3 What Is the Psychological Contract? Defining the Concept

3.1. Introduction

As discussed in the previous chapter, the psychological contract has a long history in organizational research. Argyris first formally used the term ‘psychological contract’ in 1960, but the idea of an implicit exchange relationship can be traced back to Menninger’s analysis (1958) of the patient-therapist relationship, to the more general ideas of the employer-employee exchange of March and Simon’s inducement-contribution model (1958), and even earlier to Barnard’s (1938) equilibrium model (Roehling 1996).

Chapter 2 revealed that the psychological contract has been viewed and used in different ways by researchers and that the meaning of the psychological contract has changed since the term was first formally introduced forty years ago. There has, however, been little recognition by researchers that the psychological contract has been conceptualized in a number of significantly different ways. Researchers have offered new definitions of their own, or adopted one of the existing definitions, with little or no consideration of alternative views of the construct (Roehling 1996). Thus far no attempt has been made in the literature to spell out systematically how terms central to the definition of the psychological contract have changed over the years. Such an activity seems like an essential starting point for embarking on any programme of empirical research or practical intervention in an organizational setting using the psychological contract concept.

The main aim of this chapter is, therefore, to unpack the definition of the psychological contract through reviewing how it has been defined and identifying variations across definitions offered by researchers. Clearly, many concepts have multiple definitions and are used by researchers in different ways. Sometimes these different uses are broadly similar. In other instances what researchers mean by the supposedly same concept can differ widely. In addition, there are situations in which definitions are so different they can simply confuse. For this reason we will organize our discussion around the key terms and features included in the definition of the psychological contract and discuss key debates.
DEFINING THE CONCEPT

This section serves to provide a more analytic introduction to the psychological contract and to provide an understanding of the key terms involved in defining the psychological contract.

Such an analysis is important for two main reasons. First, the debates presented here inform many of the later discussions of the strengths and weaknesses of psychological contract research, such as whether studies that claim to be about the psychological contract are actually about the psychological contract or some other related phenomenon. For example, while Kettler’s study (1973) of mutual expectations of new recruits and their employing organization was important in terms of introducing the concept of matching to the psychological contract literature, it is debatable whether this study of general expectations is actually relevant to psychological contracts, which consist of much more specific beliefs. A second important reason for analysing key terms embedded in the definition of the psychological contract is that it helps map out the territory of the psychological contract helping to identify, for example, the kind of cognitions that can be considered as part of or outside of the psychological contract.

It should be noted that this chapter is not about how the psychological contract works in terms of how psychological contracts are developed or how the psychological contract is linked to other attitudes or behaviours (this is discussed in later chapters), it is about what the psychological contract ‘is’. In the conclusion to this chapter, we will provide our working definition of the psychological contract.

While this book is restricted to examining the psychological contract between employees and organizations, the idea of a ‘psychological contract’ as a system of implicit and explicit promises can be applied to almost any interpersonal relationship. This has been noted in a number of areas, where the concept of the psychological contract has been used to help understand relationships between students and teacher, patients and doctor, individuals and the state, and husbands and wives. Hence, some of the key terms in the definition of the psychological contract discussed below can also be understood by considering how they may apply to other sorts of interpersonal relationships.

3.2. What is the psychological contract?

When we want to know what something is we are essentially interested, as a starting point, in how it has been defined. Like many ideas in the social sciences and in organizational psychology there is no agreed definition of the psychological contract. Looking in a standard dictionary is unlikely to help as, unlike some other concepts in organizational psychology such as culture, leadership, stress, and motivation, the psychological contract is not a term that is used in everyday language but rather one constructed by researchers.
For some concepts in organizational psychology there is a single broadly agreed definition which researchers can refer to and also challenge. In the case of the psychological contract, however, there is no one authoritative statement or agreed definition of the psychological contract. As discussed earlier, the term was first introduced by two psychologists, Argyris and Menninger, who were working in different disciplines and were apparently unaware of one another’s work. Seen in the context of their other work it was an idea of relatively minor importance, and each used it to explain very different phenomena. The term was subsequently picked up and repeatedly redefined, often for the purposes of explaining yet more different kinds of phenomena.

Given this context, it is perhaps unsurprising that there have been a variety of definitions of the psychological contract since the term was first introduced. Box 3.1 presents a sample of definitions starting first with a definition based on March and Simon’s inducement-contribution model (1958) to provide some historical context followed by more formal definitions.

