The Psychology of the Employment Relationship: An Analysis Based on the Psychological Contract

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Developments are outlined that are leading to changes in employment relations and to the need for a conceptual framework that has contemporary relevance. It is proposed that the psychological contract provides a useful framework, and different studies that have adopted the psychological contract to study aspects of employment relations are outlined. Building on these, it is argued that the psychological contract needs extending to give greater weight to context and to what is described as the state of the psychological contract, incorporating issues of fairness and trust that lie at the heart of employment relations. Based on this model, an agenda for future research is presented.

INTRODUCTION

The aim of this paper is to identify trends, issues, and research questions concerning the employment relationship that might engage researchers in the field of work and organisational psychology and to offer a conceptual framework built around the concept of the psychological contract as a way of analysing and exploring the contemporary employment relationship.

Work and organisational psychologists have a longstanding record of research in what has traditionally been termed industrial relations. It ranges from the seminal work of Walton and McKersie (1965) with their behavioural theory of negotiations, through the influential work of Emery and

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Thorsrud (1976) and Heller, Pusic, Strauss, and Wilpert (1998) on industrial democracy, to analyses using theories from social psychology to explore propensity for militant action (see, for example, Klandermans, 1984; Kelly, 1998). Much of this research and writing has been presented within a well-established paradigm based upon a systems model of industrial relations initially presented by Dunlop (1993). This focused on analysis of inputs, processes, and outputs and the role of key institutions and actors. These actors included employers, unions, and governments. Given the somewhat different values, interests, and objectives of these parties, a pluralist perspective was considered to provide an appropriate framework for analysis. Indeed, this stimulated considerable interest among work and organisational psychologists in issues such as commitment to company and union (Mowday, Porter, & Steers, 1982; Gordon, Philpot, Burt, Thompson, & Spiller, 1980) and the feasibility of dual commitment (Angle & Perry, 1986).

There is evidence that this traditional system of industrial relations has begun to break down, more notably in countries such as the USA and the UK where there has been only a weak legal framework to support it, but also, to varying degrees, in European countries where there has been stronger institutional support. This breakdown is reflected most noticeably in the decline of trade union membership and in some of the collective values associated with it (Leisink, Van Leemput, & Vilroox, 1996). Even in Sweden, which retains one of the highest levels of union membership, there has been a decline in membership density to about 80 per cent together with evidence of less solidaristic and more individualised, instrumental attitudes towards the role of trade unions and employment relations processes, particularly among younger workers (Allvin & Sverke, 2000). In this changing context, it is increasingly likely that the analytic frameworks that have served us well over the years are less able to account for and explain contemporary employment relations behaviour in organisations. Arguably, therefore, we need rather different frameworks to explore the “new” employment relations. Before presenting a possible framework, it is helpful to consider the factors that have led to this shift of emphasis.

DEVELOPMENTS THAT SUPPORT THE NEED FOR A NEW ANALYTIC FRAMEWORK

A range of factors are affecting the viability of traditional employment relations and the analytic frameworks used to explore them and at the same time emphasising the need for a different framework. The first influence is rather prosaic. The numbers employed in many workplaces are getting smaller. This makes the trade union job of organising the workforce more difficult. It is also easier for managers to establish a more personal relationship with workers, potentially limiting any felt need for independent representation.
In smaller workplaces, it is often easier for the informal to dominate over the formal, shifting emphasis away from the kind of collective issues best addressed within the traditional more formal system.

A second factor is the increasing flexibility and fragmentation of the workforce within many establishments. Different patterns of working hours, growing sub-contracting of non-core activities, greater variety of forms of employment contract, and more dispersal of work sites, including use of the home as a workplace, make it less feasible to develop, operate, and monitor collectively regulated systems intended to ensure fair and equal treatment for all. It is also more difficult to develop the sense of shared identity that might help to foster any kind of coherent collective opposition to management initiatives. Flexibility and fragmentation of the workforce also present new challenges for management as they seek to coordinate and control activities.

