

# The psychological contract: a critical review

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## Abstract

Literature on the psychological contract has blossomed progressively over the last ten years to the extent that it is now firmly located within the lexicon of the Human Resource Management (HRM) discipline. Yet as this review indicates, the theoretical assumptions that seem to pervade the psychological contract literature are not without major deficiencies, which in turn pose serious questions around the continued sustainability of the construct as currently constituted. This paper addresses some of the central problems presently confronting the theoretical side of the psychological contract literature. In seeking to advance knowledge and understanding, this review calls for an alternative approach to studying the psychological contract on the basis of a more critical and discursive literature analysis. From this we unpick the construct of the psychological contract as portrayed in much of the extant literature, and argue that in its present form it symbolizes an ideologically biased formula designed for a particular managerialist interpretation of contemporary work and employment.

**Key words:** the psychological contract; literature review; management ideology; human resource management; socio-political control; employment relationship.

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## **Introduction**

Although the concept of the psychological contract originates from outside the Human Resource Management (HRM) field, it has nevertheless become a major analytical device in propagating and explaining HRM. There is a considerable amount of interest in the psychological contract from academics and practitioners alike, as both search for the factors likely to contribute to sustained employee motivation and commitment.

In this review we show that there is a need to re-examine and scrutinize the central theoretical assumptions that have underpinned much of the psychological contract literature; in particular, its managerialist discourse which often champions what is meant by a positive psychological contract. The review opens by tracing the origins and antecedents of the psychological contract literature, and then clarifies some of the core theoretical contributions that have advanced knowledge and understanding in this area. Subsequently, key theoretical and conceptual issues left unresolved in the literature are then addressed. Finally, this review concludes with suggestions for future theorizing about the psychological contract, but not before unpicking the psychological contract as a discursive artefact that serves managerialist interests to the neglect of other social actors in the employment relationship.

## **The origins of the psychological contract literature**

The literature on the psychological contract has expanded considerably over the past 10 years, primarily under the influence of Rousseau (1989; 1995; 2001). However, the concept has a much longer and deeper pedigree, with its antecedents evident in earlier work on social exchange theory. Central to this

theory is that social relationships have always been comprized of unspecified obligations and the distribution of unequal power resources (Blau, 1964). In terms of organizational analysis, social exchange constructs are clearly evident in the work of Argyris (1960), Levinson *et al.* (1962), and Schein (1965; 1978). Argyris (1960) used the term ‘psychological work contract’ to describe an embeddedness of the power of perception and the values held by both parties (organization and individual) to the employment relationship. Significantly, this earlier literature illustrates the point that employment relationships are shaped as much by a social as well as an economic exchange (Fox, 1974). Developing this further, Levinson *et al.* (1962: 21) saw the psychological contract as “a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other”. According to Schein (1978), these expectations between the organization and individual employee do not only cover how much work is to be performed for how much pay, but also a whole set of obligations, privileges and rights. Schein’s insightful contribution alerts us to the idea that labour unrest, employee dissatisfaction and worker alienation comes from *violations* of the psychological contract that are dressed up as explicit issues such as pay, working hours and conditions of employment which form the basis of a negotiable rather than a psychological agenda.

Yet in spite of this earlier interest in the construct of the psychological contract, a more expansive consideration of its application to management theory did not fully emerge until the 1990s. Interest in the psychological contract at this time was driven by a desire among academics and practitioners to search for new and more innovative people management practices amidst a context of economic

restructuring, heightened international competition and changing labour market dynamics. This renaissance in the psychological contract was led first and foremost by Rousseau (1989; 1990), whose use of ‘transactional psychological contracts’ - where employees do not expect a long-lasting ‘relational’ process with their organization based on loyalty and job security, but rather perceive their employment as a transaction in which long hours are provided in exchange for high contingent pay and training – seemed to capture the mood of the day concerning labour market flexibility and economic restructuring of the employment relationship.

It is important to acknowledge the contextual factors which contributed towards cultivating the psychological contract literature, as much of it has underpinned subsequent research and analysis (Herriot, 1992). Arising from these contextual dynamics was a series of changes which seemingly called into question many of the assumptions of ‘traditional’ employment relations systems. Guest (2004) articulates the view that workplaces have become increasingly fragmented because of newer and more flexible forms of employment. At the same time, managers have become increasingly intolerant of time-consuming and sluggish processes of negotiation under conventional employment relations systems. Consequentially, promises and deals which are made in good faith one day, are quickly broken due to a range of market imperatives. With the decline in collective bargaining and the rise in so-called individualist values amongst the workforce, informal arrangements are becoming far more significant in the workplace. As a result, the ‘traditional’ employment relations literature is argued to be out of touch with the changing context of the world of work. Given the increasingly idiosyncratic and diverse nature of employment, a framework like

the psychological contract, reflecting the needs of the individual with implicit and unvoiced expectations about employment, can easily find favour as an appealing, 'alternative' paradigm for studying people at work.

