CHAPTER 7

The Psychological Contract as an Explanatory Framework in the Employment Relationship

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The relationship between employees and their organizations has often been described as an exchange relationship (Mowday, Porter & Steers, 1982), and many concepts have been set forth in the literature to describe this exchange (Eisenberger et al, 1986; Greenberg, 1990). The psychological contract (Argyris, 1960; Rousseau, 1989; Schein, 1980) is an exchange concept providing a broad explanatory framework for understanding employee–organization linkages. The purpose of this chapter is to explore the role of the psychological contract in organizations. It examines the meaning and function of the psychological contract, including factors that contribute to its formation. In addition, the different types of contracts which can emerge, and implications of violations of these various contracts, are discussed.

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THE MEANING OF THE PSYCHOLOGICAL CONTRACT

Schein (1980) described the psychological contract as the depiction of the exchange relationship between the individual employee and the organization. The psychological contract is the employee's perception of the reciprocal obligations existing with their employer; as such, the employee has beliefs regarding the organization's obligations to them as well as their own obligations to the organization (Rousseau, 1989). For example, the employee may believe that the organization has agreed to certain actions, such as providing job security and promotional opportunities, in exchange for hard work and loyalty by the employee.

While the individual employee believes in the existence of a particular psychological contract, or reciprocal exchange agreement, this does not necessarily mean that the supervisor or other organizational members agree with or have the same understanding of the contract (Rousseau & Parks, 1993). The psychological contract is an inherently subjective phenomenon, in part due to individual cognitive and perceptual limits, but also because there are multiple sources of information which may influence the development and modification of contracts (Levinson, 1962).

The psychological contract is one type of promissory contract. The promissory contract consists of three components, including promise, payment, and acceptance (Rousseau & Parks, 1993). A promise consists of a commitment to a future course of action. As an individual-level phenomenon, the psychological contract is based on *perceived* promises by the organization to the employee. These promises can be communicated directly by organizational agents (e.g. recruiters, managers). A recruiter who emphasizes promotional opportunities may set the stage for a psychological contract even though the new hire knows the promotional decision would be made by someone else. However, perceptions of promises to the employee can also be based on organizational actions. For example, past or present treatment of the employee (e.g. training, praise) can create perceptions of obligations by the organization to continue such treatment (Eisenberger et al, 1986; Eisenberger, Fasolo & Davis-LaMastro, 1990).

Payment occurs when something is offered in exchange for the promise which the person values. When an organization rewards employees in a manner consistent with the perceived promises underlying the psychological contract, this constitutes fulfilment of organizational obligations. In sum, promises followed by employee effort lead to expectations of payment, or organizational fulfilment of obligations. This process creates psychological contracts which, when

violated, may lead to strong negative feelings (Robinson & Rousseau, in press; Rousseau & Parks, 1993).

The third component of promissory contracts is acceptance, reflecting voluntary agreement to engage in the contract terms (Rousseau, 1989; Rousseau & Parks, 1993). Acceptance implies that both parties (employee and organization) are accountable for the terms of the psychological contract, since they chose to engage in this particular agreement. Therefore, both employees and organizations are responsible for carrying out the contract, and either party may choose to violate or break the agreement.

In sum, because of pervasive social norms of reciprocity (Gouldner, 1960) and contracting (Rousseau & Parks, 1993), acceptance of the contract terms by the employee and the implied or explicit acceptance by the employer, sets the stage for the development of a psychological contract. In a sense, the employee expects, looks for, and creates the psychological contract as a way of representing the employment relationship because of these pervasive social norms.