A third factor is the pervasiveness and urgency of change. Advances in technology are primarily responsible for an apparent speeding up of the world of work; and speed and flexibility of response is an important basis for competitive advantage. One consequence of this is that time-consuming and slow processes of negotiating change are less appropriate. A second is that promises and deals made in good faith one day may be broken the next due to factors such as a change in the market, a new product, a change in manager, or a reorganisation, resulting in feelings of betrayal and violation (Morrison & Robinson, 1997). In a permanently turbulent system, we need frameworks that can usefully analyse the changing employment relationship and its consequences for both employer and employee.

A fourth factor, reflecting a more diverse workforce with a less dominant role for the traditional male breadwinner, is the growing interest in work–life balance (Lewis, Smithson, & Kugelberg, 2002; Schein, 1996). This is important in the context of concerns by organisations to attract and retain high quality employees and to manage flexibility. How far are organisations willing to allow variations in working hours, to provide support facilities for parents of young children, and to provide time off for family activities? While a negotiated floor of rights and opportunities may be determined through collective bargaining, supported by the legislative framework, there are likely to be many local “deals” reflecting personal circumstances and related understanding of what might be permitted.

The fifth factor concerns the decline in the proportion of workers who are effectively covered by established systems of consultation and negotiation. In the USA it is a small minority; in the UK, the coverage has been steadily declining for years; and in a number of European countries, important issues are often decided at a level some distance from the workplace. Legislation is likely to ensure that some form of consultation through works councils continues to operate in Europe. However, for many workers, the
more informal and local arrangements and understandings are likely to be of greater significance and we need an approach to employment relations that can incorporate and focus on them.

Finally, the decline in collective orientation should be seen alongside the growth of an American-influenced form of individualism (for a discussion in the context of employment relations, see Allvin & Sverke, 2000), partly linked to the advent of human resource management. Over 20 years ago, Foulkes (1980) captured the focus of much of American human resource management (HRM) through a set of case studies in high profile non-union American companies. Key features that they shared were a complete absence of any form of collective representation and the use of a set of human resource practices designed to generate high commitment to the organisation. Indeed, as Pfeffer (1998) and others have suggested, one of the key goals of HRM is to seek high commitment. If this is done effectively, then there may be no room for competing commitment to an independent trade union. The jury is still out on how far this approach can succeed in the more pluralist context of Europe.

In summary, the context, the issues, and the processes have changed, resulting in a reduction in the role and relevance of collective systems, processes, and deals, except in so far as they set the context and reinforce a legislated floor of rights. Traditional collective employment relations are being challenged by changing values among the workforce, by the growth of individualism and flexibility, and by human resource management rendering the associated research paradigms used to explore it less useful. In these changing circumstances, we need a rather different conceptual framework around which to focus our analysis and research. Arguably, a key challenge for the future is how to explore the employment relationship in settings where collective arrangements either do not exist, have decayed, or address only a minority of the workforce or a small part of what is considered important in the ongoing employer–employee relationship. The remainder of this paper therefore explores the potential of the psychological contract as a broad analytic framework for this purpose.

THE PSYCHOLOGICAL AS A FRAMEWORK FOR ANALYSIS OF THE EMPLOYMENT RELATIONSHIP

The concept of the psychological contract is commonly traced back to the early work of Argyris (1960) and to social exchange theory (Blau, 1964). However, the key developments leading to its current use as an analytic framework were provided mainly by Rousseau (1995). Rousseau has defined the psychological contract as: “An individual’s belief in mutual obligations between that person and another party such as an employer” (Rousseau & Tijoriwala, 1998, p. 679).
Building on the idea of the exchange and the metaphor of a contract involving at least two parties, the definition that will be used here, adapted slightly from an earlier definition provided by Herriot and Pemberton (1997), is: “The perception of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship” (Guest & Conway, 2002, p. 22). 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.

