

## Psychological and Implied Contracts in Organizations

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*Two forms of unwritten contracts derive from relations between organizations and their members. Psychological contracts are individual beliefs in a reciprocal obligation between the individual and the organization. Implied contracts are mutual obligations characterizing interactions existing at the level of the relationship (e.g., dyadic, interunit). Employee/employer relations and changing conditions of employment give rise to issues not addressed in conventional transaction-oriented models of motivation and individual responses. The development, maintenance, and violation of psychological and implied contracts are described along with their organizational implications.*

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**KEY WORDS:** employment relations; psychological contracts; implied contracts; at-will-employment; employment obligations.

"Promise is most given when least is said." (George Chapman, *Hero and Leander*, 1598)

### INTRODUCTION

Contracts are a mainstay in employment relations, establishing inducements and contributions basic to membership in an organization (Barnard, 1973). Whether written or oral, contracts are promises made in exchange for some compensation and are enforced, or at least recognized, in law (Farnsworth, 1982; Murray, 1974). Colloquially, we speak of good faith attempts to implement promises as "proceeding contractually," but such efforts are no guarantee that parties to an agreement will believe that its terms have been honored. Subjectivity is inherent in all contracts.

This article explores the operation of two specific types of contracts where subjectivity is a key attribute: implied and psychological contracts. At issue is the nature of these contracts, their development and evolution, maintenance and violation. Both implied and psychological contracts have important roles in employee/employer relations and in organizational research and theory. The distinction between these forms of contract and their links to other organizational constructs are explicated here.

The constructs of psychological and implied contracts are developed through the discussion of (a) the role of subjectivity in contracts, (b) psychological and im-

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plied contracts as issues of organizational level and point of view, (c) specification of processes underlying psychological and implied contracts and links between them, (d) violation of these contracts, (e) discussion of their role in organizational research, and (f) development of hypotheses for future research.

## ORIGINS OF SUBJECTIVITY IN CONTRACTS

The subjectivity of contracts is an ancient issue. As the owner of a vineyard discovered in one Biblical parable, expectations vary and can change as a result of events occurring after the initial agreement:

... [T]he owner of an estate... went out at dawn to hire workmen for his vineyard. After reaching an agreement with them, he sent them out to his vineyard. He came out about midmorning and saw other men standing around the marketplace without work, so he said to them, "You two go along to my vineyard and I will pay you whatever is fair..." Finally, going out late in the afternoon he found still others standing around. To them he said, "Why have you been idle all day?" "No one has hired us," they told him. He said, "You go to the vineyard too." When evening came the owner of the vineyard said to his foreman, "Call the workmen and give them their pay..." When those hired late in the afternoon came up they received a full day's pay, and when the first group appeared they supposed they would get more; yet they received the same daily wage. Thereupon they complained to the owner... "My friends," he said in reply, "I do you no injustice. You agreed on the usual wage, did you not? Take your pay and go home. I intend to give this man who was hired last the same pay as you... Thus the last shall be first and the first shall be last." (Matthew 20: 1-16).

From the workers' perspective they have been inequitably treated; from the owner's viewpoint, "a deal is a deal." Over the millennia in which this passage has been read, readers have construed a promise (of afterlife and redemption) no matter when "one sees the light." This parable expresses the issues of equity, psychological contracts, and implied contracts with which this essay is concerned.

For a variety of reasons, parties to a contract, written or otherwise, can have very different perceptions regarding its terms. The way in which promises are expressed might itself be fragmented (MacNeil, 1974, p. 726). A new car warranty might specifically guarantee against only mechanical defects, though dealerships might also cover the exterior trim when customers complain of problems. Customers themselves might assume that the postsale work commissioned through the dealership is also warranted by the dealer, though the dealer may believe otherwise. Similarly, if a promotion is promised for satisfactory performance, those factors constituting both promotion or good performance can be viewed quite differently by employee and employer. Cognitive limits and different frames of reference make it impossible to focus on every element in such a complex social interaction (Farnsworth, 1982). Cognitive limits affect the matters addressed in overt promises, and frames of reference affect their interpretation.

Though subjectivity can occur in written and oral agreements, it is intrinsically a part of any agreement arising out of a relationship or interaction over time between parties. Despite existence of written contracts specifying wage rates and other forms of remuneration, employees of long standing can believe there is more to their job than just the money they make, just as a spouse might think there is more to a marriage than the obligation of financial support. Such relationship-based agree-

ments go beyond economic exchange, committing parties to maintaining the relationship (e.g., staying together, continuing employment) and provide for some form of exchange (e.g., hard work, loyalty), often indefinitely. Service-oriented manufacturers who provide customers with product support in addition to equipment by promising to stand by their product, repair it, and even train the client to use it, often do so without a written agreement. Where interactions occur over time (e.g., in employee-employer or vendor-client relationships), and continued interaction over time is expected, beliefs regarding what parties owe each other can arise both from overt promises (e.g., of service or loyalty) as well as through numerous factors that the parties may take for granted (e.g., good faith or fairness) (MacNeil, 1985).

Trends in law appear to support enforcement of nonexplicit or implied agreements, recognizing that relationships increasingly are becoming the dominant form of economic activity and planning in modern society (MacNeil, 1974, p. 763). Given the technological complexity of contemporary organizations, it is unlikely that a written contract could be drafted to cover all the performance requirements of a person who will work for an employer for 30 years or for a government contractor on a five-year high technology weapons system project. Along these lines, Williamson (1979, p. 238) argues that the pressures to sustain ongoing relations between contract parties (e.g., to develop and fully implement a new technology) have progressively increased the duration and complexity of written contracts.

Interjection of relational issues into contractual agreements means that both the promise itself and the contributions (in legal terms the "considerations") exchanged might be even less overt and more idiosyncratically interpreted or understood than where terms are detailed in writing. Thus, fragmentary promises, cognitive limits, divergent frames of reference, and the formative nature of relationships combine to make relation-based agreements highly subjective. This article proposes two inter-related forms of contract where nonexplicit and relationship-derived expectations exist: psychological and implied contracts.