FUNCTION OF THE PSYCHOLOGICAL CONTRACT

Given the evidence supporting the existence of the psychological contract (Robinson, Kraatz & Rousseau, in 1994; Robinson & Rousseau, in press; Rousseau, 1990), an important issue has to do with what the function of the psychological contract is. It could be argued that these types of contracts occur because of the lack of formalized contracts (e.g. union contracts). However, in our view, even when a formalized contract is present, individuals will develop psychological contracts for a number of reasons. First, even though many employment contracts are quite comprehensive, it is not possible to work out all aspects of employment. Thus, psychological contracts reduce individual uncertainty by establishing agreed-upon conditions of employment. That is, employees have a greater sense of security by believing that they have an understood agreement with their employer. In addition, psychological contracts serve to direct employee behavior without necessarily requiring managerial surveillance. Since employees monitor their own behavior based on the belief that this will lead to certain rewards either in the short-term, or in the distant future, this helps to serve organizational needs for responsible employees. Finally, psychological contracts give employees the feeling that they are able to influence their destiny in the organization since they are party to the contract, having agreed to

its terms, and also because they are able to choose whether to carry out their obligations.

A theme underlying the reasons outlined above for the formation of contracts is the reduction of uncertainty or conversely an increment in predictability. Formal or explicit contracts between two parties specify the obligations of each party to the contract. In the employment setting, it has been long recognized that formal contracts cannot eliminate all ambiguity (e.g. collective bargaining contract violations). One step removed from the formal contract is the implied contract. The implied contract results from observable patterns of behavior between parties (e.g. patterns of practice; Rousseau, 1989). Rousseau has added a third level of contracts operating at the individual, perceptual level (i.e. psychological contracts) consisting of reciprocal obligations between the employee and organization. Even though this is an individual phenomenon, it is our thesis that the psychological contract still serves a primary function of uncertainty reduction.

Many motivational theories propose that predictability and control of the work environment are key factors in understanding individuals' behavior within that work environment. For example, predictability is a key concept in expectancy theories of motivation in that an individual has to have a sense that there is at least some likelihood that performance will result in desired outcomes (Vroom, 1964). More recently, extensions of goal setting theory have incorporated the concept of self-efficacy indicating that the individual needs to have some sense of predictability, at least with respect to a given task, to accept goals and perform accordingly (Bandura & Cervone, 1983). Furthermore, Sutton and Kahn (1986) proposed that understanding, predictability, and control are key factors in preventing stress.

This raises the question as to how psychological contracts serve to increase control and predictability. Drawing on cognitive psychology, it has been proposed that people form schemas and scripts which are highly structured, pre-existing knowledge systems to interpret their organizational world and generate appropriate behaviors (Lord & Foti, 1986). These schemas and scripts can be thought of as individuals' belief structure of what is expected to occur in the organization and what is expected of them. If we liken schemas and scripts to the psychological contract then it would be expected that psychological contracts are relatively robust, once formed, and minor discrepancies would be overlooked (Fiske & Taylor, 1984). Further, while there has been only scant research on how schemas develop, Lord and Foti summarize that schemas develop out of repeated experiences and, as they develop, they become more abstract, complex, organized, and more resistant to change. Thus, psychological contracts represent schemas having to do with

mutual obligations between the individual and their employer, which may be fairly simple at the time of organizational entry, but become increasingly complex with experience. As schemas, psychological contracts provide the employee with order and continuity in a complex employment relationship, allowing for predictability and control.

TRANSACTIONAL VERSUS RELATIONAL CONTRACTS

In their conceptual development of the psychological contract, Rousseau and her colleagues (Parks, 1992; Rousseau, 1989; Rousseau & Parks, 1993) distinguished between two forms of the psychological contract, called transactional and relational obligations. They linked the former type of contract with economic exchange and the latter type of contract with social exchange. Blau (1964; p.89) described social exchange theory in the following way: "An individual who supplies rewarding services to another obligates him. To discharge this obligation, the second must furnish benefits to the first in turn." Unlike economic exchange, social exchange "involves unspecified obligations, the fulfilment of which depends on trust because it cannot be enforced in the absence of a binding contract" (p.113). Emerson (1981) suggested that unlike social exchange theory, which focuses on contingent and reciprocal exchanges between partners, economic theory is based upon the assumption that transactions between parties are independent events (i.e. are not long-term and ongoing). As a result, "obligations, trust, interpersonal attachment, or commitment to specific exchange partners" (Emerson, 1981; p.35) are not incorporated into economic exchange frameworks (i.e. transactional psychological contracts).

