Creating psychological and legal contracts through human resource practices: A signaling theory perspective

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Abstract
Despite the surge in research on the psychological contract over the past two decades, there has been little integrative research that has examined psychological contracts in conjunction with legal contracts. We address this shortcoming by presenting a framework for understanding the differences between psychological contracts and legal contracts in the United States. This is done by presenting definitions and examples of psychological contracts (i.e., relational and transactional) and the two forms of legal contracts: (a) express (written and oral), and (b) implied (quasi-contract and promissory estoppel). In addition, by utilizing signaling theory [Rynes, S.L. (1991). Recruitment, job choice, and post-hire consequences: A call for new research directions. In M. D. Dunnette & L. M. Hough (Eds.), Handbook of industrial and organizational psychology, (pp. 399–444). Palo Alto, CA: Consulting Psychologists Press.], we describe the means by which human resource practices such as recruitment, training, performance appraisal, compensation, and employee handbooks can create psychological and legal contracts. We conclude by proposing directions for future research and implications for practicing managers.

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Over the past two decades the psychological contract has received a great deal of attention in research on organizational behavior (OB) and human resource management (HRM). The psychological contract is defined as the employee's beliefs regarding the promises of the reciprocal exchange agreement between the employee and organization (Rousseau, 1989, 1995). Most of the research on this topic has focused on the consequences of a broken psychological contract (Zhao, Wayne, Glibkowskis, & Bravo, 2007). In particular, research has examined the implications of psychological contract breach (PCB) on the attitudes and behaviors of employees (e.g., Johnson & O'Leary-Kelly, 2003; Robinson & Rousseau, 1994; Turnley & Feldman, 1999). The second most studied issue has been the content of the psychological contract (Conway & Briner, 2005). For example, content items can include: financial inducements (e.g., pay, overtime, subsidized health and fitness programs), family-oriented support (e.g., child care, spousal employment), and general support (e.g., promotion, training, benefits, loyalty, vacation leave) (Guzzo, Noonan, & Elron, 1994; Herriot, Manning, & Kidd, 1997; Rousseau, 1990). Recently research has begun to examine other issues associated with the psychological contract such as antecedents to PCB (e.g., Raja, Johns, & Ntalianis, 2004; Tekleab, Takeuchi, & Taylor, 2005) and mediators or moderators of the relation between PCB and workplace outcomes (e.g., Deery, Iverson, & Walsh, 2006; Suazo, Turnley, & Mai-Dalton, 2005). However, relatively little research has focused on the organizational factors that create psychological contracts. Therefore, the primary focus of this paper is the creation of the psychological contract.

In order to understand psychological contract creation it is necessary to understand the differences between a psychological contract and a legal contract. We argue in this paper that there is a great deal of confusion among many employees in the United States about the differences between psychological and legal contracts, and this confusion is due in large part to misunderstandings about what constitutes...
a psychological and legal contract. Understanding the differences is important because there are typically different consequences associated with each type of contract. For example, from an organizational perspective PCB typically leads to negative attitudes and behaviors (Conway & Briner, 2005; Zhao et al., 2007). However, in addition to negative attitudes and behaviors, the breach of legal contracts often results in grievances and lawsuits. Similarly, employees may have rights under legal contracts that are not available to them if the contract is merely psychological.

Despite the vast amount of research on psychological contracts, there is relatively little research on the factors that influence the creation of psychological contracts. Thus, we address this issue in the current paper by examining the impact of human resource (HR) practices on the creation of both psychological contracts and legal contracts in the United States. For instance, comments made by an interviewer about opportunities for permanent employment may lead applicants to perceive they have a psychological or legal contract with the organization. However, these perceptions may not be accurate. Likewise, employment manuals may imply permanent employment with statements such as “an employee can expect job security.” We believe that these HR practices may be harmful to both individuals and organizations. For example, if employees do not have an accurate perception of their psychological or legal contract with employers then they may assume they have a permanent job when in fact they do not. If these same individuals are laid off they are likely to perceive that their employment contract has been violated, and file a grievance or lawsuit against the employer. Similarly, employees who do not expect to be laid off may not be prepared for the negative consequences associated with job loss (e.g., loss of income, lack of skills needed to get another job). Thus, we believe that it would benefit both parties if employers took steps to ensure that employees have accurate perceptions of their psychological and/or legal contracts with organizations.

Given that HR practices may affect the accuracy of employees’ perceptions of psychological and legal contracts, the purpose of this paper is fourfold. First, we will consider the differences between psychological contracts and legal contracts in the United States. Second, we will review the existing research on the antecedents of psychological contracts. Third, we will discuss the extent to which HR practices signal individuals’ perceptions or misperceptions about their psychological or legal contracts. Finally, we will consider the implications that the relation between HR practices and perceived employment contracts may have for future research and practice.

1. Psychological versus legal contracts

Rousseau (1989) defined the psychological contract as “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” (p. 123).

In addition, only those expectations that result from an employee’s perception of the organization's implicit or explicit promises are part of the psychological contract (Robinson, 1996). Hence, in terms of its interpretation, the perceptual nature of the psychological contract makes it highly idiosyncratic. For this reason, it is possible for two employees working side-by-side in the same organization to have different perceptions about their psychological contracts.

In contrast, a legal contract in the United States is said to arise when three elements are present between the contracting parties (Sandoval, 2008): (a) an offer, (b) an acceptance of the offer, and (c) consideration (i.e., something bargained for and given in exchange for the promise). These three elements are essential for the manifestation of a legally binding contract (Lucy v. Zehmer, 1854). The following scenario provides an example of the creation of a legal contact. For instance, assume that Sally offers Carlos $50,000 per year to work for her company, if Carlos is willing to work 40 h per week. Carlos says, “I accept!” In this hypothetical, the offer by Sally is the $50,000. The acceptance is Carlos’ acknowledgement of the offer and the verbalization of acceptance. The consideration, which is (a) something bargained for or (b) something given in exchange for the promise, manifests itself when Carlos receives $50,000 in consideration for working 40 h per week over a 52-week period. Alternatively, consideration also exists when Sally receives 40 h of work per week for the $50,000.

Our discussion up to this point has not considered the various types of legal contracts. However, legal contracts can be categorized as express contracts, which may be written or oral, and implied contracts (i.e., quasi-contract or promissory estoppel). Descriptions and examples of these types of contracts are provided below.