**Box 3.1 Definition of the psychological contract**

‘Those participants in an organization who are called its employees are offered a variety of material and non-material incentives, generally not directly related to the attainment of the organization objective . . . in return for their behaviour during the time of their employment . . . . In joining the organization, he (the employee) accepts an authority relation, i.e. he agrees that within some limits (defined both explicitly and implicitly by the terms of the employment contract) he will accept as the premise of his behaviours orders and instructions supplied by the organizations.’ (March and Simon 1958: 90)

‘Since the foremen realize the employees in this system will tend to produce optimally under passive leadership, and since the employees agree, a relationship may be hypothesized to evolve between the employees and the foremen which might be called the “psychological work contract”’. (Argyris 1960: 97)

‘A series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other.’ (Levinson et al. 1962: 21)

‘An implicit contract between an individual and his organization which specifies what each expect to give and receive from each other in the relationship.’ (Kotter 1973: 92)

‘The notion of a psychological contract implies that there is an unwritten set of expectations operating at all times between every member of an organization and the various managers and others in that organization.’ (Schein 1980: 22)

(continues)
Box 3.1 Definition of the psychological contract (continued)

‘The term psychological contract refers to an individual’s belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations.’ (Rousseau 1989: 123)

‘In simple terms, the psychological contract encompasses the actions employees believe are expected of them and what response they expect in return from the employer.’ (Rousseau and Greller 1994: 386)

‘The psychological contract is individual beliefs, shaped by the organization, regarding terms of an exchange agreement between the individual and their organization.’ (Rousseau 1995: 9)

‘The perceptions of both parties to the employment relationship, organization and individual, of the obligations implied in the relationship.’ (Herriot and Pemberton 1997: 45)

‘An employee’s beliefs about the reciprocal obligations between that employee and his or her organization, where these obligations are based on perceived promises and are not necessarily recognised by agents of the organization.’ (Morrison and Robinson 1997: 229)

The above quotations clearly illustrate that, while there are similarities, there is also very marked variation across definitions. There is also little indication of a developing consensus. For example, while Herriot and Pemberton consider the psychological contract to consist of both the employee and the organization’s perspective, Rousseau, Morrison, and Robinson believe that it is only employees—not organizations—that can hold psychological contracts.

The following sections present and discuss the key definitional terms and features of the psychological contract found across this diverse range of definitions. Specifically, we include:

- The beliefs constituting the psychological contract
- The implicit nature of psychological contracts
- The subjective nature of the psychological contract
- Perceived agreement—not actual agreement—is necessary for psychological contracts
- The psychological contract is about exchange
- The psychological contract is the entire set of an employee’s beliefs regarding the ongoing exchange relationship with his/her employer
· The psychological contract is an *ongoing* exchange between two parties
· The *parties* to the psychological contract
· The psychological contract is *shaped* by the organization

In each section we first explain the meaning of the terms and then describe major debates or differing views about these terms. As we shall see, these debates cannot be dismissed as trivial nit-picking among researchers, but do in fact, as suggested earlier, have very important implications for how the psychological contract should be understood, researched, and applied in a work setting. We hope that a firm foundation for exploring the psychological contract in subsequent chapters is provided by examining the definitions and unpacking the meaning of the psychological contract in this way.

### 3.2.1. The **beliefs** constituting the psychological contract

Earlier definitions of the psychological contract tend to emphasize beliefs about expectations (e.g. Levinson et al. 1962; Schein 1965; Kotter 1973), whereas later definitions emphasize beliefs about promises and obligations (e.g. Rousseau 1989, 1995; Herriot and Pemberton 1997; Morrison and Robinson 1997) which seem like rather different sorts of belief. In Rousseau's seminal paper (1989) the psychological contract is conceptualized as consisting of promissory-based obligations—far more specific than earlier expectation-focused definitions—which set her conceptualization apart (Roehling 1996).

Since Rousseau's 1989 article, studies of the psychological contract have tended to maintain the promissory focus (e.g. Rousseau and McLean Parks 1993; Guzzo, Noonan, and Eiron 1994; McLean Parks and Kidder 1994; Robinson, Kraatz, and Rousseau 1994; Robinson and Rousseau 1994; Robinson 1995, 1996; Morrison and Robinson 1997). Promises have become the preferred term when defining the psychological contract as they are seen as more clearly contractual, whereas expectations and obligations have more general meanings. According to this approach, obligations and expectations are considered part of the psychological contract only if they are based on a perceived promise. Table 3.1 defines and provides examples of promises, obligations and expectations and whether these beliefs need some sort of further specification or qualification before they can be considered to be part of the psychological contract.