DEVELOPMENT OF THE PSYCHOLOGICAL CONTRACT

Given that individuals may have substantially different psychological contracts, this raises questions as to how these varied contracts develop. Dunahee and Wangler (1974) suggested that psychological contracts initially emerge at the time of pre-employment negotiation. That is, not only are specific transactional agreements discussed (e.g. how much pay for amount of work), but also the nature and extent of obligations. However, they also argue that employees may infer contractual agreements without explicit communication by, for example, observing the employer's body language or based on their perceptions of the

organization's characteristics. Thus, individuals seek information during recruitment and selection which then sets the stage for further refinement of the psychological contract in the early employment period. As such, the psychological contract develops within a dynamic environment in which the individual is often interacting with multiple organizational agents who may each be sending a variety of messages, both verbal and non-verbal. How then does the individual develop a psychological contract?

In our view, there are a number of factors operating. Potential employees and organizational agents approach the employment relationship with a set of expectations about the potential relationship. However, while these expectations do influence the development of the contract, the dynamic nature of the interaction between parties, the organization's goals and environmental conditions, and also the particular goal orientation of the individual who is developing the psychological contract, make the outcome of this exchange unique.

Figure 7.1 depicts a model showing how the psychological contract develops at the time of pre- and initial employment. There are two parties to the development of this contract—the individual and the organization. Consistent with interactional psychology (Endler & Magnusson, 1976; Terborg, 1981), we view the development of the psychological contract as resulting from the interaction of the individual

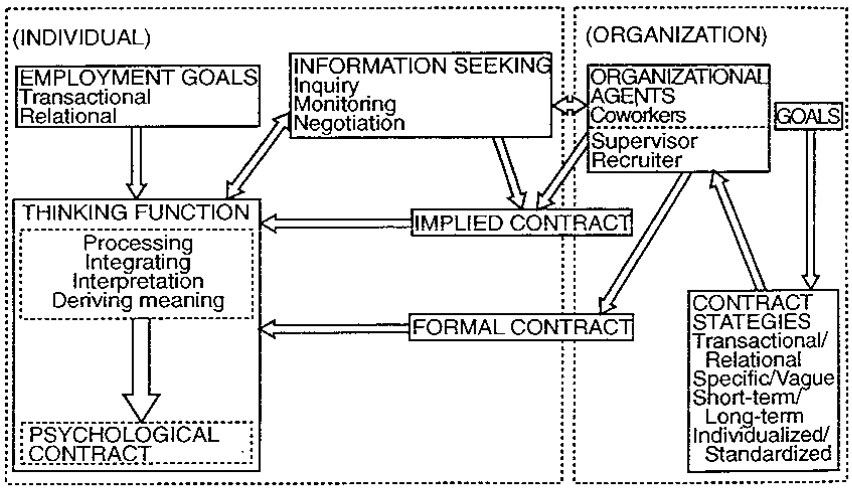

Figure 7.1 Schematic representation of the development of the psychological contract

with their organizational environment. Therefore, we propose that individuals are both shaped by situations and also shape situations; as such, the psychological contract is unique for individuals because of the interactional process. However, there are also forces that may encourage some similarity in psychological contracts among individuals within organizations (e.g. implied contracts and formal contracts). Below, we will first discuss the role of the individual, and then subsequently the role of organizational agents in the development of the psychological contract.

The Role of the Individual

There is much evidence that individuals behave in ways that are consistent with their goals (Cleveland & Murphy, 1992), and that information in the environment assumes meaning in part due to a person's goals (Ashford & Cummings, 1983). Ashford and Cummings argued that employees are active seekers of information about a wide variety of issues related to the goals they hope to achieve in a particular organization, such as job competence, career advancement, and making friends at work. The development of the psychological contract can be thought of as a deliberate goal-oriented process, in which an individual attempts to establish an agreement with their employing organization which will address a variety of employment objectives.