1.1. Express contracts

An express contract is one in which all of the elements (offer, acceptance, and consideration) of the contract are explicitly manifested either in writing or orally (Simpson, 1965). The following is an example of an express contract. Leroy owns a small software development firm. He was awarded a major software contract, and he needs to hire several temporary programmers so that he can meet his 12-month deadline. Leroy orally offers Carol a one-year position as a software programmer at a monthly salary of $4200. Carol is expected to work 40 h a week at the company’s headquarters. Leroy’s offer does not include any health or retirement benefits. Carol accepts the offer of $4200 per month that does not include any health or retirement benefits. Leroy and Carol can either document this employment contract in writing or their contract can remain an oral contract.

1.2. Implied contracts

An implied contract can be created when at least one of the elements (offer, acceptance, and consideration) of a contract is implied from the actions or inactions of the contracting parties (Simpson, 1965). For example, an implied contract can come about...
when an offer is implied and the acceptance and consideration are expressly manifested. Implied contracts can take on many forms and may be categorized as either a quasi-contract or promissory estoppel.

1.2.1. Quasi-contract

A quasi-contract is a type of implied contract that is intended to prevent an injustice or unfairness and an unjust benefit to the non-injured party (Sandoval, 2008). The right to recover on the theory of quasi-contract is governed by principles of equity. It is based on the idea that a person shall not be allowed to enrich himself unjustly at the expense of another. Therefore, the court will usually grant a quasi-contract to avoid injustice or unfairness in an implied contractual transaction (Gate City Savings and Loan Asso. v. International Business Machines Corp., 1973).

The following is an example of a quasi-contract. Mike owns a small hardware store and lumberyard. He is the sole proprietor and all employees report directly to him. Mike's overtime policy is that employees can only work overtime if they have his approval. He sends out an email to all of his employees announcing that over the next four weeks, the company has several big orders to fill and offers up to 16 h of overtime each weekend to any employee who is willing to work overtime by helping to process and pack the outgoing orders. Maria is a stock clerk and her job is to stock merchandise on the store floor. She reads the email and decides that she will come in during the next four weekends to work overtime; however, she does not confirm this with Mike. Each weekend, Mike sees Maria working on the store floor but does not say anything to her nor ask why she is working overtime. When Maria gets her next monthly paycheck she sees that she has not been paid for the 64 h of overtime that she worked during the last month. Maria asks Mike why she was not paid for her overtime. Mike reminds Maria that he must authorize all overtime and Maria

1.2.2. Promissory estoppel

Like a quasi-contract, promissory estoppel is granted by the court, but in this case the promisor is stopped (estopped) from denying that he made a promise because the promisee, to his/her detriment, has relied on the promisor’s promise (Prescott v. Jones, 1898). Therefore, a promissory estoppel manifests itself when there is reliance on a promise by the promisee and thereafter suffers a detriment.

The following is an example of an implied contract by promissory estoppel. Roberta hired Sanjay as a staff accountant. Roberta schedules Sanjay for the customary one-month performance review for new employees. At the performance review, Roberta orally states, “Sanjay, instead of giving you the normal two year contract which all the other employees have, I will give you a three year contract.” Sanjay performs all of his duties for two years and continues working into the third year, having foregone a job offer to work elsewhere at the beginning of his third year with Roberta. Roberta’s firm hits hard economic times midway through Sanjay’s third year of employment and she needs to layoff three employees. She cannot afford to pay his salary, so she decides to layoff Sanjay during his third year of employment. When Roberta gives Sanjay his layoff notice, he responds, “You cannot lay me off. You promised me a job for three years.” Roberta argues that the standard contract is only for two years and that Sanjay can be discharged anytime after that. Sanjay will argue that whereas there is a standard oral contract for two years, Roberta’s oral promise for the third year created an implied contract by promissory estoppel. A contract by promissory estoppel arises when the employer makes a promise to the employee and the employee relies on the employer’s stated promise to his/her detriment. In this case, Sanjay relied on the promise by Roberta to hire him for a third year, and relying upon that promise he suffered a detriment by continuing to work into the third year. The court will grant a contract based on promissory estoppel and forbid Roberta from claiming that there was no contract for the third year.
2. A framework for understanding the differences between psychological and legal contracts

In this section, we present our framework (see Table 1) for understanding the differences between psychological and legal contracts. First, we consider promises since they are fundamental to the creation of either a psychological or legal contract. There are two key issues to consider regarding the promises that comprise either a psychological or legal contract: (a) the perspective of the promise, and (b) the category of the promise. The perspectives on promises are quite different depending on the type of contract. For a psychological contract the perspective is unilateral; the promises are perceived strictly from the employee's perspective. According to psychological contract theory, an employee may perceive the existence of a promise whether or not the organization made the promise (Robinson & Rousseau, 1994; Rousseau, 1989; Rousseau, 1995; Rousseau & Tijoriwala, 1998). On the other hand, in a legal contract the promise is based on a meeting of the minds of the contracting parties (see generally, McClintock v. Skelly Oil Co., 1938). In other words, there must be two minds contemplating the same thing. There must also be mutuality of obligations which means that either both parties are bound by their promises or neither is bound (see generally, Warren v. Ray County Coal Co., 1919).

Additionally, differences in the perspectives of the promises mean that promises are categorized in psychological and legal contracts differently. We assert that the promises of a psychological contract should be categorized as illusory. Although not described with this term in prior research, we make this assertion based on the unilateral perspective of the psychological contract and the idea that a psychological contract resides in the “eye of the beholder” (Guest, 1998, p. 652). Understanding that promises can be illusory helps to explain why two employees working side-by-side may perceive completely different promises related to their psychological contracts. In contrast, promises in legal contracts are categorized as unequivocal (see generally, Berry v. Maywood Mut. Water Co., 1936). This means that promises must be clear, definite, and explicit.