While some of this debate could be seen to be wrapped in an Anglo-Saxon term of reference, similar debates have nevertheless taken place in the US, across Europe and in Australia and Asia (Leisink *et al.* 1996; Kitay and Lansbury, 1997; Kalleberg and Rogues, 2000; Allvin and Sverke, 2000; Lo and Aryee, 2003). Such literature discourse has evidently served as a fertile breeding ground upon which an analytical framework like the psychological contract could prove productive.

It seems then, that with its emphasis upon the informal and the perceptual, the theory of the psychological contract is often regarded in the literature as a germane conceptual lens that fits with the changing contours and pressures emanating from global economics and shifting employment patterns (Herriot, 1992). It seeks to go beyond the limitations of the legal contract of employment - which focuses exclusively upon the formalised aspects of work - and instead considers some of the subjective and normative elements associated with people management (Arnold, 1996). Moreover, it appears particularly useful in acknowledging that the economic and formal aspects of employment are inevitably influenced by informal social interactions. It also recognises that employment includes implicit and unspecified expectations which provide the relationship with a strong element of indeterminacy. In that sense, managing people at work is portrayed as containing a strong social dynamic, rather than a purely static and once-off economic transaction. Conceptually and theoretically, the literature surrounding the psychological contract has helped to understand the

ever changing parameters of employment relations. Although as we argue below, a lot more needs to be done and existing conceptualizations require more critical and engaging frames of analysis.

### **Defining the core of psychological contract**

Despite a burgeoning of interest and wealth of literatures pertaining to the psychological contract, there remains no one or accepted universal definition (Anderson and Schalk, 1998). Different authors have tended to adopt different perspectives regarding what the psychological contract is, and what it is supposed to do. Some authors emphasize the significance of *implicit obligations* of one or both parties; others stress a need to understand peoples' *expectations* from employment; while another school of thought suggests that *reciprocal mutuality* is a core determinant of the psychological contract (Rosseau and Tijoriwala, 1998; Atkinson *et al.* 2003; Tekleab and Taylor, 2003). The attendant result is that some authors seem to be measuring different aspects of the same construct (Roehling, 1997). As Guest (1998) notes, the construct has been operationalised to include so many different psychological variables with very little understanding about the relationships between them, that the psychological contract has in many ways become an analytical nightmare.

Although there is general consensus that the psychological contract deals with implicit reciprocal promises and obligations, there has been what can be described as a dualistic approach in the literature over which parties (employees and/or managers) should be included under the analytical rubric of the psychological contract. The early approaches of Argyris, Levinson and Schein towards conceptualising the psychological contract as a form of social exchange

rested upon the need to understand the role of subjective and indeterminate interactions between two parties: employer and employee. To this end, the expectations of both parties and the level of mutuality and reciprocity needed to be considered jointly in order to explain the sources of agreement and disparity.

With the re-emergence of interest in the psychological contract under Rousseau (1989), a different interpretation was utilized. Rather than focus on a two-way exchange, she explicitly distinguished between conceptualizations at the level of the individual, and at the organizational relationship level. Rousseau sought to focus in on the former by advancing a case for individual employee subjectivity in employment. For her, the psychological contract is an individual employees' "belief in mutual *obligations* between that person and another party such as an employer" (Rousseau and Tijoriwala, 1998: 679, emphasis in italics added). Rousseau's re-conceptualization of the psychological contract stressed an emphasis on the individual employee's sense of *obligations*, rather than *expectations*, on the assumption that unmet obligations would naturally result in a more damaging response than unmet expectations. On this basis, much of the literature post-Rousseau has followed a similar path by focusing primarily on the individual employee's understanding of explicit and implicit promises regarding employee contributions, in terms of effort, loyalty and ability for organizational inducements such as pay, promotion and job security (Morrison and Robinson, 1997; Conway and Briner, 2002).

However, Rosseau's re-conceptualization of the construct of the psychological contract is not without its critics. Guest (1998) has argued that the psychological contract should return to its roots in the form of including an 'employer perspective' in order to be able to fully assess the notion of mutual and

reciprocal obligations. According to Guest (2004), for the psychological contract to be a suitable tool for analysing the employment relationship, it needs to realise the employment relationship is a two-way exchange, with the focus squarely upon the perceptions of reciprocal promises and obligations of both parties (see also Guest, 2004a). Guest (1998) has also suggested that the conceptual distinctions between ‘obligations’ on the one hand, and ‘expectations’ on the other, are somewhat obscure <sup>(1)</sup>. Guest’s (1998, 2004) re-assessment is useful because it opens up questions surrounding the conceptual and analytical difficulties involved in projecting organizational entities as holding complex and uneven expectations for the parties involved. Under Rousseau’s approach, organizations are deemed to be something of an anthropomorphic identity for employees, with employers holding no psychological contract of their own. As Boxhall and Purcell (2003) have argued, if the psychological contract is entirely subjective and constructed only in the head of the individual employee, it cannot in any meaningful way be considered ‘contractual’.