### **PSYCHOLOGICAL AND IMPLIED CONTRACTS: A DIFFERENCE OF LEVEL AND POINT OF VIEW**

Increasingly, relevance of contractual issues within and between organizations suggests a need to explicate the role of subjective contracts in organizational research and theory. The subjectivity of contracts from each party's perspective underlies MacNeil's (1985) observation that all contracts (written or unwritten) are fundamentally psychological, existing in the eye of the beholder. The term *psychological contract* refers to an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that 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. As one manager terminated in a restructuring put it, "I worked weekends and stayed inside the plant to protect it during strikes" . . . jobless . . . bitter . . . (he says) "I never perceived not retiring from here (Hirsch, 1987, p. 75)."

In organizational research, the typical parties to a psychological contract are viewed to be the individual employee and the organization (Argyris, 1960; Levinson,

1962; Schein, 1980). *Implied contract*, on the other hand, is a mutual obligation existing at the level of the relationship (e.g., dyadic, interorganizational). Unlike psychological contracts, which are subjective perceptions held by individual parties to a relationship, implied contracts are patterns of obligations arising from interactions between parties (e.g., individuals and organizations) that become part of the social structure of which the relationship is a part (e.g., legal, cultural). Such implied contracts are often inferred by courts and by the general public to have arisen in the context of long-term employment. In the eyes of many, long-term employment gives rise to mutual obligations of loyalty, requiring employees to work hard in the interests of their employer and the employer to retain employees whenever possible and provide for them when not (Rousseau & Anton, 1988a, 1988b). Implied contracts reside in the social structure in which the relationship occurs (e.g., as reflected in trends away from at-will employment and toward job property rights) and can change with that social structure. Implied contracts can be assessed by observers to a relationship (e.g., third parties, courts, the public).

Psychological and implied contracts are different in that they exist at different levels (i.e., individual versus relational) and because psychological contracts are highly subjective and parties to a relationship need not agree, whereas implied contracts exist as a result of a degree of social consensus regarding what constitutes a contractual obligation. Building on the literatures of implied and psychological contract, the framework proposed here differentiates psychological contracts perceived by a focal person from implied contracts identifiable by observers.<sup>2</sup>

### Psychological Contract

When an individual perceives that contributions he or she makes obligate the organization to reciprocity (or vice versa), a psychological contract emerges (Fig. 1). Belief that reciprocity *will* occur can be a precursor to the development of a psychological contract. However, it is the individual's belief in an *obligation of reciprocity* that constitutes the contract. This belief is unilateral, held by a particular individual, and does not constrain those of any other parties to the relationship. Certain factors promote the individual's belief that a contract exists. If an overt promise is made (e.g., a commitment to computer training for a new hire made during a selection interview), the more explicit and verifiable it is (e.g., in writing or in front of witnesses) the stronger will be the belief in the existence of a contract. In accordance with social information processing theory (Salancik & Pfeffer, 1978), overt and public commitments exert more influence on cognitions and behavior than subtle or private ones.

Belief in a contract is also enhanced when a promise precedes rather than follows an employee's contribution. As individuals make attributions about the underlying causes of their own behavior, the promise of a raise for hard work before the

<sup>2</sup>This framework is developed from the organizational concepts of psychological and implied contracts as described by Argyris (1960), Schein (1980), and Weick (1979), among others. It eschews any direct link to legal practice, but rather builds on such legal concepts as relational contracts (MacNeil, 1985) to provide insight to issues surrounding implied and psychological contracts in applied behavioral research.

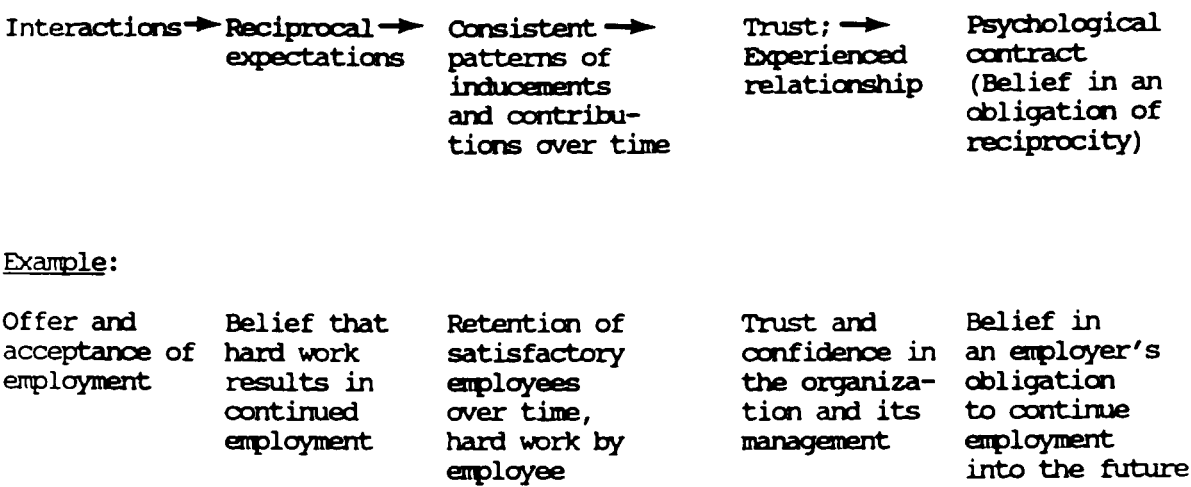


Fig. 1. Development of an individual's psychological contract.

employee exerts effort is more likely to be construed as motivator or cause of that effort than is the promise of a raise given *after* the fact (consistent with Nisbett and Ross's (1980) treatment of the effects of availability of event relationships upon causal explanations, pp. 21-23). Of course, failure to honor a promise made after the fact can have an impact on trust and expectations of future rewards. But all promises are not contractual as contracts are construed. Only those preceding the employee's efforts or contributions constitute a contract (Farnsworth, 1982). In any case, the more stable and consistent are the organization's requests and promises, the more likely it is that the employee forms an unambiguous and consistent perception of his or her obligations and entitlements (Rousseau, 1988).