We now consider differences between promises and expectations, and between promises and obligations. For Robinson and Rousseau (1994: 246) the psychological contract refers to beliefs which are fundamentally different from beliefs around general expectations:

Expectations refer simply to what the employee expects to receive from his or her employer (Wanous 1977). The psychological contract, on the other hand, refers to the
### Table 3.1 Definitions of psychological contract beliefs and examples

<table>
<thead>
<tr>
<th>Belief</th>
<th>Definition</th>
<th>Part of psychological contract?</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promise</td>
<td>1. ‘a commitment to do (or not do) something’ (Rousseau and McLean Parks 1993)</td>
<td>Yes</td>
<td>Your employer has promised that if you work any overtime you can have time off in lieu the following day</td>
</tr>
<tr>
<td></td>
<td>2. ‘an assurance that one will or will not undertake a certain action, behaviour’ (Concise Oxford Dictionary, 1996)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation</td>
<td>1. ‘a feeling of inner compulsion, from whatever source, to act in a certain way towards another, or towards the community; in a narrower sense a feeling arising from benefits received, prompting to service in return; less definite than duty, and not involving, as in the latter, the ability to act in accordance with it.’ (Drever, Dictionary of Psychology, 1958)</td>
<td>Only when accompanied by a belief that a promise has been made</td>
<td>You work overtime today and you feel that your employer is obliged to give you time off tomorrow. (Note: Part of psychological contract only if accompanied by a promise of the type above.) You work overtime today and you feel that your employer is morally obliged to give you time off tomorrow, even though no agreement has been made. (Not part of the psychological contract.) You plan to take a morning off next week and expect to have to work overtime the evening before. (Note: Part of psychological contract only if accompanied by a promise of the type above.) You worked overtime a few weeks and expect that it will be permitted for you to take a morning off when you next feel like it. (Not part of the psychological contract.)</td>
</tr>
<tr>
<td></td>
<td>2. ‘the constraining power of a law, precept, duty, contract, etc.’ (Concise Oxford Dictionary, 1996)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expectation</td>
<td>1. ‘expectations take many forms from beliefs in the probability of future events to normative beliefs’ (Rousseau &amp; McLean Parks 1993)</td>
<td>Only when accompanied by a belief that a promise has been made</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. ‘the attitude of waiting attentively for something usually to a certain extent defined, however vaguely’ (Drever, Dictionary of Psychology, 1958)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. ‘the act or an instance of expecting of looking forward, the probability of an event’ (Concise Oxford Dictionary, 1996)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
about future events (e.g. ‘I’m probably going to get a pay rise at some point’) or normative beliefs about what should happen (e.g. ‘I think that if employees perform well they should get promoted’). In contrast, promises are grounded in a contract and we expect them to be delivered because the other party has communicated or behaved in such a way that leads us to believe a promise has been made. For example, we may believe we will get a pay rise after a certain period of time because we observe others in the organization getting pay rises after particular length of service. Or, we may believe we will get promoted because our line manager told us that we would within the next year. In this sense, promises are much more psychologically engaging than more general expectations (Conway 1996; Guest 1998). Expectations, such as those based on probability or normative beliefs, are a fairly constant and somewhat stable feature of our conscious experience. We just generally expect that some things are more or less likely to happen and that some things should or should not happen. However, once we believe a promise has been made we tend to anticipate the actual delivery of promises, doing things such as checking whether or not the promise has been kept, foregoing possible alternatives, planning what we will do once the promises have been delivered, and making sure we in turn deliver on our side of the bargain. In other words, an expectation is a more general belief about whether something will or should happen or not whereas a promise is a much more specific belief about what will happen, when it will happen, and why it will happen.

We now turn to the somewhat less clear differences between promises and obligations. Only Morrison and Robinson (1997: 228, italics added) have compared the two, stating that: ‘...if a perceived obligation is not accompanied by the belief that a promise has been conveyed (e.g. if the perceived obligation is based solely on past experience in other employment relationships), then it falls outside of the psychological contract’. In other words—and in a similar way to expectations—only obligations arising from implicit or explicit promises are part of psychological contracts. Perceived obligations arising from elsewhere, such as relationships pre-dating the current employer, or from an employee’s moral values, are not part of the psychological contract. For example, a new employee may believe, based only on their experience of previous jobs, that the organization has an obligation to provide the right tools for the job, or that for moral reasons organizations should guarantee job security; however, if such beliefs have not been promised by the organization, they are not part of the psychological contract.