Second, we consider the elements and the breadth of psychological and legal contracts. The term “elements” refers to the means by which the promises of a psychological or legal contract come about. According to psychological contract theory, the primary means by which promises arise are through the beliefs and perceptions of employees (Rousseau, 1989). These beliefs and perceptions have been characterized as optional, discretionary, or indefinite by a variety of scholars (e.g., Guest, 1998; Rousseau, 1989, 1995; Morrison & Robinson, 1997). Hence, the psychological contract has been characterized as highly idiosyncratic in nature (Rousseau, 1995). The result is that in terms of breadth, employees can have either a broad (i.e., relational psychological contract) or narrow (i.e., transactional psychological contract) psychological contract (Rousseau, 1990, 1995). In contrast, for the creation of a legal contract, three fundamental elements are required (offer, acceptance, and consideration) (Boulton v. Jones, 1857; Eliason v. Henshaw, 1819; Sunburst Oil & Gas Co. v. Neville, 1927). More specifically, the offer must be clear, definite, and explicit. The offer must be accepted exactly as it was offered. In other words, the offeree must accept a mirror image of the offer. Also, the parties must exchange valuable consideration (see generally, Kitner v. Atlantic Communication Co., 1917). These conditions make it clear that a legal contract can only be narrow in scope because the definitions of the offer are very restrictive (Boulton v. Jones, 1857; Eliason v. Henshaw, 1819; Sunburst Oil & Gas Co. v. Neville, 1927).

In summary, as illustrated through our framework, psychological contracts and legal contracts are clearly different forms of binding agreements. Yet, we believe that there is confusion among many employees regarding the differences between psychological and legal contracts. It is our contention that many employees wrongly believe that their psychological contracts entitle them to legal rights afforded through a legal contract. For example, a review of any number of legal cases claiming wrongful termination, where the terminated employee lost the lawsuit, reveals that the employee had a psychological contract and not a legal contract. Similarly, organizational agents are often unaware that their actions have created legal contracts when their intention was to create psychological contracts. This is often the case when an employee wins a lawsuit for wrongful termination based on the language in an employee handbook (Bennett-Alexander & Hartman, 2007). Therefore, understanding the differences between psychological and legal contracts is beneficial to employees and organizations. Understanding these differences provides both employees and organizations with the knowledge of how realistic their perceptions of promises are as they relate to either a psychological or legal contract. In addition, it highlights strategies that organizations might use to ensure that employees’ perceptions about their employment contracts are accurate.

Given the differences in psychological and legal contracts, we believe that it would benefit individuals and organizations to understand the potential causes or antecedents of these different types of contracts. We have outlined the bases for legal contracts above. Therefore, we review the literature on the antecedents of psychological contracts in the paragraphs that follow.

3. Antecedents of psychological contracts

The process of creating a psychological contract is complex and represents an individual’s assessment of the positive and negative aspects of the employee–employer relationship (Rousseau, 1989, 1995). The thinking done by an individual during the creation of a psychological contract is thought to be largely influenced by the anticipated psychological needs (e.g., affiliation, accomplishment) that are expected to be fulfilled as a result of employment (Levinson, Price, Munden, Mandl, & Solley, 1962; Meckler, Drake, & Levinson, 2003). This thinking occurs within the powerful context of both work and non-work environments, and therefore it represents a complex interchange between individual, organizational, and external environmental factors (Conway & Briner, 2005; Rousseau, 1995). The result is a psychological contract that can be predominantly described as either transactional or relational in form (Rousseau, 1990, 1995). Transactional psychological contracts are described as short-term, narrow in scope, and consisting of monetizable obligations, whereas relational psychological contracts are described as long-term, broad in scope, and consisting of both monetizable and socioemotional elements such as mentoring support (Morrison & Robinson, 1997; Rousseau & Parks, 1993). Interestingly, most of what is “known” about the antecedents or causes of the psychological contract is speculative since most of the
research addressing this issue has been theoretical in nature. In the following paragraphs we outline the research on the antecedents or causes of psychological contracts.

Since the earliest conceptualizations of the psychological contract, researchers have broadly categorized the causes of the psychological contract as: (a) individual factors, (b) organizational factors, and (c) factors external to the organization (Argyris, 1960; Levinson et al., 1962; Schein, 1970). For example, Levinson et al. (1962) theorize that individual (e.g., personality, self-identity, self-efficacy, self-esteem) and organizational factors (e.g., group relations) are the prime determinants of a psychological contract. These factors are said to create an agreement (i.e., the psychological contract) between an employee and organization where "the employee will be placed in situations where his or her needs for affection, aggression, dependency, and achievement ego ideals can be adequately met" (Meckler et al., 2003, p. 217–218). Similarly, Schein (1970) proposes that the psychological contract is a result of a complex interplay between an individual's needs (e.g., pay, job security, autonomy, self-actualization) and organizational experiences (e.g., politics, nature of authority, incentive systems, managerial strategies). He believes that "ultimately the relationship between the individual and the organization is interactive, unfolding through mutual influence and mutual bargaining to establish a workable psychological contract" (Schein, 1970, p. 77). In addition, Schein (1980) advocates a holistic or systems approach for understanding psychological contract creation. He argues that the psychological contract is dynamic; therefore, it is constantly recreated as a result of changing employee needs, organizational factors, and external forces. This early research (Argyris, 1960; Kotter, 1973; Levinson et al., 1962; Schein, 1965, 1970, 1980) held that both the employee and organization formed psychological contracts and therefore the psychological contract is created from the mutual expectations of the employee and organization.

In contrast to the early work on psychological contracts, recent research has been largely influenced by Rousseau’s (1989) conceptualization of the psychological contract as residing solely in the mind of the employee. In other words, an organization cannot have a psychological contract (Rousseau, 1989). Interestingly, even though much of the recent research holds this unilateral perspective of the psychological contract, the identified causes of the psychological contract remain the same: individual, organizational, and external (Conway & Briner, 2005; Guzzo & Noonan, 1994; Rousseau, 1995; Rousseau & Geller, 1994; Sims, 1994; Sparrow, 1996). For example, Rousseau (1989, 1990) theorizes the causes of the psychological contract as anything an employee perceives to be a contribution on his/her part that obligates the organization to reciprocate the treatment in kind. She proposes that any number of individual and organizational processes impact the creation of a psychological contract (Rousseau, 1989) and that two sets of factors form the psychological contract: (a) individual predispositions and interpretations, and (b) organizational messages and social cues (Rousseau, 1995). Examples of individual predispositions and interpretations include cognitive biases such as personal inferences from past experiences and career motives such as seeking an executive level position. Examples of organizational messages and social cues include the introduction of a new compensation system and vicarious learning that occurs by observing the outcomes of other employees in the organization (Rousseau, 1995). Further, Rousseau (1990) empirically examined the relation of career motives on the types of contracts created and found that employees who viewed their current jobs as stepping stones for future jobs were more likely to create a psychological contract that was close-ended, static and narrow (i.e., a transactional psychological contract) when compared to employees seeking job security. Conversely, employees seeking job security were more likely to create a psychological contract that was open-ended, dynamic, and broad (i.e., a relational psychological contract) when compared to the more opportunistic employee.