Policies creating "permanent employees" after a 90-day trial period, a public image as a stable employer, and organizational commitments to reward loyalty and hard work with indefinite employment can send a message of reciprocal obligations to employees and create a relationship between the organizations and the individual (Leonard, 1983; Lorber *et al.*, 1984). The longer the relationship endures, with repeated cycles of contribution and reciprocity, the deeper the relationship the employee perceives and the broader the array of contributions and inducements that might be involved. In the context of a termination following corporate restructuring, a twenty-year veteran employee asks, "How many hours is eight per day for fifty-two weeks times twenty years? (Hirsch, 1987, p. 94)." What obligations has the employer incurred in the eyes of that veteran trying to fathom the meaning of the contributions he had made?

The concept of a psychological contract is tied to the individual's commitment to the organization. Commitment has been characterized by three factors: Acceptance of the organization's values, willingness to exert effort on behalf of the organization, and desire to remain an employee (Mowday *et al.*, 1982, pp. 26-28). Clearly, this view of commitment describes an individual's beliefs about a relationship; however, from a psychological contract perspective, it is in one sense too limited and in another too broad. Commitment does not address issues of reciprocity or obligation, and at the same time involves an acceptance and internalization of the organization's values that need not be part of a psychological contract. An individual might feel obligated to give an employer notice upon leaving the firm, and yet reject its

values and goals. She or he might in fact be leaving *because* personal commitment to the firm is lacking.

Note that this conceptualization of a psychological contract focuses on the *employee's* experience. Individuals have psychological contracts, organizations do not. 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.

Psychological contracts are also distinct from norms of reciprocity. Societally, norms of reciprocity, where people help those who have been helpful to them, have been described as universal (Gouldner, 1960), and are basic to sociological models of exchange (Homans, 1958). The construct of a psychological contract evolves from the value people generally place on reciprocity. However, an individual's belief in a psychological contract is more than espousal of a social norm. It is an individual's belief that a promise of future return has been made, a consideration or contribution has been offered (and accepted), and an obligation to provide future benefits exists. Gouldner (1960) argues that equivalence of return to both parties is not an issue in social norms of reciprocity. In a psychological contract, consistency between what is promised (or understood) and what is received *is* an issue.

### *Treatment of Psychological Contracts in Organizational Research*

In organizational research and theory, the term "psychological contract" has been generally used to refer to unwritten expectations that operate between employees and managers (Argyris, 1960; Levinson, 1962; Schein, 1980). Often described as part of the "joining up" process, these expectations vary in explicitness and can develop over time as organizational roles change or as the individual matures and develops different needs (Schein, 1980). To Schein, the psychological contract is entered into by both individuals and organizations. It is reciprocal, dynamic, and must constantly be renegotiated, though Schein does not elaborate on the content of these negotiations. Though unwritten, the psychological contract is described as a powerful determinant of behavior in organizations (Schein, 1980, p. 24). Building on the notion of a psychological contract as reciprocal expectations, Nicholson and Johns (1985) define psychological contract as part of an organization's culture. In their framework, psychological contracts emerge from interactions and communications with the organization and dictate how culture is acted out (p. 398). The latter point is somewhat tautological in that if interaction and communication themselves derive from culture, psychological contract should be a product of culture and not a cause. Moreover, an individual alone cannot have a culture; rather, it is a phenomenon associated with social units. It is likely then that although the concept of a psychological contract is typically treated as individual level, Nicholson and Johns (1985) are describing contractual issues at a higher level of analysis (see the discussion of implied contract below).

The concept of a psychological contract tends to be treated by organizational scientists as part of the set of normative beliefs associated with organizational cul-

ture and rewards (Schein, 1980; Nicholson & Johns, 1985). Normative belief is a component of a psychological contract in that certain actions are believed to be particularly appropriate, while others are not. However, only those normative beliefs involving *obligations of reciprocity* are contractual. Employees expecting a pay check on Friday for work done throughout the week have expectations in the sense of the performance-outcome (P—O) term in expectancy models, which take on a contractual character when services rendered constitute the consideration. But using the terms of an expectancy model, only those P—O contingencies that are established *a priori* are contractual (e.g., when a commitment is made to follow performance with a particular reward). It might also be argued that rewards given on a random basis or in some way inconsistently are less likely to be perceived as contractual than rewards that regularly follow performance.

Equity theory (Adams, 1965), with its notions of exchange and fairness, is important to understanding psychological contracts. Equity theory deals with expectations in a more general sense than does the psychological contract—although psychological contracts might be viewed as a special case of equity theory. Equity-based expectations derive from social cues as well as internal standards of fairness. Employees who believe they should have more responsibility (or less) or make more money than their next-door neighbor have expectations, but not necessarily a psychological contract. Reciprocal expectations involved in a contract imply that one party believes his or her actions are bound to those of another. An individual might feel dissatisfied with pay and yet need not believe that the employer has an obligation to give a raise.

The experience of inequity is distinct from that of contract violation. When unmet, expectations result progressively in dissatisfaction, cognitive manipulation of perceived inequities, and behavioral adjustment (e.g., turnover, reduced performance, Adams, 1965). However, when inequities are perceived, equity can be restored by increased wages, a change of job duties, or by some other corrective action. Though individuals do withdraw from relationships because of inequity, equity theory argues that withdrawal is typically a last resort. Inequity can be remedied; contract violation, which causes mistrust, cannot be so easily repaired. An individual paid less than market rates might feel inequitably treated; one who was promised a raise for hard work and fails to get it is likely to feel wronged.

