

## **CONTRACTING: THE KEY TO EMPLOYMENT RELATIONS**

**Rupert Tipples**  
Lincoln University

*This paper identifies limitations of Schuler's model of Strategic Human Resource Management in the context of small business and, in doing so, develops the concept of 'contracting': the establishment of sound psychological contracts in employment relationships. The paper argues that psychological contracts are the key to successful employment relations outcomes at the beginning, during and ending phases of the employment relationship. Evidence from two disparate case studies provide support for this argument.*

### **INTRODUCTION**

This paper considers developing the employment relationship around the notion of 'contracting' which, in the context of this paper refers to an employment strategy centred around the formation and development of good employment relationships based on establishing and maintaining sound psychological contracts. The paper proceeds by discussing the role of relational psychological contracts in achieving competitive advantage and their often poor current state is reviewed, together with the lack of applicability of strategic human resource management (SHRM) to small businesses. The paper then suggests how a contracting strategy might be implemented based on psychological contract and met expectations research. Consideration is also given to the maintenance of an organisational culture sustaining lasting employment relationships and worker democracy, supported by evidence from two case studies.

### **FUTURE ECONOMIC SURVIVAL AND EMPLOYMENT RELATIONSHIPS**

Pfeffer (1994) has suggested that the organisations which have the greatest competitive advantage in the future will not be those with the types of competitive advantage described by Porter - competitive advantage through product or process technology; protected or regulated markets; access to financial services; or economies of scale - but in the organisation, its employees and how they think and work. Their creativity is the key to innovation. He argues that achieving competitive success through people "...involves fundamentally altering how we think about the

workforce as a source of strategic advantage, not just a cost to be minimised or avoided" (Pfeffer 1994: 18).

Burack *et al.* (1994) argue for what they call a New Paradigm approach to Strategic Human Resource Management (SHRM). New Paradigm organisations are "...fashioning new (er) employment relationships that support corporate performance and economic requirements while they aggressively seek to meet their members needs as well" (Burack *et al.* 1994: 144). Such organisations are driven by relationships because nothing happens unless people make it happen. Such new employer-employee relationships will be based on new psychological contracts which emphasise "...the social or psychosocial aspects of work and trust based on the mutual responsibilities and good faith efforts of both. The subtleties of this new psychosocial contract reach far beyond the legalities of traditional employment contracts" (Burack *et al.* : 151).

There is a continuum of forms of contracts from transactional contracts, which are typified by an economic and extrinsic focus; being of a specific duration, narrow in scope and static in character, to relational contracts which, while still economic, are more socio-emotional and intrinsic in focus. They are also open ended and of an indefinite duration. Their scope is pervasive and comprehensive, while they are also dynamic. While transactional contracts are public and easily observable, relational ones are subjective and more intuitively understood (Rousseau 1990; Rousseau and Parks 1992).

Transactional contracts of pay for specified amounts of work done tend to ignore employees' needs as they are only concerned with the economic nexus. More transactional contracts tend to encourage short term thinking and attention only to the items specified and not others. Accountability ("I'll do that because the contract says I must") is often confused with responsibility ("I'll do that because it needs to be done")<sup>1</sup>. In the U.K. Herriot has argued that organisations which will survive the 1990s will be those which will develop more relational psychological contracts. He believes that these are necessary to release the human potential that will be required to continuously innovate and adapt to the increasing pace of change in both the technological and social environments that firms will experience in years to come (Herriot 1992a: 67-72, 159-160).

## **STRATEGIC HUMAN RESOURCE MANAGEMENT AND SMALL BUSINESS**

Organisations which place a stress on SHRM do so because they believe their employees are the means for achieving their strategic business needs. Schuler (1992) has suggested a SHRM model for linking business needs and Human Resource practices. While the general strategy he suggests is appropriate for corporate enterprises it is not at all appropriate for most small businesses which do not have specialist HRM personnel, let alone HRM departments. For example, the Australian

version of Schuler's HRM textbook (Schuler *et al.* 1992) would be quite inappropriate to give to a harassed and stressed small employer. However, the idea of a small employer developing relational psychological contracts with their employees, to give them a competitive advantage, is quite appropriate. The strategies necessary for adopting an approach based on forming good psychological contracts can be readily understood and applied by small businesses. They can help avoid problems of high labour turnover, low job satisfaction and poor productivity which are all of concern to both small and big business.