As stated above, most of the research on the antecedents of the psychological contract has been theoretical in nature (Conway & Briner, 2005). For example, Herriot and Pemberton (1997) advance a four-stage model for creating and recreating psychological contracts. Stage one consists of each party conveying their needs along with what they are prepared to offer. Stage two is when the employee and organization negotiate the terms and conditions of the psychological contract. Stage three reflects the monitoring of the contract to ensure compliance. Stage four consists of renegotiating the terms of the contract, which results in either a new contract or an exit from the relationship. Rousseau (2001) proposes a model where cognitive biases are the building blocks of the psychological contract. For example, she argues that self-serving biases may lead an employee to create a psychological contract where he/she perceives a sense of entitlement. Although this argument seems plausible it has yet to be empirically tested (Conway & Briner, 2005).

Rousseau and Schalk (2000) identify three cultural factors that may influence the creation of the psychological contract: (a) the zone of negotiability (e.g., the amount of freedom to enter into an exchange relationship), (b) national culture perceptions of promises, and (c) group identity (in-group versus out-group membership). For example, the zone of negotiability may vary depending on an employee’s status (e.g., part-time, full-time, contractor) and the legal protections available to that class of worker in a particular country. Employees with strong legal protections would likely create narrowly defined psychological contracts when compared to employees with weak legal protections (Rousseau & Schalk, 2000). They explain that national culture influences the perceptions of promises through the amount of tolerance for uncertainty. The greater the level of tolerance for uncertainty that a culture exhibits (e.g., United States), the more likely the view that a promise is viewed as something that an individual will try to keep. In contrast, when a culture has a low level of tolerance for uncertainty (e.g., Japan), individuals are likely to view promises as something they will keep. Therefore, employees from countries that have a high tolerance for uncertainty are less likely to create psychological contracts that they are willing to work relentlessly toward honoring, when compared to employees from low uncertainty countries. Lastly, regarding group identity, Rousseau and Schalk argue that the psychological contracts created between in-group members are likely to differ from those created between in-group and out-group members. In-group/in-group members are more likely to create high-trust psychological contracts when compared to the psychological contracts of in-group/out-group members.

Recently, empirical research has focused on personality (Raja et al., 2004; Zhao & Chen, 2008), ideologies (i.e., exchange ideologies, occupational ideologies) (Bunderson, 2001; Coyle-Shapiro & Neuman, 2004), socialization knowledge (Thomas & Anderson, 1998), and national culture (Kickul, Lester, & Belgio, 2004; Zhao & Chen, 2008) as antecedents to psychological contracts. For example, Raja et al. (2004) found that people high in neuroticism and equity sensitivity tend to form transactional psychological contracts and individuals high in conscientiousness and self-esteem tend to form relational psychological contracts.
Bunderson (2001) found that among a sample of medical professionals, both administrative and professional ideologies affect the creation of psychological contracts. The complexity and multi-faceted nature of administrative and professional ideologies results in both transactional and relational psychological contract creation. Thomas and Anderson (1998) suggest, from a study of British Army recruits, that early organizational socialization tends to develop relational psychological contracts whereas organizational socialization later in a career is likely to shift the psychological contract to one that is more transactional in form. Zhao and Chen (2008) compared the alumni of a college of business in the United States to employees in China working for eight different companies on the likelihood of individualism affecting the creation of a psychological contract. The results were inconclusive in terms of individualism as a predictor of either a transactional or relational psychological contract.

The common theme among the studies considering the antecedents of psychological contracts is that the organization plays a fundamental role in the creation of a psychological contract (Conway & Briner, 2005). This is because any form of communication by the organization or an agent of the organization (e.g., recruiter, colleague) can be interpreted by an employee as a promise that can create a psychological contract (Conway & Briner, 2005; Rousseau, 1995). Therefore, it is the human resource (HR) practices of an organization that largely determine psychological contracts (Conway & Briner, 2005; Guzzo & Noonan, 1994; Rousseau, 1995; Rousseau & Greller, 1994; Sims, 1994; Sparrow, 1996). Rousseau (1995) goes even further by arguing that as a source for psychological contracts, HR practices can be categorized as either human (e.g., recruiters, managers, coworkers, top management) or administrative (e.g., benefits, performance review, training, personnel manuals) contract makers. She explains that these contract makers implicitly and explicitly communicate the promises of the psychological contract by a variety of means. Implicit communication occurs through such means as an organization’s culture, employee observation, and an organization’s reputation. Explicit communication can include memos, emails, and mission statements.

Some of the HR practices that have been considered as having the potential to create psychological contracts include realistic job previews, training, benefits, and compensation. For example, in a theoretical paper, Guzzo and Noonan (1994) describe HR practices as communications that help to create psychological contracts. Their basic argument is that there are certain times, such as at the time of hiring, when employees assess HR practices to determine or alter their psychological contracts. They discuss the value of a realistic job preview at the time of organizational entry for helping an employee to develop an accurate psychological contract. Similarly, Sims (1994) outlines his theory on how HR personnel can influence the psychological contract. He argues that one of the primary goals of the personnel in a training department should be to help employees understand what he/she can expect to give and receive from the organization, thereby helping to create an accurate psychological contract. Lucero and Allen (1994) propose that when employees consider benefits (e.g., health care insurance, pensions) as part of the overall compensation package, they create psychological contracts. They state that employer provided benefit plans result in a belief in a psychological contract where employee benefits will continue as long as employment is maintained. Rousseau and Greller (1994) discuss the implications of recruiting, personnel manuals, compensation, benefits, and performance review on the creation of psychological contracts. For instance, they describe the implications of the sticky wage phenomenon (wages usually go up and not down) (Mayer & Thayer, 1979) on psychological contract creation. This phenomenon leads to the creation of a psychological contract where wages are expected only to go up. Rousseau and Wade-Benzoni (1994) utilize Miles and Snow’s (1984) model of human resource management as a strategic activity (e.g., defenders, prospectors) to describe psychological contract creation. For instance, defender organizations (i.e., firms working to maintain market share) place an emphasis on employee retention. Hence, employees in defender organizations are likely to create relational psychological contracts. Employees in prospector organizations (i.e., firms operating in dynamic and unpredictable environments) typically view the organization as a stepping stone to future employment opportunities and therefore develop transactional psychological contracts.