A much earlier analysis of employment relations that incorporates the psychological contract was presented by Fox (1974). Writing within a mainstream industrial relations tradition and concerned with how to develop better industrial relations in the UK at a time of considerable industrial conflict, he was interested in the possibilities of going “Beyond Contract”. He used Gouldner’s “norm of reciprocity” as a core concept and illustrated the potential of the psychological contract to analyse employment relations using Gouldner’s Gypsum Mine case (Gouldner, 1965). Fox placed issues of power, trust, and fairness at the centre of his analysis and explored the scope to develop a positive psychological contract and associated employment relationship in the workplace by moving from a low trust to a high trust dynamic.

Advocacy of the psychological contract in the analysis of the contemporary employment relationship has come from a variety of sources. Kalleberg and Rogues (2000), from a more institutional, sociological perspective, accorded it a central role in their study of employment relations in Norway. They note that “The notion of psychological contracts (e.g. Shore & Tetrick, 1994; Rousseau, 1995) has proved useful for understanding employment relations, since many of their important aspects are based on perceptions: most employment relations are implicit or at least not written, and thus parties may have different understandings about them” (pp. 316–317). They explored five dimensions covering communication, compensation, time frame, investment in the relationship, and degree of change each of which they believed could be considered on a relational–transactional dimension. In a large Norwegian sample, they found a positive association between more relational as opposed to transactional contracts and higher levels of commitment to the organisation, job satisfaction, and intention to stay.

There is a potential problem for the psychological contract in that it has typically been studied from the individual worker’s perspective. Indeed, research on employee perceptions of breach or violation of promises by the organisation and their consequences (Morrison & Robinson, 1997), including behavioural consequences such as absence, labour turnover, and
withdrawal of cooperation and extra-role behaviour, comes close to addressing some of the outcomes often explored in more traditional employment relations. In contrast, there is little research within a psychological contract framework on the perceptions of employers and their agents of how they react when they believe that employees have failed to keep their promises or to meet their obligations. There have been debates about the validity, feasibility, and utility of an employer’s perspective on the psychological contract (see, for example, Guest, 1998; Rousseau, 1998). However, its value in any attempt to apply the psychological contract to analysis of the employment relationship is increasingly recognised (Shore & Coyle-Shapiro, 2003).

Research from an employer’s perspective has been presented by Tsui and her colleagues (Tsui, Pearce, Porter, & Hite, 1995; Tsui, Pearce, Porter, & Tripoli, 1997). They posit four types of exchange relationship that employers might pursue, which they label under-investment (in employees), over-investment, mutual investment, and quasi-spot contracts. Tsui et al. (1997) found that over-investment and mutual benefits led to better employee attitudes and behaviour than the other two approaches. Tsui et al. (1997) explicitly claim their study is not about the psychological contract because it only addresses the perceptions of one side in the exchange. But the study shows how research might be developed that addresses employment relations from the perspectives of both employers and employees, and Porter, Pearce, Tripoli, and Lewis (1998) have extended the framework to explore the extent to which there are shared perceptions by the employer and employees’ inducements to employees.

Guest and Conway (2002) report evidence of the utility of the psychological contract for employment relations. Among a sample of 1,306 UK employment relations managers, 36 per cent said they used the concept of the psychological contract to help them manage the employment relationship and many more considered it potentially useful. Interestingly, a number of managers acknowledged that the exchange was not always fair and tended to favour the employer. The study explored the application of high-commitment human resource practices as part of the context of the psychological contract and found an association between their greater application and management reports of more positive employee attitudes and behaviour. Since the use of these practices implies either over-investment or mutual investment, the findings appear to support those of Tsui et al. (1997).