While the differences between expectations, obligations, and promises are very important, for the sorts of reasons discussed above, they are not clearly elaborated or widely discussed in the literature on psychological contracts, reflecting the field’s apparently limited concern for definitional or conceptual clarity and precision. Even in Rousseau’s work, which pays particular attention to the promissory focus of psychological contracts, rather general definitions of psychological
contracts are presented (see the definitions by Rousseau in Box 3.1) that are only later qualified to reflect the promissory element (Roehling 1996). While efforts to distinguish between promises, obligations, and expectations are important, these distinctions may be hard to identify in practice and further clarification is required. For example, which criteria could be used to compare the three types of beliefs? What is the status of expectations that arise through inferences made by the employee from promises made to them by the organization? In short, although the idea of beliefs is at the heart of most definitions of the psychological contract, and three types of beliefs have been included within these definitions, the meanings and differences between these definitions are not well-understood. Since Rousseau’s article in 1989 researchers tend to define the psychological contract in terms of implicit and explicit promises. Promises offer more conceptual clarity and precision than obligations and expectations and are also more closely aligned with the idea of a contract. For these reasons we will use promises as the main belief constituting psychological contracts. In other words, from hereon we use promises to also refer to obligations and expectations that arise from promises and can thus be seen as part of the psychological contract. We shall use expectations and obligations when other researchers refer specifically to these terms.

3.2.2. The implicit nature of psychological contracts

Psychological contracts are usually considered to contain both explicit and implicit promises. Explicit promises arise from verbal or written agreements made by the organization or an agent of the organization. An example of an explicit promise would be a promise, made by a manager to an employee, of promotion to the next grade in return for meeting specific sales targets.

Implicit promises on the other hand arise through ‘interpretations of patterns of past exchange, vicarious learning (e.g. witnessing other employees’ experiences) as well as through various factors that each party may take for granted (e.g. good faith or fairness)’ (Robinson and Rousseau 1994: 246). It is argued that the terms of a psychological contract are implied by the behaviour of the parties to the contract and also by inferences made from existing verbal and written promises. Repeated interactions between the two parties where each observes the other’s behaviour and responses create what the employee perceives as an implicit psychological contract that structures their future relationship (Rousseau 1990). For example, an implicit promise may be formed when the organization makes the employee feel valued through extra thanks or recognition on occasions when he or she has made an extra effort on behalf of the organization. Hence, on future occasions when the employee makes an extra effort on behalf of the organization they will come to expect a response from the organization showing
that they are valued, because of their psychological contract relating to this particular behaviour.

An important debate concerns just how implicit or unstated promises have to be in order to be included as part of the psychological contract. Clearly, a formal, written contract stating what an employee is expected to do and what the employer will give them in return seems more appropriately labelled as a tangible or legal or employment contract rather than a ‘psychological’ contract (though tangible employment contracts may shape psychological contracts). The issue, therefore, is the extent to which promises need to be implicit to be considered part of the psychological contract.

Some researchers believe psychological contracts consist largely of implicit promises (Levinson et al. 1962; Schein 1965, 1980; Guest 1998; Meckler, Drake, and Levinson 2003). As Schein (1965: 11) stated, expectations contained in psychological contracts ‘are not written into any formal agreement between employer and the organization, yet they operate powerfully as determinants of behaviour’. For these researchers, contracts or promises at the explicit end of the continuum cannot be usefully described as psychological contracts. For other researchers all contracts can be seen as being fundamentally psychological (e.g. Macneil 1985; Rousseau 1995) because even quite explicit promises are open to interpretations of what constitutes sufficient exchange and the timing of the exchange. For example, the relatively explicit promise of a pay rise for performance increases leads to more specific questions and interpretations around the level and timing of the pay rise and also the required performance increase.

The extent to which promises have to be implicit to be included in the psychological contract has both research and practical implications. Explicit promises are believed to exert a greater influence over employees’ thoughts and behaviours than more subtle implicit promises (Rousseau 1989). This view is supported by social information processing theory (Rousseau 1989) which suggests that overt and public commitments exert more influence on cognitions and behaviours than subtle or private ones (Salancik and Pfeffer 1978). Hence, including more explicit promises in the definition of the psychological contract is likely to make it a more powerful predictor of employee behaviour. From a practical perspective it has been suggested that one way to better manage psychological contracts is to make them more explicit (e.g. Herriot and Pemberton 1995), yet in doing so it is not clear whether we are managing the psychological contract as such or simply moving it from the realms of the psychological or the implicit to the realms of explicit or formal contracts. We will return to this latter issue in later chapters when we consider how the psychological contract can be managed.