It is inappropriate, however, to draw a sharp distinction between model of equity and psychological contract. A blurring of the distinction between the two occurs when inequity arises in the context of a relationship. Shortly before his death, Adams was working on a revised model of equity where relational issues played a part. He acknowledged that *responses* to inequity vary by context:

A man is cheated in a poker game, in one case by a stranger, in the other by a buddy . . . The act of the stranger elicits anger and instant demand for restitution, perhaps with appeal to the other players. The anger is simply the anger of unfair transactions. But the experiential quality of being cheated by a friend has strong components of hurt, bitterness, and betrayal [emphasis added]: "He is not my buddy after all." The overt response, in part because it would be public, would be less obviously emotional than in the first case, less likely to demand restitution, and more likely to result in severing an existing social relationship. (Adams & Freedman, 1976, p. 46)

Relationships interject a deeper emotional component to the experience of inequity. When promises and considerations have been exchanged in the context of

a relationship (e.g., employment), the cognitive and emotional experience of inequity is arguably more complex still.

In sum, psychological contracts are characterized by (a) an individual's belief(s) in reciprocal obligations between that individual and another party, (c) where one party has paid for or offered a consideration in exchange for a promise that the other party will reciprocate (i.e., fulfill its promise), (d) where both the promise and the consideration are highly subjective (i.e., existing in the eye of the beholder, the individual), and (e) where nonetheless, the individual holding a belief in a psychological contract attaches to this belief assumptions regarding good faith, fair dealing, and trust, treating this contract as part of the larger fabric of the relationship between the parties.

### *Violation of a Psychological Contract*

The workings of psychological contract are perhaps best understood by examining what happens when a psychological contract is violated. Breaking a contract means not honoring its terms. Violating a psychological contract is failure of organizations or other parties to respond to an employee's contribution in ways the individual believes they are obligated to do so. Long-standing employment with an organization, enduring low wages in anticipation of keeping a job, and developing organization-specific skills that might inhibit employability elsewhere are also factors that can contribute to belief in an obligation of organizational reciprocity. Failure to meet the terms of a psychological contract produces more than just unmet expectations. It signals a damage to the relationship between the organization and the individual. Underlying a psychological contract is *trust*, which develops from a belief that contributions will be reciprocated and that a relationship exists where actions of one party are bound to those of another. A damaged relationship is not easily restored.

If a person robs a bank and is caught, giving the money back is not typically treated as sufficient compensation to restore the robber to the good graces of society. The damage done constitutes more than simply the money taken. Similarly, violation of a psychological contract subjects the relationship between employee and employer to a form of trauma where the factors that led to emergence of a relationship, such as trust and good faith, are undermined. Restoration of the relationship involves the reestablishment of trust, possibly through a repeat of the process that initially created the relationship.

The expectations that comprise psychological contracts differ from those involved in the transactions specified in the equity model in that psychological contracts involve an element of trust, a sense of relationship, and a belief in the existence of a promise of future benefits that one party has already "paid for" (reciprocal obligations). Responses to perceived violation go beyond perceptions of inequity and dissatisfaction to involve feelings of betrayal and deeper psychological distress. Perceived inequity leads to dissatisfaction and perhaps to frustration and disappointment. Perceived contract violation yields deeper and more intense responses, akin to anger and moral outrage (Averill, 1979; Bies, 1987; Steil *et al.*, 1978).

When a party in a relationship believes that the other has violated an agreement (implied or explicit), the "victim" experiences anger, resentment, a sense of in-

justice, and wrongful harm. The intensity of the reaction is directly attributable not only to unmet expectations of specific rewards or benefits, but also to more general beliefs about respect for persons, codes of conduct, and other patterns of behavior associated with relationships involving trust. Consistent with Barnard's (1973, p. 142) broad view of organizational inducements, psychological contracts involve both the general inducements found through organizational membership (e.g., usefulness, loyalty) as well as specific incentives (e.g., money). The model of psychological contract described here postulates that the outcome of contract violation is an intense reaction of outrage, shock, resentment, and anger, similar to that described by Cahn (1949) in his treatment of injustice. These hot feelings suggest uncontrollability, a quasi-irreversible quality where anger lingers and "victims" experience a changed view of the other party and their interrelationship (Bies, 1987).

The modern phenomenon of the "litigation mentality," where people tend to take complaints against others to court, might itself derive from the legalistic thinking that psychological contracts reflect. An increasing sense of entitlements (Leonard, 1983) coupled with greater reliance on relationships (Williamson, 1979) can make psychological contracts more prevalent. Since such contracts are perceived as mutual obligation, contract violation *costs* the injured party (e.g., security, lost wages) and is likely to lead to attempts to recoup losses. Thus, contract violations can be perceived as creating liability for damages. In this sense, perceived contract violation differs from perceived inequity in pay, promotion, or other inducements addressed by equity theory in that psychological contracts more often involve possibilities of legal recourse.

Clearly, there are substantial links between a belief in reciprocal obligations and fairness. In a broad sense, fairness is the extent to which conditions are just, equitable, and impartial (Oxford English Dictionary, 1971). As Eccles (1985) argues, "In contractual contexts, fairness refers to the parties' perceptions of the extent to which the contract has been fulfilled" (p. 153). But unfairness, as in the case of inequity, does not necessarily imply that a contract is violated. It is actions inconsistent with the belief in a reciprocal obligation that creates a perception of violation.