A key research need is to explore perceptions of both parties to the employment relationship to determine the level of mutuality of perceptions of promises and obligations and their fulfilment, and the extent to which there is a shared view of the attitudinal and behavioural consequences. Researchers are beginning to explore the extent to which employees and the employer, or agents of the employer such as managers and supervisors, have a shared understanding of the promises and obligations and the extent to
which they have been met or breached (see, for example, Coyle-Shapiro & Kessler, 2002; Porter et al., 1998; Tekleab & Taylor, 2003).

In some of her more recent work, Rousseau has drawn a distinction between standard, position-based and idiosyncratic deals (Rousseau, 2001; Rousseau, Ho, & Greenberg, 2003). Standard deals are those that apply to large groups of workers and may typically reflect either legislated employment rights or the negotiated product of collective agreements. Position-based deals are those that apply by virtue of belonging to a distinct category in the organisation; for example, managers may have certain benefits that do not apply to the rest of the workforce. Idiosyncratic deals are those that are negotiated on an individual basis either at the point of joining an organisation or subsequently. It should be possible to compare organisations on the basis of the balance between the different types of deal. The key point for the present analysis is that this type of framework permits the integration of traditional employment relations, reflected in standard deals, and the more individualised, flexible, often informal and implicit arrangements captured in the concept of idiosyncratic deals. A central implication is that idiosyncratic deals are becoming relatively more important.

The growth of idiosyncratic deals has a number of consequences. First, it provides employers with the challenge of managing greater complexity. Given the range of type and content of idiosyncratic deals, there is also greater scope for breach and violation. Another factor that has to be taken into account is the consequence for other workers and the risk of increased perceptions of unfairness. There are also a range of potential issues of trust linked to the risk that what might constitute sensible individual arrangements, perhaps with respect to variations in working hours, blur into unauthorised personal deals or reflect forms of favouritism (Rousseau, 2004). By implication, the climate in which such deals take place and the levels of trust that exist will have a bearing on both the likelihood of this occurring and its consequences.

The problems inherent in the growth of idiosyncratic deals are central to the analysis of the psychological contract presented by Herriot and Pemberton (1997). They assume the decline of standard deals and the growth of idiosyncratic deals and argue that the key focus should be on negotiation of the deal as a more or less ongoing process. They also argue that this process should be made explicit and transactional and recognised as a central part of activities such as performance appraisal. The concept of negotiation is clearly central to traditional industrial relations where the emphasis has always been on standard or positional deals. In transferring it to the individual level there are questions about who is party to the deal, particularly in organisational contexts that have been characterised by Settoon, Bennett, and Liden (1996) among others as comprising multiple exchanges. There are also problems concerning what Rousseau (1995) termed the “zone of acceptance” and the point at which a psychological contract has been
successfully negotiated. For the present it may be useful to propose that formal transactional deals will be made largely with representatives of the organisation such as human resource managers, often at the point of entry, while idiosyncratic, implicit, and relational deals are more likely to be made with the immediate boss and others with whom there is frequent contact once working within the organisation.

In summary, there are a variety of sources that can be drawn upon to argue the case for using the psychological contract as a framework to explore the employment relationship, incorporating the perspectives of both employer and employee. In the context of the trends outlined at the start of this paper, the case for using the psychological contract for the analysis of the employment relationship is likely to get stronger. However, it also requires an analytic framework that takes fuller account of the context of employment relations (see Johns, 2001, for an argument about the need to take more account of context in organisation behaviour research) and which places greater emphasis at the heart of the analysis on the core employment relations concepts of fairness and trust highlighted by Fox (1974). It also complements and can be accommodated within the systems framework of traditional industrial relations.