A small number of empirical studies have examined the impact of HR policies on psychological contract creation. For example in a study that surveyed undergraduate students, MBA students, and attorneys, Schmedemann and Parks (1994) found that the language found in employee handbooks is capable of producing psychological contracts. They found that verb strength (e.g., “will without exception” versus “generally endeavors to”) and specificity of language in an employee handbook enhances the perception of a psychological contract. For instance, stating in an employee handbook that the organization generally endeavors to provide long-term employment can create a psychological contract where the employee believes that he or she has job security. Guest and Conway (2002) surveyed human resource managers and found that effective communication during recruitment, defined as explicit communication of organizational promises and commitments, created clear psychological contracts. In one of the few empirical studies in a non-Western setting (i.e., Hong Kong), Westwood, Sparrow, and Leung (2001) found that HR policies “do have a strong determining impact on psychological contracts” (p. 647). They examined five HR policies (job design, recruitment/selection, performance evaluation, salary/wages, and training/development) to determine the human resource management climate surrounding the employment relationships of Chinese managers. Westwood et al. (2001) report that the Confucian social ethic (e.g., hard work, deep sense of obligation) provides the context for understanding the interpretation of the signals that HR practices send regarding the creation of psychological contracts. The managers of the study interpreted the signals from the HR practices with such a deep sense of personal obligation that they created psychological contracts that were primarily outcome focused rather than process focused. For instance, Westwood et al.’s analysis shows that the focus of performance criteria is on results, “not how things are done” (p. 647–648).

Beyond the research presented above most research that presents HR practices as the cause of the psychological contract mention it in passing. For example, O’Neill, Halbesleben, and Edwards (2007) describe “job descriptions, procedural changes, performance reviews, recruiting decisions, compensation decisions, training, personnel manuals and benefits” (p. 163) as possible HR practices that trigger the psychological contract. However, they do not provide any details or examples of the mechanisms by which these HR practices might cause a psychological contract. Therefore, the limited research attention that has been devoted to
the ways that HR practices lead to psychological contracts provides a promising avenue for future theory development (Conway & Briner, 2005).

4. Creating psychological and legal contracts through HR practices

As stated above, research on HR practices as antecedents to psychological contracts is in need of further development. Similarly, researchers in the organizational behavior and human resource management domains have devoted limited attention to examining the means by which HR practices can unintentionally create legal contracts. We expand research in OB and HRM by examining the means whereby HR practices can create psychological and legal contracts. In particular, we use signaling theory (Rynes, 1991) to examine the means by which HR practices can create psychological and legal contracts.

Signaling theory, as it is used in OB/HRM, is rooted in the economics research of Spence (1973, 1974) on job market signaling. According to Spence (2002), “the idea behind the job market signaling model is that there are attributes of potential employees that the employer cannot observe and that affect the individual’s subsequent productivity and, hence, value to the employer on the job” (p. 436). Specifically, Spence (1973) argued that employers rely on educational credentials as signals of applicants’ abilities. Spence (1973, 1974, 2002) views the issue of signaling from the employing organization’s perspective.

Building on the work of Spence (1973), organizational researchers (Rynes, 1991; Wanous, 1992) extended the thinking on signaling to include the applicant’s perspective. For instance, according to Rynes (1991), job applicants use cues or signals from the organization to draw conclusions about an organization’s intentions, actions, and characteristics because they do not have perfect information about the organization. These signals provide information about what life might be like in the organization (Breauagh, 1992; Turban, 2001; Turban & Greening, 1997). For example, an organization’s diversity management policy may enhance its attractiveness as an employer since it signals proactive working conditions related to the management of diversity (Williams & Bauer, 1994). Likewise, recruiters who come from multicultural backgrounds send signals to applicants that the organization values diversity.

We believe that signaling theory may be a particularly useful lens for examining the means for creating psychological and legal contracts through HR practices. Although some research has considered the influence of HR practices on psychological contracts, we believe that much more research is needed to understand these influences. Thus, below we consider several HR practices that may affect the psychological contract. In particular, we discuss the signals that HR practices send that may lead employees to create psychological contracts based on the belief in job security.

4.1. Recruitment

Recruitment is designed to attract the most qualified job applicants. Therefore, the organization attempts to present the best possible image to job applicants. This can lead to the development of unrealistic expectations on the part of individuals (Rynes, 1991). Since recruitment is the beginning of the employment relationship it provides the first opportunity for an organization to transmit the terms and conditions of the employment relationship and for the job applicant to begin forming his or her psychological contract. For this reason, organizations need to be aware of the signals they transmit through the recruitment process.

Signals are transmitted by a variety of means through the recruitment process. For example, an organization’s website and recruiters can signal the creation of a psychological contract by using the phrase “there is a probationary period followed by permanent employment.” The phrase sends the message that successful completion of the probationary period may lead to long-term employment (Arthur, 2001). Similarly, employee testimonials on an organization’s website stating a “no layoff” policy can send a message of permanent employment. Signing bonuses may lead individuals to perceive that the organization values them and that they will have long-term employment. Relocation expenses paid by the organization may send the signal to employees that they are wanted by the organization and will have stable long-term employment. These and other signals can be managed to the benefit of both the organization and employee, through clear and effective communication. For instance, one such method that may be used is a realistic job preview. A realistic job preview presents both the favorable and unfavorable aspects of working in an organization and can be presented through handbooks/booklets, films, or exposure to actual working conditions (Rynes, 1991). By providing a realistic job preview, an organization can help an employee to develop an accurate psychological contract regarding job security or any other aspect related to working for the organization.

In addition to creating psychological contracts, the recruitment process can create legal contracts. For example, suppose an employee is told by a recruiter that upon completion of her first year of employment she will automatically receive a raise. Based on this representation the employee accepts the offer and foregoes another job offer. Fourteen months later she has not received the promised raise. The employee may conclude that the company made misrepresentation of material fact upon which she relied by accepting a position with the organization which resulted in financial damages. Although not all encompassing, this and the prior examples illustrate means by which the recruitment process can create psychological and legal contracts.