Nonetheless, an advocacy of focusing upon mutuality presents its own difficulties, especially where there is a large power differential between employer and employees. This allows for the emergence of multiple psychological contracts, some of which may be imposed rather than mutual, with employees unable to incorporate their own expectations and hopes. In this regard, there has been a great deal of commonality within the literature in terms of a predominant focus on contract violation. Usually, research focuses on employees’ perceptions

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<sup>1</sup> Recognising this deficit, Coyle-Shapiro and Kessler (2000) argue that more empirical work is needed to clarify whether the two variables are actually different. Thus while there remains divergence around the validity of including an employer’s perspective on the psychological contract, recognition of its worth is growing in the literature (Porter *et al.* 1998; Coyle-Shapiro and Kessler, 2002; Tekleab and Taylor, 2003).



of the breach of expectations by the employer, for example in relation to job security, opportunities for development which in turn can lead to feelings of injustice or betrayal among workers (Morrison and Robinson, 1997). Numerous studies focus on attitudinal reactions to contract violation, in terms of organizational commitment (Lemire and Rouillard, 2005), work satisfaction (Sutton and Griffin, 2003), work-life balance (Sturges and Guest, 2004), job security (Kramer *et al.* 2005), motivation (Lester *et al.* 2001) and stress (Gakovic and Tetrick, 2003). Others have assessed violation in terms of behavioural consequences, such as organizational citizenship behaviour (Othman *et al.* 2005), employee turnover (Sturges *et al.* 2005) and job performance (Lester *et al.* 2002). Ultimately, what many of these studies show is that employees with different understandings of their psychological contracts respond differently to contract violation and to organizational change, further illustrating ambiguity with the likes of Rousseau's core psychological contract dimensions. For example, Ang *et al.* (2000) show how employees who encountered precarious and atypical employment in Singapore had a lower sense of obligation to employers than their US counterparts. While there is a great deal on the employee perspective, employer perspectives on violation have been largely unexplored (Guest and Conway, 2002).

These are important conceptual limitations in the literature about constructing an analytical framework to evaluate the psychological contract. Some approaches have opted towards measurement indirectly, for example through related variables such as commitment and loyalty (Kickul, 2001). Other literature has constructed measures in which the psychological contract is unpacked into an assortment of objective and subjective variables which are subsequently measured through

instruments like survey questionnaires. For example, Westwood *et al.* (2001) measure the promises and commitments employees perceived to have been made by their organizations, followed by a measure of the obligations which employees perceive they themselves had made.

In addition to the problems of variable-specificity, other contributors have sought to apply a more contextual understanding of the psychological contract by assessing potential cultural divergence associated with people management, as in the work of Wang *et al.* (2003) in China. Similarly, Tsui *et al.* (1997) seek to explore the role of business strategy and its impact on the psychological contract, while Guest and Conway (2002) have explored the application of high-performance HRM practices as a contextual backdrop to psychological contracting in organizations. As part of this enlargement of the frame of reference, Guest (2004; 2004a) has more recently advocated that the focus should move towards a consideration of the *state* of the psychological contract. In particular, he stresses that not only should the psychological contract literature take account of context, but should also seek to incorporate central work issues like trust and fairness in order to make the psychological contract part of a wider analytical framework for the employment relationship.

### **Central theoretical problems: A review**

Having reviewed the development and key preoccupations of the psychological contract literature, the following section seeks to address what might be seen as some of the central theoretical complexities that underpin the psychological contract literatures development as a viable analytical framework for the future. At present, in spite of the rigorous debate within the literature, there remain

outstanding theoretical issues which contribute towards making the psychological contract something of a myopic conceptual lens. The consequence of this is that current literature and theorizing has missed (or by-passed) other sources of influence which in turn impact upon what the psychological contract purports to measure. Until some of these ignored sources are grappled with, studies searching for the attainment of a healthy psychological contract may be pursuing a lost cause in search of an organizational chimera.

We address these ignored issues as follows. First, the continued use of the contractual concept in the literature is questioned. Second, we deal with the possibility of mixed messages and divergent expectations surrounding the delivery of the deal. Third, we present psychological contract violations within a wider political economy of capitalism. Finally, questions about alternative post-structural, cultural and socio-political interpretations surrounding the construction of the psychological contract are reviewed and appraised.

### ***Can the psychological contract be considered a ‘contract’?***

Central to the theoretical assumptions behind the psychological contract literature is the notion of the subjective interchange between employer and employee having (or having the potential to) contractual status. This issue, as to whether the concept of a psychological contract can be constituted as a ‘contract’, has been considered by Guest (1998, 2004) and Boxall and Purcell (2003) – although it is only the latter authors who have suggested that this fundamentally compromises the central scaffolding of psychological contract theory.