BUILDING THE ANALYTIC FRAMEWORK FOR THE ANALYSIS OF EMPLOYMENT RELATIONS THROUGH THE PSYCHOLOGICAL CONTRACT

In developing an analytic framework that considers not just the psychological contract but its context, we can again draw on the systems framework of traditional industrial relations to explore the causes, nature, and consequences of the psychological contract. Context is recognised in the limited research on the employer’s perspective. The work of Tsui and her colleagues has highlighted the need to consider business strategy, ownership, and employment relations policy. Guest and Conway (2002) point to the need to consider human resource practices. Rousseau and Schalk (2000), Thomas, Au, and Ravlin (2003), and Wang, Tsui, Zhang, and Ma (2003) all point to the need to consider national culture, and it seems important also to consider organisational culture. This list can be extended but the key point is that the wider context and, within the organisation, the more relevant policy aspects need to form part of the analysis of the input to and influence on the exchange relationship and responses to it. At the individual level there are also likely to be differences in response related to personal circumstances but also to differing work values or career anchors (Schein, 1996). The range of variables that help to shape the context at both the organisational and individual level, as well as some of the key aspects of policy and practice, are listed on the left hand side of Figure 1. Greater consideration
of these issues would facilitate the analysis of the employment relationship and also greatly enrich research on psychological contracts in general.

The context helps not only to shape the content of the exchange that forms the psychological contract but also the responses to it. There has been considerable focus on dimensions that might prove useful in analysing the psychological contract. These typically include aspects such as the extent to which the contract is relational or transactional, public or private, and long term or short term (Rousseau, 1995: McLean Parks, Kidder, & Gallagher, 1998). Rousseau’s distinction between standard, positional, and idiosyncratic deals could be added to the list. However, the way in which anyone reacts to these dimensions is hard to predict without broadening our understanding of context and process. For example, an individual may have a narrow, explicit, transactional, and idiosyncratic deal which is clearly fulfilled. If there is contract fulfilment it might be expected that positive outcomes will ensue. However, this neglects the issues highlighted by Fox of trust, fairness, and, linked to these, power. Arguably, outcomes can only be well understood once these are taken into account.

The status of fairness and trust is somewhat uncertain in the context of existing psychological contract research. Fairness, often defined in terms of dimensions of justice, can be seen as an input, a dimension, and a consequence of the psychological contract. The same is true for trust although it is typically treated as an outcome. However, this may become problematic, more particularly in the context of idiosyncratic deals where the social comparisons relating to fairness and trust associated with whether the deals made are perceived as unauthorised or as preferential favouritism (Rousseau, 2004) are likely to affect the attitudes and behaviour of others. Equally, from an organisational perspective, subsequent responses are likely to be a function of trust in employees to continue to deliver their side of the deal. In support of this, there is some evidence that fairness and more particularly trust serve as mediators between contract fulfilment or breach and outcomes such as commitment and intention to quit (Clinton & Guest, 2004). It therefore appears that, more particularly in the context of employment relations, both fairness and trust are closely implicated with the psychological contract. For this reason, it can be argued that there is utility in developing and incorporating into the model of the employment relationship the concept of the state of the psychological contract. If the psychological contract addresses perceptions of the reciprocal promises and obligations between organisation and individual, the state of the psychological contract is concerned with “whether the promises and obligations have been met, whether they are fair and their implications for trust” (Guest & Conway, 2002). On the basis of current knowledge, the way in which the concepts that form the state of the psychological contract might be related is set out in the centre of Figure 1.
FIGURE 1. A framework for applying the psychological contract to the employment relationship.
The final part of the model concerns outcomes. Given the dominant focus on breach, this has been the most widely explored element within the model and the issues addressed have been similar whether an employer or employee perspective has been adopted. The outcomes typically explored are listed on the right hand side of Figure 1 where a broad distinction is drawn between attitudinal and behavioural outcomes.

The aim in presenting the extended model of the psychological contract is to provide a broad analytic framework within which to explore employment relations in the 21st century. Using the psychological contract as the central organising concept helps to maintain a focus on employment relations and the concerns of employees in a context which is increasingly non-union and where employee “voice” may be restricted, and therefore where there is a risk that employee concerns and outcomes might otherwise be neglected. At the same time, by building on the systems framework and taking account of context and the processes associated with the state of the psychological contract, it can be applied in organisations where traditional industrial relations still thrive.