So what can be learnt from Schuler's model which is of assistance to small business? One of Schuler's business contracts defined SHRM as "getting everybody from the top of the human organization to the bottom doing things that make the business successful" (Schuler, 1992: 18). No one should disagree with that whether from small or large business. At a more academic level Schuler says that: "Strategic Human Resource Management is largely about integration and adaptation", where the concern is that human resources management is fully integrated with the strategic needs of the business, and human resources practices are accepted, and used by all staff as part of their everyday work (*ibid.*).

To do this Schuler advocates a 5-P model which links together all of the critical elements - HR Philosophy, HR Policies, HR Programmes, HR Practices and HR Processes - which seems to be excessively managerialist and bureaucratic for small business. Nevertheless, it does provide certain key ideas which are relevant to the Contracting approach espoused in this paper:

- The philosophy, which expresses the role of staff in the overall success of the business and how they are to be treated is important. For example: "We will create a culture that recognises the importance we place on people, and that builds trust and cooperation". (*ibid.*, p. 21)
- Policies provide guidelines for personnel practices based on strategic business needs. For example, the underlying value might be to have high standards of personal performance, with a specific need to improve personal communication skills (*ibid.*, p. 22-3).
- Decisions about an enterprises' general employment strategies are critical because they provide answers to the following types of question: "What kind of people and how many will be required?", "Are there any potential skill shortages?", and "Are performance levels high enough to meet increased needs for greater profitability, innovation, productivity, quality and customer service?" (*ibid.*, p. 24).
- An understanding of individual roles is essential for relevant HR practices. Any form of role performance should support strategic business needs, but roles change, especially where there are new strategic objectives, and role behaviour always needs to relate directly to strategic needs.
- Last, and probably most important, actions affecting people need to be consistent: "If they are not consistent with each other, i.e., if they are not sending the same messages about what is expected and rewarded, the organisation is likely to be an aggregation of people pulling in different directions." (*ibid.*, p. 27).

## THE POOR STATE OF CURRENT PRACTICE

While Schuler makes a case for SHRM there is less evidence that it has been adopted in practice as a strategy by businesses. In fact, small business, traditionally an un-unionised sector, has been more reluctant to adopt SHRM practices than larger businesses, an outcome no doubt contributed to by their informal labour management practices, lack of specialist personnel, and lack of strategic foresight (Marlow and Patton 1992/3; Storey 1994; Wright 1995).

Also, in the U.K., Herriot has found that the state of psychological contracts is miserable with a yawning chasm between ideal and reality. In a study of both managers and their bosses in three British organisations, he and colleagues focused on managers' career preferences and their perceptions of their bosses' preferences for their careers, and *vice versa*. They concluded that such misperceptions and confusion were rife that they did not show great promise for future compromise, and negotiating satisfactory psychological contracts (Herriot 1992a: 75-7; Herriot *et al.*, 1994: 80). American research also indicates all is not well with many employees' psychological contracts with frequent violations of the contracts (e.g. Robinson Kraatz and Rousseau 1994).

Problems with psychological contracts are also exhibited in New Zealand. The New Zealand public sector has experienced progressive restructuring and downsizing since the mid 1980s as a result of the State Sector reforms introduced by the fourth Labour Government (1984-1990).

One example of the effects of the imposition of this new "managerialism" has been on New Zealand universities. The imposition of new accounting, auditing and administrative policies has led to the professional attitudes of the staff, who had been supported formerly by a relational type contract, being replaced with a much more transactional relationship. Staff who had been prepared to "...go the extra mile..." for the institution are now reluctant to take on activities beyond those explicitly required of them (Tipples and Krivokapic-Skoko: 1996). As Boxall says of other "regressive" employers in the environment set by the Employment Contracts Act 1991: "Some employers, and the evidence suggests that this has been commonplace in the corrosive cost-cutting in the public sector, have traumatised their employment relations in ways that are now effecting competitive performance or compromising service delivery." (Boxall, 1995: 32)

To combat these problems, it is argued in this paper that if employers were to adopt a normative policy of establishing and maintaining sound psychological contracts, they could begin to heal the wounds and lack of trust described by Boxall. This policy, described as "Contracting", is not a sophisticated "hightec" and expensive policy beyond the bounds of the typical New Zealand employer, who is a small employer<sup>2</sup>, but one which any small employer should have no difficulty implementing. It is based on a belief, supported by the following summary of the research literature, that if employment relationships are established and maintained as well as possible, then there is a much smaller chance of the relationship being short lived or unsatisfactory.

In addition, to establish more ideal psychological contracts and employment relationships, high standards of honesty, openness and integrity are required of employers.

