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The Relationship between the ‘Psychological Contract’ and ‘Employment Relations’

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Abstract: Great importance is being attached to the concept of the psychological contract. However, the concept does not sit easily within the ‘traditional’ perspective on employment relations with its primarily institutional-level focus. Nevertheless, the concept, depending on how it is defined, has great potential to fill an emerging gap in employment relations: that of individual-level analysis. This gap becomes apparent when a broader, more ‘contemporary’ perspective on employment relations is considered. This ‘contemporary’ perspective moves beyond an institutional-level focus to consider all the behaviours, outcomes, practices, and institutions that relate to the employment relationship. In order to integrate the concept of the psychological contract into ‘contemporary’ employment relations thinking, additional research is required in the following areas: (1) the relationship between employment institutions and individual employees; (2) how employment institutions influence the psychological contract between individuals and their employer; and, (3) the relationship between the legal context and the psychological contract.

Keywords: employment relations; industrial relations; psychological contract
Introduction

Great importance is being attributed to the construct of the psychological contract (Roehling, 1997). Marks (2001: 454) argues that the rapidly increasing interest in the concept is ‘an endorsement of its high face-validity’. In recent years, the concept has emerged into common usage (Guest, 1998) and interest in the psychological contract has been growing among practitioners and academics alike (Thompson and Bunderson, 2003). For instance, from the perspective of practitioners, ‘there is some evidence to suggest that organizations attempt to manage the psychological contract using HR policies and practices’ (Marks, 2001: 464). Colley and Eaton (2004: 27) report that a major multinational corporation has ‘put a lot of emphasis on the creation of a “psychological” contract with employees as a means of driving forward its business objectives’. From the perspective of academics, the concept ‘appears to provide a useful integrative concept around which to converge the concerns of the contemporary workplace’ (Marks, 2001: 454). Furthermore, it ‘has come to the fore in attempts to describe, understand and predict the consequences of changes occurring in the employment relationship’ (Coyle-Shapiro and Kessler, 2000: 903). Additionally, the concept ‘has been used increasingly in recent years as a framework within which to study aspects of the employment relationship’ (Guest and Conway, 2002: 22).

This article examines the relationship between the psychological contract research and the field of employment relations. To do so, the article is broken into several sections. The first section provides a brief overview of the nature and definition of the psychological contract. The second section examines the nature and definition of the ‘traditional’ perspective on employment relations as well as discussing the relationship of psychological contract research to this perspective. The third section discusses the pressures forcing a rethinking of employment relations that has resulted in a broader, ‘contemporary’ perspective on employment relations. This section also discusses the relationship of the psychological contract to this contemporary perspective. The final section examines the implications for future research.

The Nature and Definition of the ‘Psychological Contract’

In order to examine the relationship of psychological contract research to the field of employment relations, it is first necessary to briefly review the nature and definition of the psychological contract. Arguably, Rousseau’s (1989: 123) definition is the most widely utilized for research into the concept. She describes the psychological contract as ‘an individual’s belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some sort of reciprocal obligations’. Rousseau (1989) also argues that agreement between the parties need not exist. Robinson (1996) further develops Rousseau’s definition of the psychological contract by discussing the difference between perceived obligations and expectations. Robinson noted that ‘expec-
tations’ are ‘general beliefs held by employees about what they will find in their job or organisation’ (Robinson, 1996: 575). ‘Perceived obligations’ on the other hand are expectations that result from ‘perceived implicit or explicit promises by the employer’ (Robinson, 1996: 575). Finally, Morrison and Robinson (1997: 228) add to the understanding of the nature of psychological contracts noting that perceived promises are a ‘communication of future intent’.

The definition of the concept of the psychological contract is subject to some variation. Earlier definitions of the psychological contract (Argyris, 1960; Schein, 1965) argued that some form of tacit or implied agreement of obligations exists between the parties. The influence of this earlier definition can be seen in a more recent definition that is offered as an alternative to Rousseau’s (Guest, 2004). This alternative definition incorporates the idea of exchange and the metaphor of a contract involving at least two parties. Building on earlier work (Guest and Conway, 2002; Herriott and Pemberton, 1997), Guest (2004) argues that the psychological contract involves the perceptions of both parties to the employment relationship regarding reciprocal promises and obligations.

The psychological contract therefore provides an opportunity to explore the processes and content of the employment relationship through a focus on more or less explicit deals. These deals are likely to be re-negotiated or modified over time, to be influenced by a range of contextual factors, and to have a variety of consequences. The primary focus of the psychological contract is therefore the employment relationship at the individual level between the employer and employee. (Guest, 2004: 545)

This variance in definition of the psychological contract is an important issue when considering the relevance of the psychological contract to the field of employment relations.

The Nature and Definition of ‘Employment Relations’

The examination of the relationship between the psychological contract and employment relations also requires a review of the nature and definition of employment relations. It is generally accepted that employment relations is interdisciplinary in nature, drawing on a range of social sciences. ‘Any area of knowledge which can contribute to the understanding of human behaviour in organizations is relevant to industrial relations’ (Ackers, 1994: 39). However, there has been a lack of integration of psychology into employment relations (Brotherton, 2003: 121). This lack of integration appears to stem in part from differences in the level of focus of the two fields: the focus of employment relations tends to be on macro-level issues with an institutional emphasis, while psychology’s focus is on individual-level behaviour (Brotherton, 2003).