While definitions of the psychological contract often cover both explicit and implicit beliefs and promises, there is relatively little agreement about how explicit a promise can be before it stops becoming part of the ‘psychological’ contract and is better considered simply the legal or employment contract.

http://site.ebrary.com/id/10177924?ppg=42
Copyright © Oxford University Press, UK. All rights reserved.
May not be reproduced in any form without permission from the publisher, except fair uses permitted under U.S. or applicable copyright law.
3.2.3. The subjective nature of the psychological contract

The terms ‘subjective’ and ‘objective’ can mean a variety of things. Here we consider two ways in which the idea of ‘subjective’ has been used in relation to the psychological contract.

First, the subjective-objective distinction can refer to the extent people see things in the same way, where extreme objectivity would mean everyone seeing something in the same way and extreme subjectivity would mean everyone seeing things differently. Most definitions of the psychological contract emphasize that they are held at the individual level and exist in ‘the eye of the beholder’ (Rousseau and McLean Parks 1993: 18). They are inherently subjective as there are cognitive or information processing limits on the extent to which one party can understand the psychology of the other. In other words, an employee cannot fully understand the intentions and meanings of the behaviour of the organization, nor can the organization fully understand the employee, and for this reason such interpretations will be incomplete and subjective. In addition, the multiple and sometimes contradictory sources of information which influence the development and modification of psychological contracts also mean they remain subjective (Shore and Tetrick 1994). In contrast, a more objective psychological contract is where the contract terms are understood in the same way by parties to the contract and by any third party outside the relationship.

A second way of thinking about the subjective-objective distinction relates to the extent to which perceptions can in principle be ‘objectively’ verified. For example, in the case of the psychological contract, this might mean the extent to which the terms of the contract are explicit or measurable. There is currently little clarity around this issue within the psychological contract literature. Even when items that form part of the exchange appear objective, they remain open to subjective interpretation. Macneil (1985) argues that all contracts, whether written or unwritten, are fundamentally subjective as contract terms are inevitably open to an individual’s subjective interpretation. While it seems reasonable that employees interpret certain psychological contract items or terms more subjectively than others (a tangible exchange of an amount of money for a number of hours attendance is less subjective than an exchange of employee loyalty in return for respect from management), the extent to which more objective items such as pay are open to subjective interpretation is unclear. Building on this point—that it is impossible to establish the objectivity of any item exchanged and hence every item is inherently subjective—it is also doubtful whether employees would include high subjective items in their psychological contract (e.g. employee loyalty in return for respect from management) as such terms are so open to interpretation they will have little confidence that their organization could possibly agree to an exchange including such ambiguous terms.
In summary, while psychological contracts are inherently subjective, certain terms of the psychological contract are more open to subjectivity than others. The extent to which items and terms of the psychological contract are subjectively perceived and whether highly subjective terms can form part of psychological contracts is not well understood.

3.2.4. Perceived agreement—not actual agreement—is necessary for psychological contracts

Unlike legal contracts, where ‘agreement, or at least the outward appearance of agreement, is an essential ingredient of a contract’ (Cheshire, Fifoot, and Furmston 1991: 70), for Rousseau (1990) agreement, or mutuality as it is sometimes referred, is not necessary for psychological contracts. Each party believes that there is agreement on the contract, but there does not have to be actual agreement where both parties have the same understanding of the contract (Robinson and Rousseau 1994). Rousseau (1990: 391) does not see mutuality as important, ‘Two parties to a relationship, such as an employee and employer, may each hold different beliefs regarding the existence and terms of a psychological contract . . . Mutuality is not a requisite condition’.

An important debate concerns whether agreement over psychological contracts should be defined as wholly at the level of an individual’s perception or whether some degree of actual agreement between parties is required. In other words, is the psychological contract only the individual employee’s beliefs about the exchange relationship or is it where those same beliefs are also held by the organization? Arnold (1996) has drawn attention to the confusion surrounding the meaning of agreement in relation to psychological contracts. A strong sense of agreement would cover both the terms of the contract and what is exchanged for what. Earlier work on the psychological contract (e.g. Levinson et al. 1962; Schein 1965; Kotter 1973) assumed at least a weaker form of agreement, in that both employees and management understood in broad terms what constituted the exchange. In fact, for Argyris agreement was at the heart of the psychological contract between management and workers, as he argued in his case study of a manufacturing plant that managers knowingly overlooked certain ‘deviant’ behaviours, such as ad hoc tea-breaks, provided employees were broadly compliant with managers’ wishes. As noted by Arnold (1996), Rousseau’s position implies the psychological contract can be a purely individual interpretation.