### **Implied Contracts: In the Eye of the Observer**

Although a psychological contract is by definition a perception by an individual, an implied contract (Fig. 2) is a mutual obligation characterizing a relationship.<sup>3</sup> The relationship can be dyadic, interunit, or interorganizational. Implied contracts involve exchange, often over time, binding the actions of one party to those of the other, and can bind both parties to the relationship itself by making exit costly. Seniority in employment is perhaps the best organizational example involving investments both

<sup>3</sup>Note, however, that no assumption is made regarding the isomorphism of implied and psychological contracts. An individual-level psychological contract does not necessitate an implied contract, though implied contracts do tend to give rise to individual beliefs in reciprocal obligations (psychological contracts). Hence, this framework constitutes a cross-level model in the sense defined by Rousseau (1985). Although economists have addressed employment contracting (e.g., implicit contracts, Mayers & Thayer, 1979; idiosyncratic tasks and internal labor markets, Williamson, 1975), the concept of an implied contract described here focuses on the behavioral and psychological aspects of relationship-based contracts.

organization and member make in each other over time and the opportunity costs each incurs along the way.

Although individuals possess psychological contracts, it takes the actions and reactions of two parties to create an implied contract. Weick's (1981) notion of an "implicit contract" (p. 100) clearly operates at the relational level and has features comparable to the treatment of implied contracts presented here. Arguing that mutual prediction creates a dyadic relationship, Weick argues that when each party can predict what the other will do in response to an action, a contract emerges in that each will continue to behave and reciprocate in a specific way. That a firm has never laid off an employee during economic slowdowns and its employees remain loyal and hard-working even when the workweek is reduced, reflects a contract to continue to do so, in Weick's framework. What we refer to here as an implied contract, then, involves mutual predictability which makes reciprocity possible and provides a basis for trust that can sustain a relationship. Implied contracts thus involve shared norms of behavior and expectations for the future. Building on Weick's notions of contracts emerging out of mutual predictability (and expectations that past patterns of interaction will continue), we argue that contracts at the relational level need not involve comprehension of motives or intentions. The contract arises from past practices or commitments that promise continuity in the future. While parties can have different subjective experiences of the contract (different psychological contracts), observers who are not parties to the relationship (e.g., general public or prospective employees) can infer an implied contract from these patterns and practices. Those observers can also make predictions regarding likely future patterns of interaction between employee and employer (as reflected in the reputation of firms such as IBM or Hewlett Packard as employers). Moreover, we postulate that observers are also likely to be able to report accurately upon those attributes of the relationship that all parties to it tend to subjectively agree upon (e.g., its duration, stability, and consistency).

Acquiescence is another dimension of implied contract. Though predictability seems rooted in overt actions and reactions (Weick, 1981), implied contracts can, under certain circumstances, emerge from silence or passive response. Acquiescence is the acceptance of contributions from one party beneficial to another where the facts of the situation imply that the beneficiary was aware: "One who sees a party wall being built by his neighbor on their common boundary line, knowing that the neighbor expects to be reimbursed on half of the cost, is bound to pay, therefore, if he afterwards makes use of the wall . . . ." (Corbin, 1952, p. 121). An employee who is receiving costly and voluntary training from the organization, though he or she has an offer from the employer's competitor, can be a party to an implied contract to decline such an offer. An organization that repeatedly accepts the unpaid voluntary overtime work of a dedicated employee can develop an implied contract (of reciprocity) for that individual, though one might be lacking with a less dedicated worker. An organization that repeatedly accepts substandard contributions from a member, all the while paying market wages for those services, can also be party to an implied contract, in this case both of passive acceptance of substandard work and the development of a predictable (and therefore expected) pattern of pay for this work. Acquiescence sends a message of acceptance, and can in time become the mutually expected and externally predictable response.

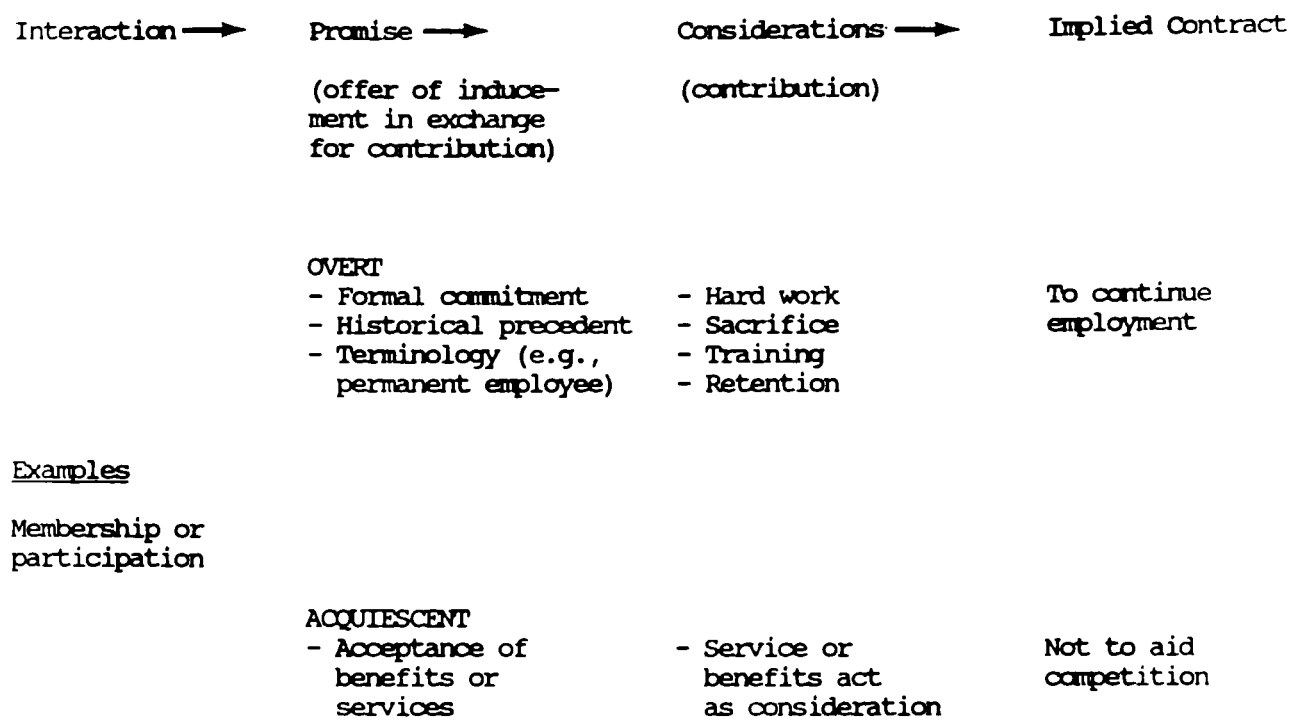


Fig. 2. Development of an implied contract.