The ‘Traditional’ Perspective on Employment Relations

Kaufman (2004) observes that a variety of definitions of ‘employment relations’ (and its forerunner, ‘industrial relations’) have been offered over the
years. These definitions range from quite narrow (e.g. the ‘study of bargaining relations between employers and employees’ [Laffer, 1974, cited in Kaufman 2004: 43]) to very broad (e.g. ‘all aspects of labor’ [Chamberlain, 1960, cited in Kaufman 2004: 43]). However, in most English speaking countries, the combined influences of Dunlop’s systems approach to employment relations in the USA and the voluntarist tradition in the UK has meant that the term ‘employment relations’ has come to be associated with a focus ‘on the institutional relationship between employers and trade unions’ (Ackers, 2002: 5). It is this institutional-level focus that is considered ‘traditional’ employment relations in this article.

It is important to note the underlying themes related to the traditional employment relations inherent within an industrial relations perspective. Both Kelly (2004) and D’Art and Turner (2006) provide insights in this regard. Kelly (2004) argues that within an industrial relations perspective: (1) the employment relationship is partly cooperative, but also involves unavoidable, structural conflicts of interest between employer and employee; (2) there is a hierarchical and unequal nature to the employment relationship; (3) the employment relationship is a relationship of power and the balance of power between employer and employee is a complex matter, influenced by a range of variables; (4) the contract governing the employment relationship is typically indeterminate; and, (5) regulation of the employment relationship is undertaken at different levels: national, industry, sector and enterprise. In examining the employment relationship within a market economy, D’Art and Turner (2006) emphasize four sources of conflict: (1) the wage bargain between the buyers and sellers of labour; (2) the effort bargain between the buyers and sellers of labour; (3) the fundamentally unequal distribution of power between management and employees within organizational structures; and, (4) the status of labour as a commodity.

The Psychological Contract and ‘Traditional’ Employment Relations

The concept of the psychological contract does not sit easily within the traditional employment relations perspective. Since this perspective is characterized by a primary focus on the processes of job regulation, paying particular attention to the institutional relationships between employers and trade unions, an individual-level construct such as the psychological contract has been of little interest within employment relations. Psychological contract research sits more comfortably within the field of organizational behaviour. Additionally, between the psychological contract and traditional employment relations, there are differences in assumptions regarding power within the employment relationship, and in the ‘level’ of focus or analysis.

When considering differences in assumptions regarding power within the employment relationship it is important to note that between the 1960s and the 1990s there was a shift in the generally accepted definition and nature of the psychological contract. Argyris (1960) and Schein (1965) focused on a rela-
tional definition where at least a tacit or implied agreement was required in the psychological contract. As a consequence, the issue of power and authority was, of necessity, a consideration in the formation of psychological contracts. The more recent work of Rousseau (1989) and others argues that agreement between the parties need to exist for a psychological contract to exist. As a consequence of this shift, the issue of power in the relationship between the parties appears to have been lost. Sels et al. (2004) have observed that many studies of psychological contracts implicitly assume that these contracts are between two parties with equal bargaining power. This assumption is in dramatic contrast to the assumptions of differential power within the employment relationship as noted by Kelly (2004) and D'Art and Turner (2006).

It is also implicitly assumed in much of the literature on the psychological contract that the mutual obligations embodied within psychological contracts are strictly between an employer and an individual employee. Relationships between other parties to the employment relations system are largely ignored in psychological contract research (Marks, 2001; Sels et al., 2004). Furthermore, it is unclear whether a form of ‘collective’ psychological contract is possible, for example between the members of a work group and the employer, or the members of a union and the employer. Additionally, the focus of psychological contract research on individual employee–employer relationships completely ignores the influence of structural elements of the employment relations system such as government-mandated mediation services and adjudicative bodies such as employment courts and labour relations boards. While such institutions are focused on facilitating the formal/legal aspects of employment agreements, the mere existence of these institutions could have an impact on the psychological contract. While the influences of other parties related to the employment relationship appear to be peripheral to the concept of the psychological contract, they are central to traditional employment relations.

The ‘Contemporary’ Perspective on Employment Relations

During the past two to three decades, the nature of the employment relationship has undergone profound change (Rasmussen and Lamm, 2005). Of particular note is the shift from collectivism to individualism (Storey, 1995). There is a commonly held view of ‘collective labour and in consequence, collectivism per se, as having been broken by two decades of a market oriented ... economic and political context’ (Martinez Lucio and Stewart 1997: 65, emphasis in original). As a consequence, the narrow, institutional view of employment relations inherent in the traditional perspective has been argued as being unsustainable. Ackers (1994: 38) argues that a view of employment relations as collective bargaining confines it ‘to a minority activity in a declining sector of the economy’.