The role of mutuality is important because it determines the most appropriate level of analysis. If the psychological contract is predominantly a subjective construct, then analysis at the individual level seems appropriate; if it involves agreement across parties, then analysis at the relational level (i.e. contractual beliefs that are shared by both parties) may be more appropriate.
3.2.5. The psychological contract is about exchange

Psychological contracts refer to the perceived exchange agreement between the two parties. In other words, things offered by the organization, or by employees, are conditional on something the other party does in return: ‘promises of future behaviour (in this case on the part of the employer) typically are contingent on some reciprocal action by the employee’ (Rousseau 1990: 390). The issue of reciprocity is important because, if the assumption of reciprocity is not valid, it then becomes difficult to continue to regard the psychological contract as a ‘contract’. Essentially contracts are about ‘deals’—something that is exchanged for something else. A one-off gift from one person to another is not a psychological contract as the recipient has not promised to do anything in return. (If upon receipt of the gift the individual feels obliged to reciprocate, then an exchange begins. If the exchange of gifts becomes a consistent and repeated pattern of behaviour between parties, then a psychological contract is formed.)

Figure 3.1 presents an example of a very simple and general psychological contract exchange in which a wide range of organizational inducements are exchanged for a range of employee contributions. Under such a general exchange, exactly how this exchange works or what particular inducement is exchanged for which particular employee contribution is not stated.

While there appears to be agreement that the psychological contract involves exchange, an important debate relates to the specificity of the exchange. In other words, while we may know the list of employee contributions performed in exchange for the list of organization inducements, we do not know the precise ways in which this exchange takes place as described in Figure 3.1. For example, we do not know what specific contributions employees provide in return for, say, pay, promotion, or training.

Rousseau (1990) has called for research into what outcomes the parties to the psychological contract expect from each other in response to their discrete contributions. This is not only an important theoretical and empirical issue: a more precise understanding of the exchange may also have practical importance so that organizations and employees better understand how specific contributions are likely to be exchanged for certain inducements. Returning to the example of pay, a question arises as to how, if at all, employee contributions would

---

**Figure 3.1** General example of psychological contract exchange
change if pay were increased. Figure 3.2 presents a more specific type of exchange where an employee perceives that their effort and a desire to develop skills is necessary in order to be promoted, whereas, for the receipt of training, only a desire to develop skills is essentially required.

While there is agreement across definitions that the psychological contract is about the ‘deal’ or the exchange relationship between employer and employee, the nature of this exchange is not always clear. While the exchange is often presented in very general terms—with a range of employer inducements somehow being offered as a ‘package’ in exchange for a ‘package’ of employee contributions—it seems likely that the exchanges are much more specific.

3.2.6. The psychological contract is the *entire set* of an employee’s beliefs regarding the ongoing exchange relationship with his or her employer

There is agreement across definitions that an employee’s psychological contract includes his or her beliefs about the entire range of possible exchanges that could take place between themselves and their employer. In other words, it potentially includes beliefs about anything and everything the employee could give to the employer and anything and everything they could receive in return, and the nature of that exchange. The psychological contract does ‘not only cover how much work is to be performed for how much pay, but also involves the whole pattern of rights, privileges, and obligations between worker and organization’ (Schein 1965: 11). The psychological contract is much broader than a legal or employment contract: ‘it may have literally thousands of items…although the employee may consciously think of only a few’ (Kotter 1973: 92).

Adopting a definition that sets no limits on the number or nature of the items that can be regarded as part of an employee’s psychological contract seems reasonable as it is clearly possible for an employee to perceive a psychological contract in relation to any aspect of their work or working conditions. However, researchers have tended to focus on a set of employer inducements (e.g. pay, training, promotion, respect) and employee contributions (e.g. effort, ability, creativity, honesty) which, it is assumed, lie at the heart of the employment relationship. Within this core set certain elements have been singled-out as

![Figure 3.2 More specific example of psychological contract exchange](image)

http://site.ebrary.com/id/10177924?ppg=46
Copyright © Oxford University Press, UK. . All rights reserved.
May not be reproduced in any form without permission from the publisher, except fair uses permitted under U.S. or applicable copyright law.
more important than others, such as psychological contracts around careers (Herriot and Pemberton 1996) and psychological contracts formed during performance appraisals (Stiles et al. 1997). The focus on core items has led to the neglect of the wide and diverse range of possible exchanges in everyday working life.