Implied contracts characterize and operate at the level of relationships. Although the parties involved might hold common expectations, they need not agree on the contract's specific terms for mutual obligation and patterns of reciprocity to exist. Terms of the contract can be inferred by an observer to the relationship, as well as by the participants. As Weick (1981) notes, there need not be mutual understanding on the part of the parties for mutual prediction and characteristic interaction patterns to occur. Courts reviewing conditions of employment, organizational commitments, and employee contributions infer implied contracts from historical evidence (Oliver, 1982). Accounting and marketing researchers identify implied contracts between principals and agents based on patterns of behavior (e.g., Baiman, 1982).

Though party to the same pattern of interactions that yield the implied contract, a participant in the relationship can possess his or her own beliefs regarding the obligations involved. In effect, each participant possesses his or her own individual psychological contract. The more comparable are their psychological contracts, of course, the lower the conflict, the more stable the relationship, and the greater the likelihood that the relationship will continue. Different psychological contracts—that is, divergent perceptions regarding obligations, promises, and commitments—can lead, in time, to unpredicted reactions and less acquiescence, which undermine the implied contract. It might, therefore, be postulated that when parties to a relationship hold similar (individual-level) psychological contracts, this can make an implied contract more stable and predictable.

Ironically, those factors that make relationships important parts of organizational life make implied contracts difficult to observe, enforce, or study. Unlike transactions, contracts based upon relationships are often dynamic rather than static and can involve both inferred and explicit promises, based on past patterns of exchange and acquiescence. Legal enforcement of implied contracts requires tangible evidence, especially regarding the history and context of the relationship, often difficult to pro-

vide under conditions of change and subjectivity. Moreover, researchers examining implied contracts in employment and other organizational relationships must address the emergent character of implied contracts. Such contracts often require historical analysis to capture the pattern of interactions which contracts reflect.

### *Attributes of Relationships Affecting Implied Contracts*

The nature of the relationship affects the implied contract. The breadth and scope of the contract increase with that of the relationship and are especially affected by two attributes of the relationship: duration and inclusion. Duration is the relationship's time frame, which broadens the scope of the contract by increasing opportunities for interaction and exchange. Since relationships of long standing can preclude formation of other associations, duration creates opportunity costs to both the organization and its members that expand what the parties expect from each other. Inclusion, the degree to which individual participants are involved in this relationship as opposed to others (e.g., part time/full time, high/low individual job involvement), can affect how much parties expect and possibly need from the relationship. Individuals who work full time and who are otherwise highly involved in the work role (e.g., having seniority or organization-specific training) might well expect and receive more forms of gratification or compensation than a paycheck. Their employer could require more sacrifices (e.g., transfers) and contributions (e.g., extra hours) in exchange for the opportunity costs it bears by continuing to employ these individuals (e.g., loss of opportunities to employ younger, less expensive labor). Concern with implied contracts is evident in the increasing use of part-time employees and independent contractors as a means of avoiding making commitments to organizational members that are difficult to keep during recessions and economic slowdowns ("More companies use free-lancers . . .," 1986). Reduced inclusion can mean a reduction in scope or even the absence of implied contracts.

In sum, implied contracts are characterized (a) as patterns of interaction (b) between parties to a relationship, (c) where repeated cycles of exchange (e.g., goods, services, sacrifices) occur, and (d) as observable to outsiders (e) who can predict what actions the parties are likely to take in reaction to each other. In addition, (f) implied contracts are made more stable and unchanging when individual parties share complementary beliefs regarding their individual psychological contracts (but mutuality is not required).

### *Violation of Implied Contracts*

As in the case of psychological contracts, understanding of the workings of implied contracts can be enhanced by examining their violation. Implied contracts are violated when established patterns of interaction are changed in ways inconsistent with the nature of the relationship. If in the history of the relationship there has been openness or commitments of continuity, these constitute established patterns. Likewise, if there has been conflict, as in the case of many union/management relationships, that is the established pattern of interaction. Although some violations might in fact be attempts to strengthen or improve the relationship (where the likelihood

of negative responses is less), as in the case of firms seeking to involve union members in quality control circles, these nonetheless involve inconsistencies with contract terms. Changing patterns of interaction in ways inconsistent with the nature of the relationship is a violation. With violation of implied contracts, a relationship is jeopardized and might not easily be restored.

Employees who aid a firm's competitors or who misappropriate funds and resources are not likely to be treated as trustworthy in the future and are likely subjects of termination. Similarly, employers who fail to honor public commitments regarding job security or promotions as stated by managers or by personnel handbooks are unlikely to be trusted by employees who remain. Moreover, in such cases there are observable actions on the part of the parties involved that indicate both the nature of the contract and the violation of its terms. The phenomenon of survivor guilt (Brockner, 1988) among individuals who survive a layoff of their co-workers might illustrate the effects of contract violation: Survivors work harder to keep their jobs, but cease to believe what the firm tells them about its policies or intentions. Mutual predictability has been lost.

Restoration of the relationship can involve the reestablishment of stable patterns of interaction over time, often accompanied by active efforts at open communication. Surprise threatens relations between employee and employer because stability is so important to predictability and trust. Organizations using advance warnings and open communication to deliver bad news (e.g., of plant closings or layoffs) are likely to experience less erosion of their relationship with employees (Bies & Moag, 1987).