## REVIEW OF PSYCHOLOGICAL CONTRACT LITERATURE<sup>3</sup>

### *Early work*

There were relatively few empirical studies of psychological contracts before the mid 1980s. Kotter (1973) produced one of the first pieces of research reported. He defined the concept as follows: "...the psychological contract is an implicit contract between an individual and his organization which specifies what each expects to give and receive from each other in their relationship". (Kotter 1973: 93)

These exchanges could give matches or mismatches, and those matches or mismatches could be large or small. The expectations, matches and mismatches made up the psychological contract. In effect the psychological contract might include thousands of items in contrast to a legal contract of employment. A further complication was added by the extent to which those expectations were clear or unclear. New recruits might have a deep, clear understanding of some, all or none of the employer's expectations and *vice versa*, and the contract might change as the mutual expectations of the parties changed over time. Good psychological contracts, which occurred when expectations matched, were related directly to greater job satisfaction and productivity, and inversely to staff turnover.

The concept which showed a measurable relationship to productivity, satisfaction and turnover was "matching" (i.e., not to get more or less than was expected)(Kotter, 1973, 92). Matches were more likely the clearer the individual's or organization's understanding about an item, and that understanding was likely to be greater the more thinking and open discussion which had taken place. Mismatches could often occur by accident, out of neglect, rather than as the result of conscious decisions. In Kotter's words: "what you don't know can hurt you"(Kotter, 1973, 95). The key to contract formulation was the extent of the match or fit between the parties' expectations, and the extent of their examination of their unconscious desires.

In a longitudinal study of managers Schein (1978) found "reality shock" was prominent on entry into their first full-time job (Hughes 1958), when individual expectations and dreams encountered the realities of real jobs. Psychological contracts were observed to be formed after initial socialization in periods of mutual acceptance between the individual and the organization. The major potential hazard of this period was that insufficient information was generated for either party to determine whether to accept the other. Schein concluded that "...the process of negotiation or dialogue must facilitate the exchange of accurate information".

In Schein's study, even after several months, employers and new employees still complained "bitterly" that they did not know where they stood in relation to the other,

leading to "second-guessing" the other party and "nasty surprises" from "sudden resignations or terminations". If such disaffected employees did not leave they could easily become organizational "deadwood" and a problem to the employer (Schein 1978: 122-123).

*U.S. work from Rousseau's team*

Direct research on psychological contracts in the United States did not resume until Rousseau, an organizational behaviourist, and her team, began work on the concept in the late 1980s. In collaboration, she has developed the concept and related contract theory (Rousseau 1989; Rousseau and Parks 1992); explored the implications for perceptions of fairness in forced terminations of employment (Rousseau and Anton 1988, 1991); investigated new recruits' perceptions of their own and their employers' obligations (Rousseau 1990); and investigated how employment obligations change over time (Robinson, Kraatz and Rousseau 1994). However, Rousseau *et al.* have also differentiated between mutual expectations and psychological contracts, such that the latter only arise where there are perceived mutual obligations: "The psychological contract, unlike expectations, entails a belief in what the employer is obliged to provide, based on perceived promises of mutual exchange." (Robinson and Rousseau 1994: 240)

In practice this distinction seems to be a matter of degree rather than substance. Robinson and Rousseau report much stronger relationships between the violation of psychological contracts (their definition) and job satisfaction, intentions to stay and job turnover, than do Wanous, Poland, Premack and Davis (1992) between unmet expectations and respectively job dissatisfaction, intentions to leave (both inverse relationships), and job turnover. This suggests that psychological contracts, as defined by Rousseau and Robinson, are a much stronger form of the concept earlier described by Levinson (1963), Schein (1965) and Kotter (1973).

Guzzo, Noonan and Elron (1994) endorse Rousseau's reconceptualization of the concept and argue that employees' views of whether their psychological contracts are fulfilled are "...based on more than just met or unmet expectations...". Further, they describe psychological contracts as: "...highly subjective and dynamic, they cannot be specified solely in terms of distinct expectations, they are encompassing, they include both monetizable and non-monetizable aspects, and they are evaluated in ways that reflect a concern with a relationship..." (Guzzo *et al.*: 618).

Robinson, Kraatz and Rousseau (1994) have reviewed perceptions of employment obligations over time. They studied alumni of a midwestern business administration program, who had jobs arranged, just before the end of their course, and after two years in employment. Obligations perceived by the alumni between their employers and themselves changed dramatically during this two year period. They believed that the obligations that they attributed of their employers to themselves increased over time, while those they perceived of themselves to their employers decreased.

Violation of psychological contracts, which occurred to 54.8 percent of those employees studied (Robinson and Rousseau 1994: 254), strongly affected perceived employee obligations, but the effects of violations on perceptions of employer obligations were weaker, perhaps because employees find it more feasible to adjust their own perceptions of their obligations when they have their contracts violated than to attempt to change their employers (Robinson, Kraatz and Rousseau 1994: 149).