4.2. Training

Training is intended to help employees understand their roles and develop skills and abilities (Goldstein, 1993). For example, the introduction of a new piece of equipment or software may require employees to be trained in order to use them. Since organizational funds are usually limited, the expenditure of funds for training may signal to the employee that he/she is valued by the company and therefore likely to enjoy long-term or permanent employment. Similarly, orientation programs which are
designed to socialize employees may also convey the message that they will become permanent after completion of a probationary period. Thus, the assumption that employees may make is that they will be employed as long as their performance is satisfactory. These attributions are likely to lead employees to create relational psychological contracts. In contrast, when training is intended to address a skill deficit, employees may view being selected for training as an embarrassment rather than an opportunity for improvement (Gomez-Mejia, Balkin, & Cardy, 2004). A negative view of training may exacerbate any feelings of low self-efficacy or low self-esteem and hence lower the employee’s perception of his/her value to the organization. These attributions may lead to the formation of a psychological contract that is short-term in orientation (e.g., transactional psychological contract). These examples illustrate that it is possible for training to have both positive and negative effects on the development of psychological contracts. Therefore, organizations should be cognizant of the implications of their training programs on the types of psychological contracts that employees develop.

Much like recruitment, training can also lead to the creation of legal contracts. For example, during orientation, statements can be made about how bonuses, raises, and promotions are awarded for certain levels of performance. Depending on the circumstances, when employees rely on such statements to their detriment they might file lawsuits and the courts might award damages either through a quasi-contract or promissory estoppel. In addition, improper training or a lack of training can result in lawsuits being filed against an organization. For example, in the case of Mathis v. Phillips Chevrolet (2001), a federal appeals court ruled that Phillips Chevrolet did not hire Anthony Mathis for a position as a salesman because of his age, and that seven men had been subsequently hired, all of a younger age. The general manager with ultimate hiring authority routinely wrote, by hand, an applicant’s age on the employment application. The general manager testified that he was not aware that it was illegal to consider age when making hiring decisions. A second manager also admitted that he considered age by stating that he looked for applicants that were “bright, young [italics added], and aggressive” (Mathis v. Phillips Chevrolet, 2001, p. 773). The Mathis court concluded that Phillips Chevrolet was recklessly indifferent to age discrimination and was therefore in violation of the Age Discrimination in Employment Act (29 U.S.C.S. § 621 et seq.) as evident by its lack of training on the basics of age discrimination. The plaintiff, Mathis was awarded $50,000 in liquidated damages. This case illustrates how important training can be to prevent violation of federal employment statutes.

4.3. Performance appraisal

Performance appraisal is designed to assess employee performance and provide feedback to individuals on how they can improve performance (Gomez-Mejia et al., 2004). The feedback that an employee receives from the performance appraisal process, whether it is positive or negative, can have a profound impact on an employee’s psychological contract as it is directly related to the terms and conditions of employment (e.g., pay, promotions, training opportunities). For example, satisfactory performance ratings from supervisors may lead employees to believe they will have stable long-term employment. Likewise, positive feedback from supervisors may signal the creation of a psychological contract with a belief in long-term employment (e.g., a relational psychological contract). In contrast, negative feedback from supervisors may lead employees to view their relationships with the organization in transactional terms. The focus of the psychological contract may be economic rather than emotional, the scope may be narrow versus broad, and the time frame may be short rather than long (e.g., a transactional psychological contract). These examples presuppose an accurate performance appraisal (e.g., the employee deserved either the positive or negative feedback). However, the described effects on psychological contracts are further complicated when supervisor biases come into play (e.g., harshness, leniency, and average tendency biases). Supervisors that are lenient in their evaluations may be enhancing relational psychological contract creation and supervisors that are overly harsh may be enhancing transactional psychological contract creation.

The legal implications of performance appraisal systems are particularly complex due to the inherently subjective nature of performance evaluations. The decisions of the courts vary widely on seemingly similar performance appraisal methods (Bennett-Alexander & Hartman, 2007). Therefore, it is particularly important that supervisors and HR managers are aware of the legal contractual obligations that result from performance evaluation systems. For example, organizations need to ensure that their performance evaluation systems do not allow for disparate impact (e.g., performance appraisals that perpetuate stereotypes that adversely impact protected classes of individuals), disparate treatment (e.g., such as using different criteria to rate men and women), defamation (e.g., the employer makes false and defamatory statements about an employee), or negligence (e.g., the employer neglected to conduct a performance evaluation) (Bennett-Alexander & Hartman, 2007). Consider the situation where an employer commits to providing an annual performance evaluation that is intended to be used as the basis for promotions, compensation, and termination. Failure on the part of the employer to conduct a performance evaluation and provide feedback may be seen by the courts as a breach of a legal contract. One reason for this is that feedback is considered to be an opportunity to improve one’s performance. Liability on the part of the employer arises from the common law doctrine which states that when a party to a contract agrees to perform certain obligations, that party is liable for any harm that may result from a failure to follow through on the obligation (Sherman v. Harperecollins Publishers, 1998).

4.4. Compensation systems

Compensation systems are comprised of three basic components (Gomez-Mejia et al., 2004): (a) base compensation, (b) pay incentives, and (c) benefits. Each of these components is capable of producing a psychological or legal contract. For example, employment contracts which state base compensation in annual amounts may lead an employee to develop a psychological
contract with a belief in a guarantee for a year’s worth of salary. Instead, it is suggested that salaries be stated in weekly, monthly, or quarterly terms (Arthur, 2001). This provides the employee with a realistic understanding that an annual salary is not guaranteed and therefore he/she can plan accordingly (e.g., whether or not to buy a house). Likewise, pay incentives such as merit pay increases may send the signal that the employee has stable or long term employment with the organization. Benefits such as retirement health insurance may send signals that an employee is valued by the organization and therefore can expect long term employment. Signals such as these may be the result of the observation that independent contractors are not provided merit pay or benefits by the hiring organization.

The signals sent by compensation systems that create psychological contracts are often implicit in nature, as evident by the examples provided above. Additionally, compensation systems also send explicit signals that create legal contracts for base compensation, pay incentives, and benefits. Therefore, all forms of compensation, by their very nature, create legally binding contracts. For example, consider a typical employer provided health insurance benefit plan that covers accidental death, dismemberment, and loss of sight. Although the term “health insurance benefit plan” might be used, the employee actually has a “health insurance benefit contract.” These legal contracts are written with such specificity and detail that they clearly state who is covered (e.g., the employee, spouse, children), the requirements for eligibility (e.g., full-time employment), and the amounts of compensation (e.g., no benefits if the employee commits suicide). These legal contracts are communicated at a level of minutiae that is intended to leave no ambiguity regarding coverage.