**IMPLICATIONS FOR W/O PSYCHOLOGY RESEARCH**

The extended version of the psychological contract presented here provides an analytic framework for the study of the employment relationship in the 21st century and a potentially rich research agenda. This agenda can be considered within the analytic framework of context, content, and consequences of the employment relationship. Starting with context, there is a need for a fuller exploration of the core assumptions informing the need for a different analytic framework for the study of the employment relationship. For example, how strong is the shift from a collective and solidaristic to an individual orientation in European countries? To the extent that it exists, does this reflect a broad cultural trend and to what extent are management policies and practices helping to promote this? For example, what is the role of increased variety of employment contracts, greater flexibility of employment, and promotion of HRM?

There is also a rich comparative agenda. We know that in some European countries, such as the Netherlands (Boselie, Pauuwe, & Jansen, 2001), managers’ freedom to act as they might wish is constrained by national laws and collective agreements. With a public formal agreement and system of regulation, this might appear to place more emphasis on the psychological contract as an area of freedom for mutual action. But it may also affect attitudes towards the use of idiosyncratic deals. Is this the case, and if so, how far do national institutional frameworks affect and shape the state of the psychological contract and is this influence increasing or decreasing over time?

Turning to the content, research needs to explore how psychological contracts in the workplace develop and to what extent they are shared/standardised or idiosyncratic. In this context, which elements, for example the more relational or transactional, are most highly valued and most susceptible to breach and violation? For example, does any shift from standard and positional deals to idiosyncratic deals increase the likelihood of perceptions of breach and create further employment relations problems? Much of the psychological contract research has focused on promises; what about obligations? Are these shared and are they more strongly felt? Do these, more than promises, reflect societal values? And if so, what are the consequences if either employer or employee violates them? In all this, there are important questions about the role of collective agreements. In different countries these are set at sectoral or company or even workplace level. What difference does this make in facilitating or constraining the local deals at the level of the psychological contract?

Research also needs to address the state of the psychological contract and the delivery of the deal, including the relationship between fairness, trust, and delivery of the deal. Can we conceive of a virtuous or vicious circle combining them and therefore substantially affecting the attitudes and behaviour of all parties to the relationship? By implication, there is a need to explore the circumstances under which there is positive fulfilment of the psychological contract and mutuality, reflected in a shared understanding by both employer and employee about the nature of the promises and obligations and the extent to which the “deal” has been delivered.

The final element in the emerging research agenda concerns the consequences of breach of the psychological contract. In some respects this is already well covered in W/O research on commitment, citizenship behaviour, labour turnover, and other topics outlined in Figure 1. Conway and Briner (2002) have shown that breach and over-fulfilment of psychological contracts occur on a day-to-day basis and are part of organisational life. We need to know more about when they begin to matter to the extent that they affect behaviour in a significant way. As noted, there is a need to explore employer reactions to perceived breach by employees.

In conclusion, the wider economic, social, and legislative context continues to play a central role in setting the framework for contemporary employment relations and is likely to do so in the future. Within this framework, the emergence of new more flexible and more fragmented relationships, the change from a collective workplace orientation towards more individualistic values, and the growth of human resource policies designed to promote individual–organisation linkages, informality and a positive leader–management exchange, combined with pervasive change and pressure at work, point to the need for a framework that can analyse these concerns. The traditional more institutional systems of employment relations cannot
easily accommodate the increasingly idiosyncratic and varied nature of the employment relationship. In addition, there are a growing number of workplaces in Europe where the influence of social partnership and collective voice is severely restricted or totally absent. We need a conceptual framework that enables us to analyse and research employment relations in these contexts, and the psychological contract appears to be able to meet this challenge and maintain a focus on the attitudes, the concerns, and the behaviour of workers in such organisations.

REFERENCES