The latest element to Rousseau's original stream of research is a third study of her sample of ex-MBA students (Robinson and Wolfe Morrison 1995). In a study of organizational citizenship behavior (OCB: "...any behavior that exceeds the contractual agreement between employer and employee." *Op. cit.*, 290) Robinson and Wolfe Morrison found perceived contract violations had a negative effect on civic virtue where civic virtue was defined as "...behavior on the part of an individual that indicates that he/she responsibly participates in, is involved in, or is concerned about the life of the company" (*Op. cit.*, 291). Further, that this relationship was mediated by the degree of trust the employee had in the employer. Violations of psychological contracts perceived in the second study were negatively related to trust in the third, and both violations and trust had independent effects on civic virtue.

One caveat must be added about Rousseau's research. It has been based almost entirely on samples of student and MBA populations. One wonders if more "normal" (non school based) members of the workforce would respond similarly (Ornstein and Isabella 1992: 247-8). In contrast Guzzo *et al.*'s research was based on a sample (n=148) of expatriate managers.

#### *U.K. work from Herriot's team*

In contrast to US based research, Herriot's approach differs. He has viewed psychological contracts as the invisible glue which attaches individuals to employing organisations over time. They are not necessarily made explicit and are subject to continuous change. First, Herriot had studied organisational entry and the subjective processes of recruitment (Herriot 1984, 1987); and then the role of mutual negotiations (Herriot 1988; Herriot 1989b; Herriot 1992b). His main contribution has been to concentrate on the role of psychological contracts in careers with a study of preconditions for the formation of satisfactory psychological contracts and their maintenance (Herriot 1992a; Herriot, Pemberton and Pinder 1994). More recently he has developed the use of the concept in understanding career re-negotiation (Herriot and Pemberton 1996).

#### *Research developments*

Recently, the psychological contract as a concept has become much more popular in terms of its citations in publications<sup>4</sup>. Reasons for the lack of empirical research in the period up until the mid 1980s are not difficult to suggest when one considers that the psychological contract is a dynamic concept - the contract is continuously changing. Herriot has described the difficulty of pinning down a psychological contract: "At any one point in time we can take a snapshot of the contract, but that's merely a fix on a moving target. Organisations' expectations change and so do

individuals' - which is why a contract that meets some of both today may meet few of either in a year or two's time" (Herriot 1992a: 7).

Researchers have not persisted with pursuing such a difficult target. They have focused more on theoretical development than empirical investigation (Guzzo *et al.* 1994). Another reason can be found in what Lorsch (1979) has referred to as "...the academic Tower of Babel...", in which different researchers have investigated similar problems and yet called them by different titles (Tipples 1994a)<sup>5</sup>.

There are two other strands of research that relate to psychological contracts, one more significant than the other. About the time of Kotter's research on psychological contracts the concept of "met expectations" appeared (Porter and Steers 1973). It is this line that has been pursued more vigorously by psychologists in the United States: a major meta-analysis and review article of this research was published by Wanous *et al.* in 1992. Integrating the research on these two different concepts, psychological contracts and met expectations, is mutually reinforcing and suggests some practical ways of establishing and maintaining sound and on-going mutually matching expectations and perceptions of obligations.

## CONTRACTING

Contracts of employment are rarely complete, failing to specify the nature or quality of work and how it is to be done, because: "...neither the content of the work, nor the future conditions under which it will take place, can be anticipated....the firm sets pay and the worker chooses effort." (Cartier 1994: 182-3)

The negotiation and re-negotiation of contracts of employment - whether legal<sup>6</sup> or psychological, which in practical terms seem to best describe the complex socio-economic exchanges between employers and employees, is described here as "Contracting". It focuses on the terms which go beyond those normally covered by lawyers, but of which lawyers and others forming employment relationships need to be aware. It is a suggested response to what Wright has described as one of the central concerns of employers. Sound psychological contracts are necessary to convert labour power (the potential to work) into labour (actual work effort) while minimising labour costs, and maintaining high levels of commitment (Wright, 1995: 3-4).

Why is contracting so critical? Porter, Lawler and Hackman (1975) have suggested four possible scenarios in developing employer-employee relations based upon whether each can meet the expectations and obligations of the other. Only the last of these scenarios has the potential for a long term successful relationship when each can match the others' expectations and obligations. But it is only the potential for the

forming of lasting employment relationships. That potential will not be fulfilled if they cease to match. It is an active policy in terms of Schuler's 5P model of SHRM.