4.5. Employee handbooks

Most organizations create employee handbooks in order to relay information and guidelines to employees (Johnson & Gardner, 1989). Although employee handbooks are not intended to create psychological and legal contracts, they often do (Bennett-Alexander & Hartman, 2007; Schmedemann & Parks, 1994). For example, employee handbooks which state that employees can “reasonably” expect long term employment can signal the creation of a psychological contract for job security. In addition, some employees may incorrectly believe that certain words in an employee handbook such as “reasonably expect” are evidence of a legal contract for job security. For instance, in Whittaker v. Care-More (1981), the plaintiff interpreted the following statement in the employee handbook as evidence of a legal contract for job security: “An employee may reasonably expect uninterrupted employment year in and year out. Any employee doing his work in a satisfactory manner and working for the good of the organization has little to fear about job security” (p. 397). The court reasoned that the words reasonably, satisfactory, and for the good of the organization were too vague to have created a legally enforceable contract for job security. Therefore, at most, the employee handbook signaled the creation of a psychological contract.

Alternatively, there are situations where the language in an employee handbook is capable of creating both a psychological and legal contract. Consider the case of Duldulao v. Saint Mary of Nazareth Hospital Center (1987), where the court ruled that the language in the employee handbook was sufficiently clear and unambiguous to create a legally binding contract (i.e., an express contract) regarding the terms for employee dismissal. The employee handbook stated that permanent employees “are never dismissed without prior written admonitions and/or an investigation that has been properly documented” ... and that “three warning notices within a twelve-month period are required before an employee is dismissed, except in the case of immediate dismissal” (Duldulao v. Saint Mary of Nazareth Hospital Center, 1987, p. 491). In this case, the employee handbook created both a psychological and legal contract regarding the process for employee dismissal. It is clear that Saint Mary of Nazareth Hospital Center had not intended to create a legal contract through the employee handbook; however, it had done so unintentionally. Therefore, we wish to make the point that although it may be inevitable that employees create psychological contracts through what is written in employee handbooks, organizations may also be unwittingly creating legal contracts through their employee handbooks.

5. Implications for research and practice

5.1. Implications for research

Our goal in this paper is to expand the research on contractual thinking in the OB and HRM domains by jointly considering psychological and legal contracts. Prior research has primarily focused on the psychological contract with limited consideration of legal contracts. In this paper we present a model for comparing the differences between psychological and legal contracts (Table 1) and the means by which each type of contract is created. By doing so, we aim to provide a more comprehensive understanding of contracting in organizations and hope to stimulate future research that considers these issues and their impact on the management of employees in organizations. For example, using signaling theory we provide a discussion of how HR practices can create both psychological and legal contracts. Specifically, we highlight the implications of recruitment, training, performance appraisals, compensation systems, and employee handbooks as they relate to psychological and legal contract creation. We maintain that it is important for organizations to realize that they may be unwittingly creating both psychological and legal contracts through their HR practices. Understanding this is important because psychological and legal contracts are important determinants of employee behavior in organizations (Macneil, 1974, 1985; Rousseau, 1989, 1995). Therefore, we suggest that future research continue to examine the HR practices outlined in this paper and others.

In addition, it is our hope that this paper spurs future research on additional forms of contracting that might be useful in the management of employees in organizations. For example, in addition to the psychological contract, Rousseau (1995) advocates
consideration of three additional types of promissory contracts: (a) normative, (b) social, and (c) implied. The normative contract is defined as the shared contract that arises when a group or organization holds common beliefs. The social contract is described as that held by a society (e.g., reliance on handshakes). An implied contract is defined as “interpretations that third parties (e.g., witnesses, jurists, potential employees) make regarding contractual terms” (Rousseau, 1995, p. 9). Neither of these contract types has received much research attention, either theoretically or empirically.

Our paper has the potential to add significantly to the theory development on “implied contracts” when one compares our discussion of implied contracts (i.e., quasi-contract, promissory estoppel) as defined by case law in the United States with Rousseau’s (1995) definition of an implied contract. The legal definition of an implied contract (see our discussion above) is clearly different than that offered by Rousseau. For example, Rousseau (1995) states that

**Implied contracts** are the attributes that people not party to the contract (i.e., outsiders) make regarding its terms, acceptance, and mutuality. These interpretations reflect the frame of reference common in research on ethics, that is, the ‘reasonable third party’ who can look past any self-serving bias on the part of the contract’s principals in gauging the meaning of the contract’s terms (p. 11).

As such, Rousseau’s use of the term implied contract does not coincide with its use by the courts (i.e., quasi-contract, promissory estoppel) in the United States. This is her intention as she eschews any direct link to the practice of the law and clearly states that for her conceptualization of an implied contract that the focus is “on the behavioral and psychological aspects of relationship-based contracts” (Rousseau, 1989, p. 129).

Rousseau’s (1995) choice of the term “implied contract” is somewhat confusing given her reliance on the legal metaphor for describing it. In addition, she has made statements that contradict her description of an implied contract as a mental model that can be used “to frame events such as promise, acceptance, and reliance” (Rousseau, 1995, p. 27). For example, she states that “implied contracts are external judgments made by courts [italics added], the public, and other outsiders about the relationship in which a contract is created” (Rousseau, 1995, p. 52). Hence, readers may very well interpret the use of the term implied contract in the psychological contract literature as it is used by the courts in the United States.

Perhaps it is time to add clarity and precision to Rousseau’s use of the term implied contract much in the same way that Morrison and Robinson (1997) added clarity and precision to the terms that were used to described broken psychological contracts: (a) psychological contract breach (PCB), and (b) psychological contract violation (PCV). PCB has been defined as the cognitive perception of a broken psychological contract, and PCV has been defined as the negative affective response that may follow the perception of PCB (Morrison & Robinson, 1997; Robinson & Morrison, 2000). We propose that Rousseau’s use of the term implied contract be labeled *psychologically implied contract* since it is created in the minds of third parties according to Rousseau (1995). This label provides a clear distinction between what Rousseau refers to and what the legal definition of an implied contract is and at the same time anchors her concept to its origins in the psychology literature.

Finally, we would like to point out that for the sake of parsimony and to stay consistent with the majority of research on psychological contracts, we limited our discussion in this paper to two types of psychological contracts: relational and transactional. However, Rousseau’s (1995) complete model of the various types of psychological contracts includes two other types: transitional and balanced. She defines transitional psychological contracts as characterized by ambiguity, high turnover, and instability in the employment relationship. Balanced psychological contracts are described as consisting of a combination of “the open-ended time frame and mutual concern of relational agreements with the performance demands and renegotiation of transactional contracts” (Rousseau, 2004, p. 123). These types of contracts have been minimally considered by psychological contract researchers. Hence, examining transitional and balanced psychological contracts may provide a fruitful avenue for future research.