Figure 7.1 incorporates elements from the Ashford and Cummings (1983) feedback seeking model to explain the individual cognitive processes that underlie the development of the psychological contract. Individuals enter the employment relationship within a particular environment which contains a broad array of information. Our model proposes that people have goal-oriented motivations for seeking information relevant to the psychological contract. Both transactional and relational goals are likely to be motivators for information seeking. Transactional motivators consist of promotional opportunities, pay and benefits whereas relational motivators include job security, growth and development opportunities, and the interpersonal environment (Robinson et al, 1994).

The degree of emphasis on transactional and relational issues is likely to vary due to differences in individual goals. For example, a student who is seeking temporary employment with flexible working hours in order to accommodate her school schedule may be more interested in transactional aspects of her psychological contract, whereas another individual seeking long-term employment opportunities may focus on information relevant to the relational contract, including elements such

as career development opportunities and job security. Thus, an individual's information-seeking efforts will be organized around their particular employment goals.

New hires, as well as more tenured employees, may use a variety of approaches to seeking information relevant to the psychological contract, including inquiry, monitoring, and negotiation. Direct inquiry and negotiation may be a chief means of gathering information about transactional issues such as pay and benefits. However, there may be many contractual issues that individuals may hesitate to ask about directly or which are not likely to be viewed as negotiable (e.g. the fairness of the supervisor, or the extent of support with personal problems). Nonetheless, if the individual is concerned about these relational issues, they will seek relevant information through the process of monitoring.

Individuals monitor their environment for information relevant to their goals; meaning is generated through the thinking function by incorporating environmental information into existing goals (Ashford & Cummings, 1983). Ashford and Cummings suggest that monitoring involves both "interpretation and inference... since the derived meaning of any feedback cue is in part a function of an individual's self- and goal-related schemas" (pp.383–384). For example, if a manager discusses job security with a potential new hire who views the organization as a mere stepping stone in their career (Robinson & Rousseau, in press), this particular information will likely be ignored and will not be incorporated into the relational contract.

The development of the psychological contract involves not only the use of direct inquiry and monitoring, but also active attempts on the part of the individual to negotiate an agreement consistent with their employment goals. Negotiation is most likely to affect the formal employment contract (e.g. pay and benefits) in a direct way, but aspects of the formal contract are likely to influence the psychological contract. Similarly, inquiry and monitoring are likely to directly influence the implied contract, which in turn influences the psychological contract. Therefore, more explicit forms of contracting (formal and implied contracts) influence more implicit forms of contracting (psychological contracts). At the same time, all three information seeking strategies have a direct effect on the development of the psychological contract.

Given that individuals are likely to store and recall incomplete information, and also to fill in information based on existing schemas (Salancik & Pfeffer, 1978), new hires are likely to base their psychological contract on information which is only partially generated by the external environment. That is, individuals incorporate only some of the available information in the environment and then derive meaning from that

information in their own unique way. Suppose that a new college graduate for whom career development is an important goal has never worked full time. He will probably interpret and utilize information on advancement opportunities in a manner quite different from a more experienced individual who has already worked for several organizations. Therefore, even if these two people were given the same information about advancement opportunities during an interview with a manager, they are likely to differ in how they make sense of the information presented. As a result, their psychological contracts pertaining to career development are also likely to be distinct.

The Role of the Organization

Organizations are made up of multiple individuals, with varying roles and perspectives. During recruitment and organizational entry, the individual interacts with a variety of people who may provide information for the development of the contract. In our view, there are forces which might encourage different organizational agents to send somewhat different messages. For example, there is a great deal of evidence that the majority of organizations attempt to "sell" the organization to recruits (Wanous, 1992), so that individuals may receive different messages at the time of recruitment than they would once they begin working for the organization. This may help to explain why so many new hires view their organizations as substantially violating their psychological contract early in the employment relationship (Robinson & Rousseau, in press). However, once a new hire enters the organization, there should be some continuity in the messages relayed given that organizations tend toward homogeneity in their work force through attraction–selection–attrition (Schneider, 1987) and socialization processes (Wanous, 1992). In addition, both formal and implied contracts lend some continuity to psychological contracts. Therefore, particular types of contracts might be prevalent within a given organization (Parks, 1992; Rousseau & Wade-Benzoni, in press; Tsui et al, 1993).