In legal terms, the notion of a contract implies an agreement or at least the outward appearance of an agreement. Yet given that the psychological contract is

orientated towards subjective perceptions - or as Rousseau (1995: 6) has stated 'agreement is in the eye of the beholder' - the potential for reaching such agreement or finding the 'zone of acceptance' is inherently problematic. To put it another way, it is very difficult to pin down precisely at what point the psychological contract might be successfully negotiated (Guest, 2004). Indeed this problem is even more pertinent if the contract is viewed as some form of ongoing process (Herriot and Pemberton, 1997). As Guest (1998:652) observes, "where the implicit encounters the implicit, the result may be two strangers passing blindfold and in the dark, disappointed at their failure to meet".

In contrast to the psychological contract, a legal contract is one that is more formal, written down and verbalized between the two parties. This suggests that both parties have read and agreed to its terms and conditions. In such an instance, this type of contract becomes quite difficult to change without some degree of consent between the contracting parties. As the literature on psychological contracting illustrates however, it is not subject to such contractual restrictions because it has been exclusively constructed through the individual's unvoiced expectations and subjective feelings (Rousseau, 1995). As a result, there is very little to prevent it from being casually and secretly changed by either party.

In addition, there are further ambiguities surrounding the legitimacy of the term 'contract' being subsumed into an unvoiced social exchange interaction. On face value, we often accept that workers and managers of an organization enter into a contract agreement, more often than not when starting a new job. However it can be extremely unclear as to whom the parties are to such an agreement. This is because we regard the worker and the organization as easily identifiable and recognizable entities, which is in fact not always the case. Particularly in a large

organization, employees are likely to come into contact with a wide range of organizational agents, creating what Setton *et al.* (1996) have referred to as ‘multiple exchanges’. Clearly, it would seem unlikely that each of these agents will provide employees with exactly the same expectations. This leads to a rather ambiguous position in conceptualizing which organizational agents are likely to be the most prominent or influential in constructing different expectations.

Furthermore, the notion of making a contract with an organization is made increasingly difficult given the increased use of non-standard forms of employment, such as in the case of agency workers or multi-site employers. In many instances, it is often unclear as to who the actual employing organization might be (Rubery *et al.* 2004). The blurring of organizational boundaries and the development of multi-employer relationships has a number of implications for the management of human resources and the construction of psychological contracts. For example, Cooke *et al.* (2004) provide an instance of airport baggage handlers who identify strongly with the airline they work for (Airline D), even though they are legally employed by an outside agency contractor. In spite of the fact that employees were not actually employed by the airline, workers felt committed to it because they saw their position as a temporary stepping-stone towards gaining permanent employment. Indeed, many baggage handlers actively portrayed themselves as airline employees and in some cases sought to conceal their true identity by hiding their actual employer’s ID badge from boarding passengers. The apparent ambivalence towards their actual employer was made explicit by one baggage handler who commented: “Our commitment will be to Airline D because if they think we are not good enough, then we have to go back to FH (*their employer*)” (Cooke *et al.*, 2004: 188).

In relation to the construction of a psychological contract, the above illustrates the contradictions for employees receiving and subsequently interpreting managerial messages about their expectations and obligations, particularly when employees identify less with their actual employer and more with a client organization for whom they perform day-to-day tasks.

There are further limitations with the use of the concept of contract. As discussed above, a contract implies that the parties have entered into an agreement freely and equally, and in legal terms, the agreement cannot be changed without some consent between the two contracting parties. However this is a flawed assumption. Employment contracts are rarely made amongst equals, nor are they explicitly negotiated and agreed in the same way as buying a house or a car. In entering into a relationship with an employer, for the majority of employees, it means that they become subordinate to their employers' power and authority because it is employers who control and direct the productive resources of the enterprise (Fox, 1974). In many instances, it is employers who determine the rate of pay, the pace of work and what benefits are offered in exchange for the employees' physical and mental labour.

If an imbalance of power is inherent in explicit, legal contracts, then the prerogative of employers to direct and distribute resources as they see fit is magnified for an implicit set of expectations that the psychological contract seeks to capture. When we consider this imbalance of power between management and employee, and its implications for how unvoiced expectations are supposed to be communicated and understood, then it is perhaps not surprising that authors find increasing contract violation (Morrison and Robinson, 1997). It is perhaps time

that the psychological contract is recognized for what it is: a social exchange interaction.

### ***Mixed messages and divergent expectations***

Even recognizing that employers generally have a greater degree of power and authority to shape expectations, it is possible that the management of a psychological contract can promote a climate of ‘people-building’ rather than ‘people-using’ in HRM (Guest and Conway, 2002:22) This raises questions as to whether managers can communicate what the required expectations and behaviours are among organizational stakeholders, or indeed whether managers consciously devote the time and effort to keep their promises and commitments to employees (Guest and Conway, 2002).