### 5.2. Implications for practice

With regard to managerial implications, our research highlights the need for supervisors and HR managers to understand the mechanisms for creating psychological and legal contracts. The ideas put forth in this paper should be useful for managers at all levels in a variety of organizations. In identifying HR practices as potentially capable of sending signals that might lead to the creation of psychological and legal contracts, this research implies that managers should be cognizant of the implications of the messages sent by the structural elements of human resource practices (e.g., compensation policies, promotion policies) and the agents implementing the HR practices (e.g., recruiters, managers). Organizations need to be aware that HR practices may be unwittingly creating both psychological and legal contracts.

Although it may be difficult to know exactly what constitutes the psychological contract of an employee and therefore when a psychological contract has been created, it is possible for managers to know when they have created a legal contract with an employee. This is not meant to imply that managing legal contracts is easier than managing psychological contracts. To the contrary, managing legal contracts may be more difficult and therefore an understanding of the law is necessary. For this reason, we suggest that managers consult frequently with the law departments of their organizations and that their supervisory training includes the “essentials” of creating legal contracts.

As a result of consulting with the attorneys of an organization or receiving training on the basics of legal contracts, managers will be made aware of the legal ramifications of their actions. For example, returning to the concept of contract creation through employee handbooks, research has found that practicing managers often believe that the language in employee handbooks is not legally binding.
Managers generally consider the information supplied in employee handbooks as simply conveying guidelines for employee behavior (Johnson & Gardner, 1989). However, supervisory training and consultation with HR professionals or attorneys would provide managers with the knowledge that although some courts have rejected the idea that employee handbooks can create legally binding contracts, the overwhelming majority of courts do consider employee handbook language capable of creating a legally binding contract between the employee and employer (Duldulao v. Saint Mary of Nazareth Hospital Center, 1987).

HR managers should be encouraged to work with attorneys when creating employee handbooks. For instance, an attorney can advise an HR manager that is creating an employee handbook about the necessary features of a disclaimer regarding contract creation. Depending on the state, a statute may require a disclaimer to be underlined, capitalized, or underlined and capitalized. In addition, “courts regularly require that the disclaimers be clear, prominent, conspicuous, unambiguous, and an employee signature is often required” (Bennett-Alexander & Hartman, 2007, p. 42). For example, the Lincoln court (Lincoln v. Wackenhut, 1994) found the following disclaimer to be valid:

This handbook is intended as a guide for the efficient and professional performance of your job. Nothing herein contained shall be construed to be a contract between the employer and employee. Additionally, this handbook is not to be construed by any employee as containing binding terms and conditions of employment. The company retains the absolute right to terminate any employee, at any time, with or without good cause. Management retains the right to change the contents of this handbook as it deems necessary, with or without notice (p. 704).

It is important to note that although we have provided an example of a disclaimer that was ruled to be valid, when an employee handbook contains all of the elements of a legally binding contract, the courts may interpret the handbook to be an enforceable contract even though there is a statement to the contrary (Sandoval, 2008). For instance, even though an employee may provide a signature acknowledging a disclaimer, a legal contract may still exist (Bennett-Alexander & Hartman, 2007).

Alternately, in some instances an organization may want to choose not to enforce a legal contract for the sake of managing psychological contracts. For example, consider the plight of Deborah Shank, a former stock clerk at Wal-Mart. Shank was involved in an automobile accident on May 17, 2000, where she sustained a severe brain injury. She has limited short-term memory, is confined to a wheelchair, and is living in a nursing home. Her husband settled a lawsuit with the trucking firm on August 8, 2002, that was responsible for the accident and after legal fees had $417,477 placed in a trust to pay for her long-term care. Wal-Mart’s health benefits plan had paid in excess of $469,000 for Shank’s medical expenses prior to the settlement with the trucking company. Wal-Mart exercised its legal option to recoup medical expenses when an employee is successful in collecting damages in a lawsuit. Wal-Mart sued Shank and was awarded a settlement for reimbursement not to exceed $469,216 (Wal-Mart v. Shank, 2006). Shank’s attorneys were unsuccessful in their appeal to the district court (Wal-Mart v. Shank, 2007) and their petition to appeal to the United States Supreme Court was denied (Shank v. Wal-Mart, 2008). Shank’s story made headlines in spring 2008 (e.g., Kaye, 2008a) and resulted in a slew of negative publicity for Wal-Mart and calls for boycotting Wal-Mart. In addition, employees were voicing their concerns on blogs about the terms and conditions of their employment relationship with Wal-Mart (i.e., their psychological contracts). In April 2008, Wal-Mart announced that it would not be seeking reimbursement from Shank’s trust (Kaye, 2008b). One is left wondering if Wal-Mart’s actions have irreparably harmed the psychological contracts of many of their employees.

Finally, it has been argued that understanding contract creation or wanting to develop contracts (psychological or legal) is typically not one of the strengths of managers (supervisors or HR managers) because “contracts are seen as something to avoid” (Rousseau, 1995, p. 3). However, given that contract creation is inevitable in organizations (Rousseau, 1995), managers need to develop skills that will allow them to intentionally create the types of psychological and legal contracts with employees that will aid promises may be as legally binding as written promises (see our examples in the sections labeled Express and Implied contracts) and that ambiguity in written or oral communication can prevent the creation of a legal contract. By presenting these ideas, we have made a contribution to practicing managers by highlighting the need for understanding the communication process as it pertains to the creation of psychological and legally enforceable contracts.

6. Conclusion

Given the large amount of research on the psychological contract over the past two decades, the time seems ripe for new research that examines psychological contracts in conjunction with other types of contracts (e.g., legal, social) that impact behavior in organizations. An integrative approach to theory development will advance our understanding of the role of the psychological contract on employee attitudes and behaviors. In this paper we have made such an attempt by presenting a framework for understanding the differences between psychological and legal contracts in the United States. In addition, we examine psychological and legal contract creation from a signaling theory perspective. Specifically, we theorize on the signals that HR practices such as recruitment, training, performance appraisal, compensation, and employee handbooks send that can create psychological and legal contracts. By doing so, we hope to stimulate theoretical discussions and empirical research on contract creation through HR practices. In addition, we provide practical advice for organizations so that they can design HR management systems that send clear information that will lead to accurate perceptions of psychological and legal contracts.
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