A number of researchers have proposed that organizational strategies are linked with employment contracts (Parks, 1992; Rousseau & Wade-Benzoni, in press; Tsui et al, 1993). For example, organizations in quickly changing environments may make a strategic decision to negotiate short-term temporary employment contracts with some of their employees (e.g. clerical workers). In contrast, customer-oriented organizations where building trust is essential to organizational profits, as in the banking industry, may offer long-term employment and development opportunities in employment contracts. Thus, organizations may have a

predominant type of contract that typifies employee–organization relations.

Both Parks (1992) and Rousseau and Wade-Benzoni (in press) developed strategic typologies which represent refinements of the transactional and relational contracts described previously. Parks proposed that transactional and relational contracts may be either exhaustive (fully described) or fragmentary (incomplete and uncertain). Rousseau and Wade-Benzoni's typology uses the dimensions of duration (short-term versus long-term) and performance terms (specified and not specified) to create four types of contracts. Tsui et al (1993) proposed that organizations may develop job-focused strategies or organization-focused strategies. The job-focused strategy involves a very specific contract in which both employee and organizational obligations are made very explicit. It is a flexible contract in which neither the employee nor organization is committed beyond the specified contract period. The organization-focused strategy is much less specific, and involves employee commitments to invest in both the job and organization in exchange for long-term returns from the organization. This typology is very similar to the transactional and relational contract distinction utilized by Rousseau (1989).

There are several themes in the strategic contract typologies described above which are incorporated into Figure 7.1. First, contracts differ on the extent to which they are *specific*. *Duration* of the contract, reflecting the degree to which it involves investments and long-term relationships, is a second dimension of contracts. Third, contracts vary as to whether they are *transactional or relational*. Like Rousseau and Wade-Benzoni (in press), we view this dimension as existing on a continuum, such that most contracts involve both monetizeable and nonmonetizeable elements, though the weight given to these elements may be quite varied. A final issue that has not been discussed is the degree to which contracts are *individualized versus standardized*. Some organizations may employ fairly uniform strategies in negotiating contracts with employees. This represents an egalitarian strategy which should contribute to group cohesiveness (Kabanoff, 1991). Other organizations may individualize contracts to represent potential contributions to the organization. That is, better employees may negotiate contracts that will provide them with more rewards and greater opportunities. This represents an equity strategy, in which rewards and opportunities are distributed according to employee contributions (Kabanoff, 1991).

The goals of the organization should also impact the development of the psychological contract. Organizations facing a great deal of competition for their services or products may seek to establish more

transactionally oriented contracts of short duration, consistent with a goal to be flexible and responsive to a changing environment. In contrast, organizations that have a goal of building strong customer relations may opt for more open-ended relational contracts of longer duration. As yet, little is known about the impact of organizational goals on the contract development process. However, recent organizational trends toward contract workers, temporary employment as well as early retirement incentive programs in reaction to economic pressures suggest that organizational goals will be related to the type of contract that emerges.

Various organizational sources may play different roles in the contract development process. Presumably, prior to organizational entry, an individual will develop their psychological contract based on the organizational agents they interact with, usually a recruiter or other human resource department representative, and their immediate supervisor or manager. However, prior to talking with organizational agents, the individual may already have information about a particular organization through a variety of sources (e.g. news media, friends and family) relevant to the psychological contract. For example, knowledge of a recent early retirement incentive program offered by a particular company may contribute to aspects of the contract having to do with long-term job security.

Research suggests that the recruiter is not considered a very credible source of information (Fisher, Ilgen & Hoyer, 1979) while newcomers often rely extensively on their supervisor (Fisher, 1990). In addition, the individual will have to depend on their immediate supervisor to carry out many of the contract terms. Therefore, the employee is likely to view the supervisor as the chief agent for establishing and maintaining the psychological contract.