A central component in Guest’s (2004:550) analytical framework is a set of variables which seek to measure ‘reciprocal promises, inducements and obligations’. And herein lies a conceptual problem. The concept of the psychological contract means that the dimensions of reciprocity are unspecified and implicit, and therefore always difficult to quantify. Yet even assuming that measurable indicators are available, there is a further dialectic with regard to mixed messages or poorly communicated expectations from managers. Arguably, if employees *perceive* there has been a breach of their psychological contract, this might well be a case of false expectations rather than evidence of management overtly renegeing on promises that are ‘believed’ to have been made. For most employers, there is a tendency to view the ownership of labour time and effort according to the legal contract rather than as the exchange of unspecified obligations (Boxall and Purcell, 2003). By this interpretation, models of the

psychological contract may be seeking to measure the unattainable, and what is lacking here is not so much that managers fail to deliver on some unspecified deal, but ‘how’ and ‘why’ employees come to perceive and interpret managerial expectations and behaviours in the first place.

A case in point from the literature is provided by Hallier and James (1997) who evaluated how employees and line managers in an air traffic service organization (called ATC) enacted the psychological contract when introducing organizational change. Hallier and James note how management frequently adjusted what they demanded of employees when the pressure for change was acute. For management, the need for employee ‘consent’ to a change in their psychological expectations was unnecessary, with adjustment rationalized on the grounds of external business factors. For managers, a failure to deliver on a deal that employees expected was the result of pressures in demand for new business, and not management’s lack of willingness to communicate. Management argued that increased pressure on costs and greater competition meant that previous commitments to job security and satisfying individual career preferences could no longer be sustained. Indeed, management assumed employees would realise this, and adjust their needs accordingly to accommodate changing commercial priorities. Moreover, changes emanating from competitive pressures were seen as inescapable and externally justified. In short, the managerial prerogative prevailed regardless of the employees’ psychological expectations. In the words of the personnel manager at ATC: “Every one of them has an unreal expectation that ATC owes them a living. They have no perception of reality in the outside world. Even where they've been faced with potentially miserable futures outside, seeing



that the market is paying so much lower than they're getting, they still adopt the view that says you owe me everything.” (Hallier and James, 1997: 715)

Imbalance in the psychological contract was not perceived to occur from management’s failure to deliver unvoiced expectations. Instead, and for management, any unfairness present in the relationship was regarded as arising from the employees’ efforts to maintain the conditions established in the old contract and refusing to give up what were now ‘unreal’ expectations. As a result, those employees who refused to adjust their responsibilities would themselves need to be changed (replaced) in the future (Hallier and James, 1997). For employees, it is a completely different but simple story: they *perceived* that management had failed to keep their promises and commitments.

What is particularly insightful here, returning to our critical scrutiny of the psychological contract, is that employee compliance with management decisions was perceived to arise primarily from a legal transaction underpinned by the notion of managerial ownership and their assumed right to redirect resources. It can be argued that management, far from accepting the obligation of reciprocal promises and inducements between employer and employee, seemed more inclined to conceive of the relationship in a manner that could be regarded as owning the employees’ time and effort. Furthermore, the emergence of a ‘new’ psychological contract was based on management’s need for it, and was a strategy to reconstitute managerial legitimacy as well as act as a conduit for change on management terms.

In other research there are mixed messages about whether management deliver on the promises made. Guest and Conway (2001) conducted research on the state of the psychological contract among private and public sector employees

in the UK, with data drawn from 2000 workers. At a general level, they show some positive support for the idea of a psychological contract. Most employees reported that their employers had made promises about fair treatment, equality and employee voice, although in areas such as pay or career development they were less positive. What is perhaps more interesting from this survey is the dissonance between those who report that their employer 'made a promise' (around half of those surveyed). The same authors later surveyed managerial respondents about the state of the psychological contract, and found an undercurrent of contract violation in part or in whole. As Guest and Conway (2002:36) conclude: "Senior managers responsible for relevant policy acknowledge that their organisations often fail, partially or more completely, to keep their promises and commitments".

### ***Structural explanations of violation***

A great deal of the literature finds that more often than not, management fail to live up to their side of the bargain. Conventional psychological contract literature explains this as a result of managerial failure and, to some extent, market pressures (Guest and Conway, 2002a). Such explanations are limited in so far as they fail to comprehend that these are merely surface level issues that arise from a deeper explanation of political and economic power. Godard (2004) has taken a similar approach towards high-performance work systems, suggesting not only managerial failure but locating a paradigm weakness because of the institutional breakdown arising out of the liberal market economic model. Godard's argument for high-performance work system failure has a strong resonance in how the extant literature is equally misguided in its treatment of the psychological contract

as a paradigm shift that seeks to explain contemporary (or new) employment relationships.