### Connections Between Implied and Psychological Contracts

Quite obviously, there is a link between implied and psychological contracts. The pattern of interactions that constitutes an implied contract at the relational level leads individuals to perceive a psychological contract, the terms of which might be idiosyncratic to each individual. One person can come to view a modest level of performance as fulfilling his or her obligation to the employer, while another feels obligated to make extrarole contributions as well, though each could be a party to the same implied contract. Similarity in each party's psychological contract is likely to be a function of duration of the relationship and interaction with other individuals who share that relationship. Interaction might play a similar role in creating consensus among psychological contracts, as it is postulated to do in the emergence of collective climates (Joyce & Slocum, 1984). Nonetheless, psychological contracts are individual-level. Agreement between members of the same organization regarding psychological contract terms can help to strengthen their relationship with their employer and facilitate the emergence of an implied contract.

Another distinction between psychological and implied contracts lies in their violation. Since a psychological contract is a perception of reciprocal obligations where the individuals perceive they have done *their* part, individuals whose psychological contract has been violated feel let down and betrayed. In contrast, an implied contract is a predictable pattern of interaction involving a stable relationship. Its violation brings loss of predictability. Both forms of violation can lead individuals involved to experience mistrust and loss of a particular relationship. But an implied contract

violation changes the overall character of the relationship. It can signal the end of a relationship, as in the case of terminations of long-standing employees. Alternatively, it might transform the relationship, as in introduction of the two-tiered wage and employment systems at United and Hewlett Packard or use of independent contractors (Pfeffer & Baron, 1988). Changes to the employment relationship are observable by third parties, including the courts (Heshizer, 1984), researchers (Baiman, 1982), and the general public (Rousseau & Anton, 1988a).

### **The Role of Psychological and Implied Contracts in Organizational Research**

The concept of a contract between individuals and organizations involving non-articulated understandings has existed in organizational science for decades (e.g., Argyris, 1960). Economists also have given considerable attention to contractual issues in organizations (e.g., Williamson *et al.*, 1975). However, these concepts have played little role in research on individual behavior in organizations despite use of the terms in conceptual writings on socialization (e.g., Schein, 1980). There are many reasons why this should change.

Population demographics make relational issues increasingly important. The work force is aging (U.S. Bureau of the Census, 1984). With age comes increase in the duration of employment for the average employee. As this paper has argued, the longer the period of membership in one organization, the more likely it is that individuals perceive obligations of reciprocity (psychological contracts) and that their behaviors and attitudes are affected by these perceptions. We therefore expect to see more and more individuals who perceive a psychological contract with their employer and more employment relations which require the concept of implied contract to understand and manage them.

Declining unionization of the U.S. labor force contributes to reliance on contractual agreements between the organization and the individual employee rather than a group of employees. Though union contracts are becoming less common, written contracts in employment are not. In response to the erosion of at-will termination, organizations are moving to written contracts at hire that protect their right to terminate employees at will (Copus & Lindsey, 1985; Oliver, 1982). However, such contracts are less extensive in their terms and leave more conditions of employment open for negotiation than is the case with union contracts (Leonard, 1983). Thus, implied contracts might be increasingly important in the organization-member relationship.

From a behavioral perspective, psychological contracts play a widely ignored role in employee motivation. Research on equity and expectancy models of motivation typically has had a transactional quality where inducements and contributions are treated in a short-range fashion. Whether one is rewarded systematically or at the level expected certainly affects performance and attitudes following administration of the reward. But the longer-term consequences for membership and contribution to the organization are not directly addressed in transaction-oriented research. Moreover, individual responses to organizational events, job changes, pay cuts, managerial succession, and other changes involve expectations not typically considered in current models of motivation: beliefs regarding the existence of obligations and relationships.

The concept of psychological contract also makes salient the issue of violation and its consequences for the employee's well-being and outlook. A class of dependent variables describing intense emotional reactions to stressors such as job loss, being passed over for promotion, or other major career setbacks can in fact reflect reactions to psychological contract violation. The description of psychological contract presented here suggests that hot feelings are an important set of responses in organizational research, and may in fact occur more frequently than previously thought, especially when issues of unmet obligations arise—a conclusion supported by research on anger (Averill, 1979; Tavris, 1982).

Current interest in the role of organizational culture on the part of both researchers and practitioners suggests changing views of organizational membership. Miles and Snow (1980) differentiated two basic strategies of employment linked to organizational culture: Make or buy. Firms that buy their employees pay market rates to get individuals with specific skills to be used immediately. Such firms would be expected to emphasize explicit promises and rely on transactions with employees as a motivational strategy. Make-oriented firms hire most of their employees at entry-level and train and socialize them to organization-specific practices. Those organizations seeking to manage through a strong corporate culture typically use make-strategies of employment. Make-strategies emphasize long-term employment and escalating returns to the employee as tenure increases. Typically, employees are expected to commit to organizational values, especially in those organizations that compete based on customer service (Peters & Waterman, 1982). Make-oriented organizations, and especially those with strong corporate cultures, would be expected to employ fairly elaborate implied contracts in their relations with employees. Buy-oriented firms, and especially those with weak corporate cultures, are less likely to be characterized by implied contracts in their employment relations. Make-oriented organizations would tend to place greater emphasis on managing and honoring implied contracts.

The potential link among make versus buy strategies, culture strength and implied contracts has implications for the generalizability of motivational models. One might postulate that transactional models of motivation, such as expectancy and equity theory, would be more likely to predict behavior and attitudes in buy-oriented firms and in those organizations with weak cultures. Implied contract issues might have more impact on the responses of members in make-oriented and strong culture organizations.