Guest (2004: 542) observes ‘[a] range of factors are affecting the viability of traditional employment relations and the analytic frameworks used to explore them’. The factors he identifies are as follows:
A decline in the number of people employed per individual workplaces is making trade union representation more difficult. Increasing flexibility and fragmentation of the workforce, working conditions, forms of employment contracts, and places of work are making collectively regulated systems less feasible to develop, operate and monitor. An increasing need for speedy and flexible response to technological changes is making time-consuming processes for negotiating change less appropriate. Increasing diversity in the workforce and growing interest in work–life balance are making individual deals which go beyond minimum rights and opportunities negotiated through collective bargaining more common. A decline in the proportion of employees that are covered by established systems of consultation and negotiation is making informal processes of greater significance. A decline in collective orientations in the workplace is occurring at the same time as there is growth in American-influenced forms of individualism that is partly linked to the advent of ‘human resource management’.

As a result of these developments, several authors have urged a broader focus for employment relations. Kaufman (2004) observes that the fundamental construct which underpins the field of employment relations is the employment relationship itself. Similarly, Ackers (1994: 38) argues that employment relations ‘should concern itself with the employment relationship in every facet’. Therefore, employment relations should be viewed as ‘the study of the employment relationship and all the behaviours, outcomes, practices, and institutions that emanate from or impinge upon the employment relationship’ (Kaufman, 2004: 45).

The Psychological Contract and ‘Contemporary’ Employment Relations

The concept of the psychological contract sits more comfortably within a broader, ‘contemporary’ definition of employment relations. The nature of the relationship between individual employees and their employer has been of minimal consequence within a traditional employment relations perspective. However, a growing proportion of the workforce is falling outside structures of collective representation with decisions regarding the employment relationship being made in relatively more informal contexts. As a consequence, a more contemporary view of employment relations that incorporates individual-level analysis is increasingly important. The psychological contract, especially when defined in a manner similar to that of Guest (2004), has significant potential to bridge the gap within employment relations created by lack of attention to individual-level matters. In his framework for applying the psychological contract to the employment relationship, Guest (2004: 550) explicitly acknowledges that individual and organizational contextual and background factors as well as policy and practice (including direct participation and employment relations)
Implications for Future Research

In order to more fully integrate the concept of the psychological contract into employment relations thinking, a significant amount of research is required in the following areas:

1. the relationship between employment institutions and individual employees;
2. how employment institutions influence the development, operation and maintenance of the psychological contract between the individual and their employer; and,
3. the relationship between the legal context and the psychological contract.

The interactions and communications between the organization and its employees are the primary means by which employees learn and develop their psychological contract (Kickul and Liao-Troth, 2003). While the primary source of information regarding these interactions and communications is a firm’s managers and senior executives, as well as an employee’s colleagues and co-workers, it is conceivable that other parties to an employment relationship such as unions and employers’ associations could have a mediating impact on those interactions and communications. Hence, a broader, more holistic interpretation of the employment relationship that is consistent with an employment relations perspective is required within psychological contract research. Such an interpretation would include unions and employers’ associations as potential mediating influences in the understanding of the development and maintenance of psychological contracts. While some research has been undertaken regarding the impact of breach of psychological contracts on organizational and union commitment (Turnley et al., 2004), there appears to be no research into the more general issue of the impact unions have on the establishment and maintenance of psychological contracts.

The same can be said for the impact other legislatively mandated employment institutions have on the establishment and maintenance of psychological contracts. For example, to what extent does knowing these institutions exist and are available to assist in the resolution of employment relationship problems affect experience and expectations? Or, if an individual has been involved in a mediation or adjudication of an employment relationship problem, to what extent does this involvement lessen or increase perceptions of violations or breaches of the psychological contract? Clearly, further research into the influences and impacts of structural institutions have on the psychological contract is needed.

Research into the legal context within which psychological contracts are developed and maintained is also required. Within the literature, it is assumed
‘that psychological contracts are meaningfully distinct from legal contracts’ (Roehling and Boswell, 2004: 225); however, it appears that minimal research into this assumption has been undertaken to date. A notable exception is a study by Roehling and Boswell (2004) in the USA that investigated a potential lack of congruence between the legally controlling employment environment and employees’ subjective beliefs regarding their employer’s and their own obligations. This study indicated support for this assumption. However, a fuller understanding of the potential influence or lack of influence of adjudicative employment institutions, such as employment courts and other employment relations tribunals, and meditative employment relations institutions, such as a mediation service, on the development of psychological contracts is needed to fully integrate the concept into employment relations thinking.

Conclusion

This article has argued that the concept of the psychological contract does not sit easily within a ‘traditional’ perspective on employment relations due to the perspective’s primary focus on institutional-level issues. However, a view of the psychological contract similar to Guest (2004) sits more easily within a broader, ‘contemporary’ perspective on employment relations that concerns itself with ‘all the behaviors, outcomes, practices, and institutions that emanate from or impinge upon the employment relationship’ (Kaufman, 2004: 45). Nevertheless, a significant volume of research is required to better understand the relationship between institutional-level and individual-level constructs and how they influence each other.

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