The core of this argument is that the management of employment is characterised as a relationship of subordination under conditions of interest conflict. When an individual employee enters into an employment relationship with an employer, he/she becomes legally subordinated to the exercise of employer authority. Under capitalism, the employee, as a resource to be used for employer ends, has little if any rights to co-decision making. As such, employee interests are subordinated to those of the employer, ultimately meaning that employees always have a reason not to trust management. Consequently, trust and employer legitimacy are always potentially a problematic issue when a social exchange interaction is based on unvoiced promises and expectations. While some level of consent and co-operation may be induced from employees, particularly when attractive and suitable policies are implemented, employees will do so only as long as they have little reason to suspect managerial motives. Given the constant competitive pressures that employers face to cheapen the costs of production, notably labour, employers often find it necessary or in its interests to make a decision that serves to negatively impact upon employees. Thus employee distrust is likely to surface, and co-operation is likely to be replaced by apathy, begrudging compliance or even resistance.

Thompson (2003) has alluded to the fragility of this bargain between employers and employees within the context of contemporary capitalism. He notes that there remains an inherent (and substantial) tension between the degree of stability required to reap the so-called benefits of HRM, such as a positive psychological contract, and the insecurity engendered from current forms of

corporate governance, such as a penchant for downsizing. Thus, trying to generate commitment and satisfy unvoiced expectations remains a thorny issue for employers because of volatile markets and fragmented organizational structures. The inter-related force of deregulation, globalization, emphasis on shareholder value and the systematic rationalization across organizations, all provide sizeable challenges to employers in meeting employee expectations. Ultimately then, if employers fail to deliver their side of the deal, it may not be managements' fault. Rather, the underlying problem with the psychological contract literature is its neglect of a consideration of the design of the employment relationship under capitalism, and the possible influences arising from structural factors and institutional inertia. This aspect to our review is taken further in the next section.

#### ***Sources of influence in building the psychological contract***

Finally, it is worth noting how the psychological contract literature has invariably missed out on potentially powerful sources of influence that could serve in constructing an employees' psychological exchange with greater clarity and precision. Rousseau (2001) has initiated work into this area, noting in particular how the formation of psychological contracts occur during pre-employment, recruitment, early socialization and later experience stages. Herriot's (1992) model of the psychological contract has implicitly touched upon this issue too when explaining that the individual employee constructs their psychological contract under the influence of both internal and external factors. At the internal level, the influence of management in the employing organization is the most obvious, while externally, there are a wide range of social and economic factors from which an employee can construct a set of value judgements and

expectations. Ultimately, these influences can be seen to combine to engender a set of values and norms within an organizational setting.

However, an alternative and complementary way forward is to focus on the socio-political interpretations of the messages employees receive, not only internally from management but also externally from the wider political economy of capitalism. In many instances these forces can actually work to reinforce a prescribed set of social values that inherently favour a particular command and control culture for management.

From an organizational perspective this can be understood in a number of ways. For example, the decline of trade unions in the workplace has left something of a 'representation gap' in which employees find it increasingly difficult to voice their concerns (Towers, 1997). As a result, non-unionized employees often lack sufficient opportunity and information to interpret or question managerial versions of business reality (Dundon and Rollinson, 2004; Butler, 2005). Consequently, the main source of information available to employees in many non-union settings is channelled exclusively by management: information which can often have ulterior motives in avoiding or stonewalling potential unionization (Dundon, 2002; Gall, 2004). For many employees, the only source of influence in determining what they should expect from their employer is disseminated by management in the first place.

Case study evidence shows how management attempt to colonize employee values and expectations by controlling information (Griener, 1988; Kunda, 1992; Grugulis *et al.* 2000) For example, in the Grugulis *et al.* (2000) case study of management practices in a consultancy firm, managerial strategies created a system of normative control by seeking to regulate employee consciousness.

Management paid close attention to selecting suitable employees, developing desirable qualities, devising organizational-specific training and attributing praise and blame. Employee responses were expected to be in line with management's preferred corporate culture and, as noted by the authors, most employees responded in ways which extended managerial control over a substantial part of employees' lives, including non-work and social activities. On the other hand of course, the evidence also illustrates that employees are not empty vessels in which management can pour whatever values and expectations they like, as Ackroyd and Thompson's (1999) history of the recalcitrant employee illustrates. In many cases, employees often defy managerial designs by forming their own reference groups amongst each other, and devising tactics that both overtly and covertly challenge management values and expectations (McKinlay and Taylor, 1996; Dundon and Rollinson, 2004).

Nevertheless, this form of analysis can be extended beyond the workplace to the shaping of employee values and expectations at the wider *societal level*. A critical perspective might question whether individual employees really construct a truly independent form of free consciousness. Socially constructed ways of thinking and making sense of the world can be conditioned by hegemonic influences that we often take for granted or simply perceive as 'the way things are' (Gramsci, 1971). Take, for example, the increasing tendency in many Western societies to define and restructure social and economic relations around a neo-liberal paradigm that has at its core the promotion and legitimization of a market-based rationality (Clarke and Newman, 1997; Fournier and Grey, 2000). The neo-liberal paradigm is so strong that for many citizens any alternative is inconceivable, or that neo-liberalism is not an ideology which can be challenged.