3.2.7. The psychological contract is an ongoing exchange between two parties

Schein (1980) sees the exchange as ‘ongoing’ in the sense that the psychological contract is in operation at all times and unfolds through mutual bargaining and constant renegotiations, although he does not elaborate on the contents of these negotiations (Rousseau 1989). The ‘ongoingness’ of the exchange refers to repeated cycles of each party fulfilling their promises to one another.

That psychological contracts are ongoing is a crucial feature of their definition: it is what distinguishes psychological contracts from simpler one-off exchanges. However, definitions of the psychological contract have largely ignored the ongoing aspect of psychological contracts. The meaning of ongoing, unfolding psychological contracts is an issue we discuss at length in Chapter 8.

3.2.8. The parties to the psychological contract

Definitions of the psychological contract refer to two parties to the contract: the employee and the organization. The employee, as one of the parties to the contract, is relatively easy to identify, as the psychological contract is, as discussed earlier, viewed as being held at the level of the individual employee. It is generally argued, therefore, that psychological contracts cannot be held by groups, or by third persons.

While the employee as one of the parties to the contract is relatively easy to identify, who, or what, represents the organization or the employer? Is it a specific line manager? The managing director? The human resources department? It has been argued that employees do not perceive any particular person or agent as being the ‘organisation’. Rather, employees view actions by the organization as an overall view of actions by agents of the organization, such as line managers, and signals from the organization, such as its human resource practices and company documentation. Through actions by the organization’s agents, employees ascribe the organization with human qualities capable of reciprocation, a process referred to as anthropomorphizing the organization (Levinson et al. 1962; Schein 1965; Eisenberger et al. 1986; Rousseau 1989; Sims 1994; Morrison and Robinson 1997). For example, an organization becomes
capable of being caring, loyal, generous, and so on, as the employee interprets actions by the organization’s agents as action by the organization itself.

While most definitions emphasize the individual employee as the main ‘holder’ of the psychological contract, an area of ongoing debate concerns whether organizations, as the other party to the contract, can and do have psychological contracts. In other words, can organizations have beliefs about the exchange between the organization and its employees in the same or similar ways that employees do? Early conceptualizations (e.g. Argyris 1960; Levinson et al. 1962; Scheln 1965, 1980; Kotter 1973) and some more recent definitions (e.g. Herriot and Pemberton 1997; Guest 1998; Coyle-Shapiro and Kessler 1998; Guest and Conway 2002; Tsui and Wang 2002) consider the psychological contract to consist of the beliefs of both the employee and the employer. The employer’s perspective is held by key agents, such as the line manager or senior manager, or through characteristics of groups or organizations, such as its culture. However, Rousseau and others (e.g. Rousseau and McLean Parks 1993; Morrison and Robinson 1997) argue that the psychological contract is largely concerned with the employee’s perspective. According to this view, organizations as abstract entities do not have psychological contracts, although organizational agents such as line managers can have a psychological contract with employees.

The organization, as the other party in the relationship, provides the context for the creation of a psychological contract, but cannot in turn have a psychological contract with its members. Organizations cannot ‘perceive’, though their individual managers can themselves personally perceive a psychological contract with employees and respond accordingly. (Rousseau 1989: 126)

On the one hand this position seems reasonable. An organization as an abstract entity cannot have a psychological contract. However, a key problem with Rousseau’s position is that, while researchers should not make the mistake of treating the organization as if it can have a psychological contract in the same way that a person can, definitions of the psychological contract state that employees do and indeed must treat the organization in this way if they are to have a psychological contract, as definitions of the psychological contract generally refer to the ‘organization’ rather than a specific individual, although occasionally definitions refer to individual agents (e.g. the use of ‘foreman’ by Argyris in Box 3.1).

At present, our understanding of the employer’s perspective is at a very early stage. For now it should be noted that, in the main, it is assumed that employees unproblematically treat the organization as if it were a single contract maker as the other party to the psychological contract. To summarize, while there is agreement as to who represents the employee, what constitutes the organization is less clear, and the issue of whether organizations can have psychological contracts remains an area of ongoing controversy.
3.2.9. The psychological contract is shaped by the organization

Many definitions consider that the psychological contract consists of those beliefs about the exchange relationship that are shaped or formed by the employees' interaction with and experience with their current employing organization. In other words, beliefs that are formed or shaped by factors outside the organization or that have been formed or shaped in previous employment relationships are not necessarily regarded as part of the psychological contract.