There is much evidence that coworkers play an important informational role in the socialization process (Fisher, 1990; Miller & Jablin, 1991). Coworkers may be useful sources of information about the psychological contract in a number of ways. First, coworkers may share their perceptions of the "fairness" of the supervisor and the "trustworthiness" of the organization (relational issues that are hard to assess during recruitment), so that the new hire is able to revise their contract or at least estimate the likelihood of violation. Second, coworkers may be a source of information about how equitable the new hire's contract is relative to others. This can occur through direct communications about salary or other aspects of the contract (e.g. was the employee paid fairly relative to others, do excellent performers really get promoted), or through observation of interactions among coworkers or between coworkers and the supervisor.

VIOLATION OF THE PSYCHOLOGICAL CONTRACT

The psychological contract once developed should be relatively stable. However, this does not imply that it cannot be changed. Rather, the psychological contract is based on an interactive process by which the employee takes steps to fulfil their part of the contract and looks to the organization to fulfil their obligations within the terms of the contract. We view the psychological contract as the standard or referent against which an individual judges the employment relationship as suggested by self-regulation theories of motivation and control theory (Carver & Scheier, 1985; Kanfer, 1990). To the extent that the present employment situation is not consistent with the standard (i.e. the employee views the contract as violated), control theory suggests that an individual will respond to reduce the discrepancy (Kernan & Lord, 1990).

Robinson and Rousseau (in press) reported that violations of the contract are the norm rather than the exception with 59% of the respondents in a study reporting that their employer had violated the contract. The relation between individuals reporting that the contract had been violated and the extent to which the obligations of the employer to the employee had been fulfilled was negative. Interestingly, there were individuals who reported that the contract had been violated who also indicated that their employer had lived up to their obligations. Likewise, there were individuals who indicated that the contract had not been violated even though they reported that the employer's obligations had not been fulfilled. Robinson and Rousseau suggest that this seeming discrepancy might be explained, at least in part, by efforts to resolve disputes. Drawing on self-regulation theories of motivation, we offer additional explanations of the process that occurs when an individual senses that the obligations of the employer are not being met.

Figure 7.2 depicts the process underlying violation of the psychological contract. Violation of the psychological contract is a reactive process whereby the employee receives information from the organization which suggests that an obligation within the contract terms has not been met. Although we describe violation as a reactive process, in reality, the employee may have contributed to organizational actions which led to contract violation. However, as suggested by Murphy and Cleveland (1991), people tend to discount their own poor performance by making allowances for situational influences. Thus, even a poorly performing or disruptive employee may not view themselves as having a responsibility in organizational violations of contracts. As such, we are describing the individual's perceptions of contract violation, rather than incorporating all of the variables that may precipitate contract violation.

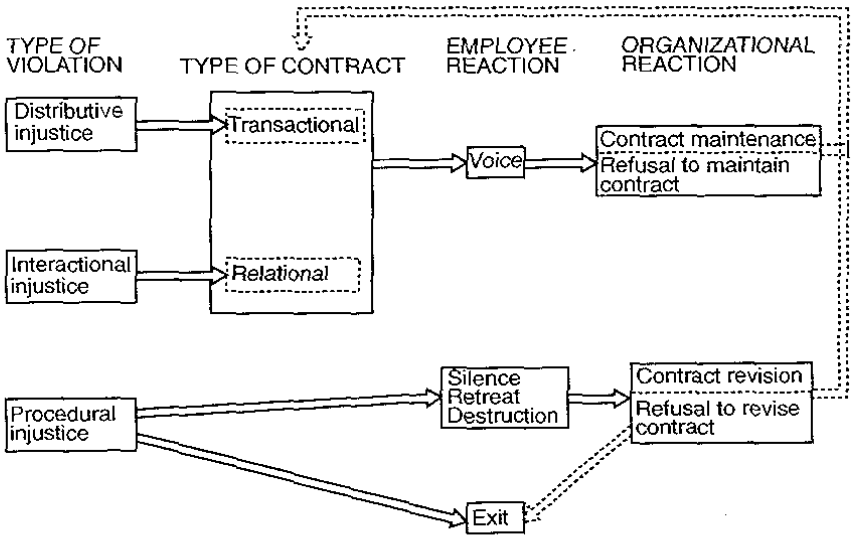

Figure 7.2 Schematic representation of the response to violation of the psychological contract

Since employees monitor the information environment at work to gain goal-related feedback (Ashford & Cummings, 1983), many of the discrepancies between the psychological contract and organizational actions will likely be attended to. However, the degree to which employees focus on discrepancies will depend on (1) the type of violation, (2) the size of the discrepancy, and (3) the degree of assessed organizational responsibility for the unmet obligations. Below, we will discuss each of these three aspects of unmet obligations.