This alerts us to the fact that a prevailing ‘dominant ideology’ can, in turn, shape an individual’s value system and recast their sense of reality to what appears to be natural, immutable and even ‘modern’ (Habermas, 1978; Foucault, 1980). For the most part the distribution of wealth, the outcomes of the market and the hierarchical structures of society are taken for granted and go unchallenged, and this assumption is implicit in much of the psychological contract literature. It is through this lens that the expected needs and values of employees come to be defined and conditioned by power relations that are often assumed to be given. A key point here is that employee needs and expectations are often imposed by corporate values and interests, particularly through the use of advertising, marketing and deregulated and privatized market regimes which continually shape and reshape consumer (employee) demand and consumption, which in turn supports, first and foremost, private industry and commerce (Alvesson and Willmott, 1996).

The main implications to be taken from such influences is the potential for a promulgation of a managerial agenda that shapes employee expectations towards more amenable managerial ends, partly because management have the power and resources to do so, and partly because of wider societal structures and social discourse. Thus while much of the psychological contract literature seems to presuppose some level of an equal two-way exchange process between individuals, who freely construct their own sense of expectations and obligations, the ultimate prognosis (and actual outcome) can be very different from that suggested in much of the literature.

### **Reading the psychological contract as an ideological construct**

Having outlined important limitations in the literature, together with possible areas for future work on the psychological contract, in this final part of the paper we direct attention to how the current body of literature locates itself within a particular reading of contemporary employment relationships. In part this consideration was driven by the significant conceptual difficulties which seem to underlie the theoretical basis of much of the literature. This aspect to the review is also driven by a scepticism of the so-called new employment relationship that has supposedly rendered as a necessity the re-configuration of a framework like the psychological contract. The analysis interprets much of the psychological contract literature as a discursive or ideological product of contemporary neo-liberal society. This means that much of the interest in the psychological contract, particularly from a practitioner perspective, derives from its normative and ideological appeal rather than any particular grounding in empirical reality (Keenoy, 1997).

For a start, the language of the psychological contract literature is firmly rooted in that much favoured rhetorical device of management – the ‘all changing’ world (Thompson and O’Connell-Davidson, 1993). A polarised caricature is frequently set up between a supposedly placid, stable past and a new, innovative and highly competitive present (Flood *et al.* 2001; Guest, 2004). The literature is replete with the assumption of a paradigm shift occurring within capitalism over the past twenty years or so – globalization, irreversible declines in unionized labour, increasingly individualistic employees and so on. We are not denying there have been changes. However, the problem is that there exists an unquestioning assumption about the scale and so-called inevitability of such



change, to which much of the psychological contract and HRM literatures seems to embrace with very little scrutiny. For all the supposed newness to these phenomena, there is actually a considerable amount of divergence in practice, with evidence of over-generalisability or a great deal of exaggeration (Thompson and McHugh. 2002:167-190). In addition, there is a remarkable familiarity with much of this literature with the discourse of a previous era – notably Bell’s (1973) theory of post-industrialism and Drucker’s (1959) prophesied break-up of industrial bureaucracy. So much so that many of the arguments that advocate the psychological contract as a new paradigm shift in the world of work have been in a process of perpetual promulgation since the 1950s. One might be forgiven for thinking that is simply the work of academics and/or consultancy firms, all of whom have a vested interest in proclaiming the ‘new’ as a way of differentiating and marketing their own intellectual products (Thompson and McHugh, 2002). Not only can we feel an uncomfortable scepticism with such declarations of the new, but in addition, many the so-called benefits and claims are presented in such a reified state that they appear as natural laws rather than the result of the agency of dominant social groupings. Perhaps if the issues seen as driving the need for psychological contract analysis were viewed as the engendered products of powerful societal agents, much of the terms of reference might take on an entirely different set of characteristics, or even reconstruct the psychological contract by incorporating alternative measurable variables.

But often such terms of reference are rarely considered, in part because the ideological appeal of the psychological contract is in its ‘feel-good’ and ‘feel-powerful’ message. If we locate much of the psychological contract literature alongside other contemporary phenomenon such as the ‘knowledge worker’ or the

‘new economy’, both of which feature regularly in the psychological contract literature (Heckscher, 1995; Flood *et al.* 2000), we can see how it might provide a sense of positive meaning to managers and employees (Thompson and Heron, 2005). The image conjured up is one of modern, upwardly mobile employees who can use their tacit knowledge to build portfolio careers as opposed to the supposedly outdated and poorly educated manufacturing employees in the archaic days of the ‘job for life’ (Cox and Parkinson, 1999).