### **Hypotheses for Future Research**

Relational issues increasingly characterize our complex society, where strong organizational cultures, unwritten contracts, and service-oriented corporate strategies are part of modern management styles (Rousseau, 1988). For both individuals and organizations, the nature and role of contracts in relations require explication. Based on the implications of psychological and implied contracts described above, the following hypotheses are proposed:

1. Psychological contract, that is, an individual's belief in reciprocal obligations, is associated with characteristics of the individual's position in the organization. Specifically, beliefs in the existence of psychological contracts are more likely to emerge

and to increase in scope with such position characteristics as seniority and job tenure. The effect of position on individual expectations has long been a concern in labor economics, as manifested in bumping rights (allowing high-seniority employees to take the jobs of lower-seniority individuals during reductions in force) and sticky wages (resistant to fluctuations in the economy) (Mayer & Thayer, 1979).

2. Psychological contracts occur in conjunction with extrarole behavior, such as citizenship (as discussed by Bateman & Organ, 1983) due to the high involvement in the employment relationship such behaviors reflect. Extrarole behaviors, therefore, are related to perceptions that the organization is obligated to reciprocate in some form. Rousseau and Anton (1988b), using a policy-capturing methodology, found that employee performance itself (not necessarily extra-role behavior alone) can affect implied contract obligations to retain the employee, regardless of any formal commitments to continue the employment relationship.

3. Perceived violation of a psychological contract produces intense emotional and attitudinal responses that go beyond perceived inequity. Moreover, the broader and more elaborate the contract, the more intense the individual's response to violation. Litigation is more likely to follow from violation of a psychological contract than from the more general experience of inequity. Kaufman and Stern's (1988) research on clients and customers involved in lawsuits indicates the extent to which violated agreements can yield intense emotional reactions prior to litigation.

4. Implied contracts develop in response to formal commitments organizations make to their employees, historical patterns of employee relations (e.g., a tradition of lifetime employment), and other manifestations of organizational employment practices. The importance of formal commitments and precedents regarding long-term employment is reflected in guidelines provided to managers for handling corporate downsizing and reductions in force (e.g., Benton, 1980). Recently, Rousseau and Anton (1988a) found that formal commitments can, in fact, bind the employer in the minds of third parties to an obligation to retain employees, even when there were business-related reasons for termination.

5. Implied contracts are expected to differ substantially across firms employing distinct human resource management strategies, consistent with the distinctions Miles and Snow (1980) make among types of employment relationships characterizing firms that train and develop their staff over time versus those that seek to acquire and make immediate use of employees with specific skills. Specifically, implied contracts, especially those involving long-term commitments, are more typical in make-oriented firms, whereas transactionlike arrangements and written contracts are more typical in buy-oriented firms.

6. Organizations characterized by strong cultures (i.e., high consensus among members regarding organizational norms and values) are more likely to be characterized by implied contracts in employment than are organizations with weak cultures. This hypothesis derives from the same processes operating in hypothesis 5, where organizations that develop, socialize, and retain people (make-oriented) are likely to have stronger corporate cultures, which themselves can give rise to implied contracts.

7. Parties to the same implied contract can possess divergent psychological contracts. However, the amount of consistency between psychological contracts of parties to the same implied contract (e.g., employees of the same organization) is expected to increase with seniority and job tenure and with interaction between the parties.

These two types of contracts are operationalized quite differently. Psychological contracts, as beliefs in specific reciprocal obligations held by one party to a relationship, exist in the eye of the beholder. These can be assessed directly through self-reported perceptions of contingent expectations (e.g., If I incur out-of-pocket expenses doing work for you, you will reimburse me.). Psychological contracts can also be inferred by investigating interdependencies between sets of expectations. Rousseau (in press) investigated the correlation between new recruits' perceptions regarding their obligations to their employer and beliefs they held regarding what their employer owed them in turn. Patterns of employee and employer obligations corresponded to two types of agreements: transactional (short-term and monetizable) and relational (open-ended and involving non-monetizable factors such as loyalty). These results suggest that theoretically meaningful types of psychological contracts might be identified empirically.

Implied contracts can be assessed by investigating historical patterns, precedents, and commitments (oral or written). Such contracts can be studied through archival and observational means. Policy-capturing methodology also appears to be useful in investigations of implied contracts. Rousseau and Anton (1988a, 1988b) used termination scenarios, varying levels of seniority, commitment of long-term employment, history, and other factors to gauge how third parties make judgments regarding employer obligations. Consistent and replicable patterns underlying obligation judgments were demonstrated.

## CONCLUSION

The changing nature of employment relations and of the work force itself argues well for the need to explicate the meaning and operation of psychological and implied contracts in employment. Unfortunately, after over two decades of use in organizational science, these concepts have been vaguely defined and virtually unstudied. The notions of psychological and implied contracts described here are an attempt to promote their consideration in organizational research and theory; these concepts highlight patterns of organization/person interaction not evident in more transactionally-oriented models.

A major implication of the arguments developed here is that changes in employment relations (in response to changing economic, political, and social forces) will be smoothest and most effective where relational and contractual issues are considered.

Employers seeking to institute reductions in force, wage cutbacks, or any new personnel policies altering the conditions of employment can do so more successfully when:

1. Existence of a relationship to employees is publicly acknowledged (i.e., that employment, especially for long-standing employees, is more than a business transaction);
2. Assessment is made (through interviews or questionnaires) of member beliefs in any reciprocal obligations, promises, and expectations for the future;
3. The employer communicates the value it places on maintaining its relationship to its employees. Here, principles of good faith and fair dealing apply,

including communication of bad news (e.g., of layoffs) early on in the process of change. Withholding negative information can damage the future relationship, especially with survivors and prospective future employees (Bies & Moag, 1987).

It has been argued that all change is hypocrisy, violating statements or promises made in past (March, 1971). Good faith efforts reduce the taint of hypocrisy in changing or renegotiating contracts of reciprocal obligations. The value of any new contract lies in the strength of the relationship on which it rests.

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