Drawing from the organizational justice literature (c.f. Bies, 1987; Greenberg, 1990; Sweeney & McFarlin, 1993), we propose that there are several potential types of organizational violations. That is, like justice, violation involves an assessment of fairness by the employee. This assessment may focus on distributive violations which refer to the distribution of outcomes (e.g. training and merit pay). Unfulfilled transactional obligations would most often be associated with distributive violations since transactional contracts focus on specific monetizeable outcomes. However, the relational contract may also incorporate certain desired outcomes, such as job security, which if violated, would be evaluated in terms of distributive justice.

Procedural justice refers to the fairness of procedures through which outcomes are allocated. If a tenured employee were part of a layoff, their assessments of violation would not only focus on the outcome (being laid off), but also on how the layoff decision was made. The employee

would likely perceive that a procedural violation had occurred if a coworker with lower tenure had been retained. A final aspect of justice is interactional justice, which Bies (1987) described as "quality of interpersonal treatment they receive during the implementation of a procedure" (p.292). The tenured employee described above might also feel that an interactional violation had occurred if he was notified of the layoff through an impersonal form letter. Interactional violations are particularly relevant to relational contracts, where trust is an essential part of the agreement.

Another issue related to the type of violation which may influence employee reactions is whether the psychological contract is chiefly transactional or relational. Reactions to violation of contracts that are primarily transactional, particularly of short duration, may be less intense and more amenable to revision than violation of long-standing relational contracts where employees are relying on mutual trust (Robinson et al, 1994).

The second aspect of violations that will influence employee reactions is the size of the discrepancy. Certain violations may result in larger discrepancies than others. According to action control theory (Kuhl & Atkinson, 1986), small discrepancies would be expected to generate an action orientation which in the case of the psychological contract would lead to employee attempts to restore the contract. Large discrepancies, on the other hand, would be expected to induce a state orientation which would result in the individual focusing on the emotional effects of the violation of the contract. This is consistent with Rousseau's (1989) thesis that violations of psychological contracts lead to not only perceptions of inequity and dissatisfaction but also "deeper and more intense responses, akin to anger and moral outrage" (p.128).

The third aspect of violations that may influence employee reactions is accountability, or assessed responsibility for unmet obligations. According to Bies (1987), people make attributions of responsibility when they make judgements of fairness. If an organization appears to break the psychological contract voluntarily, judgements of injustice may be greater than when the organization is not held to be fully responsible. For example, a psychological contract representing organizational obligations of job security in exchange for employee obligations to be loyal, which is broken (e.g. when an employee is fired or part of a layoff) may be viewed as only a partially broken contract if an economic downturn caused the organization to be unable to fulfil the obligation. In addition, when the organization claims that they cannot completely fulfil a contract, but attempts to partially do so (e.g. early voluntary retirement rather than a layoff), this voluntary attempt may lessen perceptions of a violated contract.

An integration of action control theory and the organizational justice literature suggests that for individuals with transactional contracts, the most salient violations will be those resulting from distributive injustice (Greenberg, 1990), and interactional injustices (Bies, 1987) may be discounted unless the discrepancy is very large. Procedural injustice in conjunction with distributive injustice would exacerbate the effect of distributive injustice and increase the likelihood of the individual adopting a state orientation. Similarly, for individuals with relational contracts, the most salient violations will be procedural and interactional injustices, and distributive injustices may be discounted unless the discrepancy is very large. Procedural injustice in conjunction with interactional injustice would be expected to compound the impact of the violation and result in a state orientation being adopted. Therefore, one would expect different responses to the violation of psychological contracts based on the type and size of the discrepancy depending on whether the psychological contract is primarily a transactional or relational contract.