The psychological contract literature has also served a more obvious role in contributing to a refashioning of the employment relationship that manifestly ignores important structural, institutional and class-based dimensions of social relationships. For instance, there is a heavy emphasis placed upon the individual and the decline of the collectively-orientated employee. At best, the psychological contract is ambivalent towards the role of trade unions in shaping employment practices (Bacon, 2003; Guest, 2004). Furthermore, the implicit meanings of *mutual obligations*, delivering a *fair deal* to employees, of *shared understandings* and *reciprocity* detracts from the degradation of daily work for many people. It seems that in the urge to promote the psychological contract as a desirable theorem, advocates have failed to consider that even if a positive psychological contract did exist, this is not testimony to the removal of the structural, institutional and social tensions that exist in the workplace. Seemingly, for the advocates, contract violation is not the result of structural tensions but is instead a product of ill-considered and even unavoidable management practices or employee misbehaviour (Ackroyd and Thompson, 1999). The end result is that the maladjusted individual (or group) expectations become the problem, rather

than the system and the dominant ideological paradigm that individuals and groups inhabit (Hollway, 1991).

These are important ontological arguments based on discourse and linguistic form, as well as structural conditions. The use of language and linguistic devices can mask an awareness of underlying conflicts, recast meaning and restructure how we think about the world around us. For language itself, whether it is 'realistic' or 'rhetorical' is an action, a constructor of realities (Watson, 2004). The psychological contract literature can then be implicated as part of a process of the 'management of meaning': redefining both the meaning of work and the way individual employees relate to their employers, or indeed the way that contemporary scholars of management approach and reflect on their studies. In theorizing around the psychological contract, an orthodoxy is manufactured that obscures rather than illuminates the fundamental questions surrounding the employment relationship. Through its incorporation into mainstream HRM literatures, there is an acquiescence of alternative and more challenging frames of reference.

But what does the complexity of this linguistic form mean for our critique of the literature of the psychological contract? At one level it might be argued that regardless of its conceptual and empirical limitations, the key purpose of the psychological contract is ultimately (if indirectly) driven towards legitimizing a prevailing ideology suited to the demands of sustaining capitalism in the 21<sup>st</sup> Century. Recalling the words of Keenoy and Anthony (1992:235), we might say that the psychological contract strives "to transform, to inspire, to motivate, and above all, to create a new (unitarist) 'reality' which is freely available to those

who choose or are persuaded to believe”. Those who choose to believe do so; those who do not tend to dismiss it out of hand as yet another managerial fad.

In many respects, these are polemic interpretations from the literature that are neither right nor wrong. In tracing the antecedents of the psychological contract earlier, it was noted that it had potential merit as a construct capable of correcting some of the limitations of the legalistic view of the employment relationship. It also has the potential to shed light on the often neglected and more uneven micro and socio-cognitive processes that take place between employee and employer. When viewed more critically, the theory of the psychological contract and its attention to social exchange does not have to be a monolithic unitarist construct. Arguably, in the hands of more critical analysis and discourse, it might well have additional value and empirical utility. Indeed, the very opacity and imprecision that we have examined means it might well be amendable to more pluralistic and critical approaches. For instance, the way Fox (1974) locates power and trust at the centre of his analysis might provide one way of utilizing the social and psychological exchange dimensions beyond the current narrow and mostly managerialist frames of reference in much of the extant literature. Guest (2004) has acknowledged that awareness of such concepts might add significantly to knowledge and understanding. As things stand, this would be a significant departure from mainstream theory and research concerning the psychological contract, but one we suggest is worthy of serious consideration and investigation in order to counterbalance the current ideological bias of the psychological contract in HRM.

## **Summary and conclusions**

Since its introduction under the work of Argyris (1960), the psychological contract has offered an alternative reading of the employment relationship outside of the narrow legalistic frame of reference – one that expresses the subjective and indeterminate aspects of employment relations and HRM. Under the influence of Rousseau (1989; 1998; 2001), the construct has gone from strength to strength and we now have a considerable amount of knowledge concerning the implications and consequences of unmet and unspecified expectations and obligations. However, as Guest (2004) has acknowledged, there is much more to do if the psychological contract is to become a viable framework capable of understanding the complex and uneven social interactions of both employer and employee.

The second part of the paper was devoted to exploring some of the central themes that have been avoided or left under-developed in the literature. From this, we suggested that there may be value in theorizing the psychological contract, not only to illustrate the complex and paradoxical consequences of managerial thinking, but also to advance understanding through alternative critical forms of analysis and discourse. However, for this to work, subsequent research on the construct must seek to embed it within a deeper political economy of capitalism and to consider such issues as power in order to add a greater theoretical richness to future studies.

Finally, we noted that in spite of a number of serious conceptual and empirical limitations in the literature, the idea of a psychological contract remains extremely popular. In itself, this is an important phenomenon to acknowledge in terms of both theory and future research and in this regard we sought to

understand the psychological contract as an attractive reading of contemporary socio-economic dynamics. That is, the psychological contract and many of its underpinning assumptions have an intuitive ideological attractiveness. In part this may be due to its configuration of seemingly unitarist work values. Of course, whether such an agenda will remain in the future is unclear, as much of the rhetoric of the new employment relationship and the actual nature of work in contemporary society continue to move in opposite directions.

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