However, researchers disagree about the extent to which an employees' psychological contract is shaped by factors external or internal to the organization. Earlier definitions state that the psychological contract is considerably shaped by experiences that pre-date the relationship between the employee and the organization (Levinson et al. 1962; Schein 1980). According to Schein (1980: 24), employees forge their expectations from their "inner needs, what they have learned from others, traditions and norms which may be operating, their own past experience, and a host of other sources".

However, more recent conceptualizations from Rousseau and others (e.g. Rousseau and Wade-Benzoni 1994; Rousseau and Greller 1994; Morrison and Robinson 1997) give less emphasis to the influence of experiences pre-dating the current employment relationship in shaping the psychological contract and instead consider the organization to be chiefly responsible for shaping the psychological contract (Roehling 1996). Defining the psychological contract in this way means that even though employees may believe the organization makes promises to them, if these promises do not originate from or are not shaped by the current organization then the beliefs are not part of the psychological contract. For example, employees may believe they will get promoted, as they did in their previous job, for being hard-working. However, if their current organization has not implied or promised this exchange nor shaped this belief in any way then, according to some perspectives, this belief is not part of the psychological contract. Ultimately it is difficult to separate out beliefs that are completely unshaped or uninfluenced by the current organization from beliefs that are in some way, however subtly, shaped by or influenced by the current organization.

These differing positions can perhaps be reconciled by considering that, in theory, as a party to a psychological contract, we would not expect to be judged and held accountable for promises and obligations that the other party may have expected from previous relationships. Nevertheless, it is also likely that each party’s view of the relationship and what they want from it is influenced by our previous experience in relationships and our needs. Note that it is earlier writers on the psychological contract that stress the importance of factors outside the relationship on the psychological contract (Levinson et al. 1962; Schein 1965) and this may reflect their more general definition of expectations as constituting...
the psychological contract. The more recent emphasis on the psychological contract as a legal metaphor and the promissory nature of the psychological contract (Rousseau 1995; Guest 1998) would lend itself to drawing sharper distinctions on who are the parties to the contract and the lines of responsibility. If psychological contracts are about promises, then the role of individual needs becomes less clear. Under this conceptualization, needs are likely to be important in the terms of the types of promises we seek to establish and would like to see fulfilled, but should not be confused with the actual content of the psychological contract. We return to the role of needs in Chapter 4 when we discuss the range of factors that may influence the contents of the psychological contract.

3.3. Summary and conclusion

This chapter has considered various definitions of the psychological contract and the key terms within these definitions. This has revealed that the psychological contract has been defined in very different ways and in some cases referring to quite different phenomena. While many of the disagreements across definitions reflect how the meaning of the psychological contract has changed over time, certain disagreements are the subjects of current debate (see the special edition of *Journal of Organizational Behavior*, 1998; Meckler, Drake, and Levinson 2003).

Currently, the most widely agreed definition of the psychological contract, and the one we will adopt throughout this book, is that put forward by Rousseau, in which the psychological contract is considered to be an employee's subjective understanding of promissory-based reciprocal exchanges between him or herself and the organization. We have chosen this definition for three reasons. First, because it captures the essential features of a contract (i.e. exchange) while acknowledging the employee's individual subjective interpretation of its terms, and thus making it truly psychological, as opposed to a quasi-objective contract over which there is pretty much complete agreement across parties as to its terms. Second, promises are a clearer and more precise construct than obligations and expectations and are also more closely aligned with the idea of a contract. Third, we believe that by focusing on promises this definition is sufficiently conceptually distinct from other related ideas, such as met expectations and fairness perceptions. As stated earlier, we will use promises as the main belief constituting psychological contracts and only refer to expectations and obligations when other researchers use these terms in a specific sense.

Despite definitional ambiguities, research on the psychological contract continues to proliferate. Further, critics of Rousseau's conceptualization of the psychological contract (e.g. Arnold 1996; Guest 1998) do not reject the concept in favour of earlier definitions, but call for further research to clarify certain terms in the definition and to establish whether the psychological contract does explain...
outcome variables (such as organizational commitment) over and above related constructs, such as met expectations and equity theory.

A final conclusion is that the definitional issues and disagreements discussed in this chapter are fundamental to the whole field of psychological contract research and practice. Rather than being minor problems that can easily be sorted out they represent fundamental confusions in the foundations of the concept. For this reason, many of the issues discussed in this chapter will reappear in various forms throughout the remainder of the book.