Based on work by Robinson (1993), Figure 7.2 incorporates five potential employee responses to violation: (1) voice, (2) silence, (3) retreat, (4) destruction, and (5) exit. Voice is consistent with an action orientation involving attempts to maintain or reinstate the psychological contract. In contrast, silence, retreat, destruction and exit are more consistent with a state orientation, in which the employee attempts to survive contract violation by lowering perceived obligations of the employer, of themselves to the employer, or withdrawing from the employment relationship. Therefore, perceived distributive injustices under conditions of a transactional contract would result in voice responses which if unsuccessful would lead to silence, retreat, destruction, and eventually exit from the organization. Similarly, the perception of interactional injustices under conditions of a relational contract would result in voice responses which if unsuccessful would result in silence, retreat, or destruction; this is reflective of moving to a more transactional contract and potentially exit from the organization. However, if these perceptions were accompanied with procedural injustice or the discrepancies are large, then individuals may not exercise voice regardless of the type of contract but would be more likely to exercise silence, retreat, destruction, or exit. The limited research on violations of psychological contracts is consistent with this interpretation in that violations have been found to be negatively related to trust, organizational citizenship behaviors, employees' relational obligations, and employee withdrawal behaviors (Robinson et al, 1994; Robinson & Morrison, 1993; Robinson & Rousseau, in press).

CONCLUSIONS

Although contracts have received limited attention in the organizational behavior and human resource management research literatures, they are a very important element of the employment relationship. And yet, organizations may make strategic business decisions which result in serious contract violations often without an awareness of the implications for organizational viability. Although organizational justice provides some understanding of the dynamics of these strategic decisions in relation to employees, an element which has often been neglected is the type of psychological contract under which individuals are operating.

In Sutton's (1990) work on organizational decline processes, he discussed work force reduction in terms of both short- and long-term effects. He suggested that employees at all levels will experience anxiety and stress; lower level employees because they fear loss of jobs, higher level employees (managers) because they make the decisions about layoffs, transfers, and demotions. Psychological contracts, which provide employees with a sense of predictability and control, represent a means of explaining employee reactions to these types of organizational events. That is, both employees and managers recognize the loss of control and trust inherent in breaking long standing contracts. Further, the damage that work force reductions have on implied contracts (e.g. job security for tenure and loyalty) has been established in a number of studies (Brockner, 1988; Brockner et al, 1987; Rousseau & Anton, 1988, 1991; Rousseau & Aquino, 1993). Employees base their psychological contract in part on implied contracts, so that work force reductions, even when an employee is not directly affected, can do serious damage to the psychological contract.

Work force reductions and use of contract workers (Pearce, 1993) provide information to employees about the type of contract they have with the organization, as well as the likelihood of violation by the organization. Employees who feel that the organization has not carried out their obligations in important areas are likely to revise their contract substantially such that they may become poorer organizational citizens (Robinson & Morrison, 1993), and move to a more transactional contract with its focus on short-term specific obligations (Rousseau, 1989; Tsui et al, 1993). As such, substantial breaking of contracts may contribute to organizational decline at a time when the organization most needs the efforts of remaining employees. In a time of downsizing, layoffs, and early retirement incentives, understanding the meaning of the psychological contract and the role it plays in organizational success and failure is of paramount importance.

This raises the question as to why such limited research has been conducted on psychological contracts, given its potential impact on employees and organizations. One reason probably has to do with the individuality of the psychological contract. The issues that are incorporated into the contract, and the emphasis of these issues, are quite varied for individuals. A second reason may be that the psychological contract is not a static phenomenon, so that its meaning and impact may change and evolve over time, people, and situations. This makes it difficult to study and understand psychological contracts. Nonetheless, recent conceptual (Rousseau, 1989; Rousseau & Parks, 1993; Rousseau & Wade-Benzoni, in press) and empirical work (Robinson et al, 1994; Robinson & Rousseau, in press; Robinson & Morrison, 1993) provides direction for future research on the psychological contract. Based on this early research, it is clear that the psychological contract is an important organizational phenomenon which provides a basis for understanding the link between employees and their organizations.

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