores the value workers place upon the *status quo* and the potential for any change in work settings to generate deviations from the *status quo* that workers experience as adverse. We also have learned that individuals come to believe in mutual obligations with their employers through a variety of sources that are not necessarily consistent with one another (e.g., recruiters, managers, coworkers, training, performance appraisals). Moreover, we observe that relatively durable mental models characterize the psychological contract, suggesting that psychological contracts can be resilient in the face of organizational change and external shocks, rather than being easily violated or changed.

The second phenomenon that psychological contract research has shed new light upon is the role of principals and agents in employment relations (the 'agency' problem). Agency theory has long maintained that the basic building block of the employment relationship is an 'incentive contract' between employee and firm with managers and administrative mechanisms such as compensation schemes acting on the firm's behalf (Milgrom and Roberts, 1992). In agency theory, this incentive contract exists between worker and firm, while the agent merely is a go-between. It is likely that individuals who come to identify with the firm will personify commitments made to them by their managers as reflecting the larger firm (Rousseau, 1998). One feature of the mental model that constitutes an individual's psychological contract is that individual's interpretation of who or what the other parties to the exchange might be. Research reveals that employees vary regarding whether they believe their psychological contract is with their immediate supervisor, top management, or with a personification of the firm itself (Rousseau, 1995; Rousseau, 1998). Individuals can form psychological contracts that differ in degree from those construed by the firm's owners and managers and involve different understandings of who the agents and principals are. Therefore, agency theory's assumptions regarding mutual understanding of incentive contracts appears to be overly simplistic. (Research on the psychological

contract reveals a substantial potential for individuals to misconstrue commitments made by the boss acting as the principal in the supervisor–subordinate relationship, to reflect commitments made by the larger firm, even when the boss was acting idiosyncratically or in his or her own interests; Rousseau, 1995). Psychological contract theory raises issues regarding the circumstances in which contract terms conveyed by managers will be understood as committing the manager, the firm, or both to fulfil the deal.

Conclusion

In the decade since empirical research on the psychological contract began, we have seen the development of this construct, assessment methodologies, and research programmes (e.g., manager–subordinate exchange, change, violation, and resilience). One of the most fascinating aspects of the psychological contract in the workplace is its resilience in the face of changes in individual employees' experience. Moreover, its versatility in explaining the dynamics of employment (from citizenship behaviour, Robinson and Wolfe Morrison, 1995; to implementation of public policy, Cleveland, Barnes-Farrell and Ratz, 1997) suggests that the psychological contract, along with related constructs such as violation and change, have a central role to play in organizational behaviour by better specifying the dynamics of the employment relationship.

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