The contracting perspective also uniquely focuses on both employer and employee (Rousseau and Parks 1992). Other research on organizational attachment, such as that on "commitment", typically focuses only on the employee and their psychological attachment to the organization, rather than also considering the organisation's attachment to the individual (e.g. Brewer 1993 and 1994). Contracts are reciprocal and both employer and employee perspectives matter if an organisation is to achieve high levels of trust and commitment (Robinson, Kraatz and Rousseau 1994).

## **PRACTICAL APPLICATIONS**

Each employment situation is different in both context and circumstances, and each individual is different (e.g. with different equity perspectives) and highly changeable (Rousseau and Parks 1992). Further, there is greater individualisation of employment relationships at the end of the twentieth century (Storey 1994) and the continued numerical importance of small employers without HRM specialists to support them. Therefore any strategy advocated has to take their employment needs into account and be practically useful as well as theoretically respectable.

Bearing in mind the legal contract of employment, the overall aim of the contracting approach is to establish and maintain employment relationships based on sound psychological contracts, which in practice means matching prospective employers' and prospective employees' expectations and perceptions of obligations. The implications for practice suggested by both Herriot's and Rousseau's research, overlaid with met expectations research, particularly Wanous' Matching Model (Wanous 1992; Wanous *et al.* 1992), and still retaining the process focus of Herriot, is shown in Tables 1 to 4 (adapted from Tipples 1994b).

Merging Wanous' North American psychometric approach and Herriot's subjectivist-social perception perspective (Anderson 1992: 12-14; Herriot 1992b) gives the best of both worlds with a focus on negotiated matches that are sustained. Such an approach should be made in a supportive environment to confirm employees' expectations rather than disconfirm them (Robinson *et al.* 1994). To facilitate the discussion of the practical policies suggested the contracting approach to establishing employment relationships has been divided into four stages: Pre-creation, Creation, Maintenance and Conclusion of job.

Each is considered from both the employer's and the employee's perspective, since without recognition of the independent status of the employee no true meeting of minds and mutual collaboration with trust is possible, whatever the labour market pressures. There has to be a mutuality of meaning for effective contracts and employment relationships.

*Pre-creation***Table 1: Actions to achieve effective psychological contracts and thus employment relationships - Pre-creation**

Process Stage	Organizational focus	Individual focus	Research basis
Pre-creation	Establishing a caring image to encourage positive beliefs about the organisation as employer. At an individual level plenty of accurate information about the job should be provided; questions answered; site visits permitted; contact with current employees encouraged etc.	Self discovery: What the individual wants; what they can offer the organisation; and what their labour market value is.	Robinson, Kraatz and Rousseau, 1994, 149-150; Saks, 1994, 238-240.

The intending good employer has to be preceded by their reputation (see Table 1). In small communities this is particularly important. To achieve the consistency suggested by Schuler's last P, no actions which would impair this image should occur. The image may be enhanced by a high caring public profile, but then any discrepant behaviour can be more damaging. Accurate information about the employer's business and the work involved in prospective jobs can help, as can work experience schemes, site visits and contact with existing employees, in setting up realistic expectations.. At an individual level new potential recruits can help their own situation by a process of self discovery. To negotiate effectively they need to know their own individual wants and what they can offer the prospective employer; also what their value is in the labour market and how they can increase their labour market value. Proactive information gathering can help align the individual's expectations with those of the employer so that the employer can see them empathizing with the employer's employment needs. Previous employer actions may set up a negative view of the employment situation which no amount of flattering publicity will dispel. Managers need to manage future beliefs about jobs which have barely been thought about let alone created (Robinson *et al.*, 1994: 149-150).

Informal recruiting mechanisms, which are probably more significant for smaller employers, can also have positive effects on the information gathering of potential recruits. Generally they produce more accurate information than the information provided by the organization, greater met-expectations and ability to cope. Co-workers also have to feel good about the employer as well, to provide suitably favourable information (Saks, 1994: 231-242).

## Creation

**Table 2: Actions to achieve effective psychological contracts and thus employment relationships - Creation**

Process Stage	Organizational focus	Individual focus	Research basis
Creation	<p>Carrying out employer policy in practice, not just the form of it e.g. E.E.O. principles. Being careful to avoid confusion in contract terms and how they are perceived by maintaining close co-ordination between selectors and supervisors.</p> <p>At an individual level using RJPs, RRs and ROPES; permitting genuine negotiation as part of the two way process of contract formation.</p> <p>Avoiding contract confusion through ensuring actual managers are involved in contracting, and minimising the use of external agencies.</p>	<p>Actively inform the organisation what they want and can offer; and discover what the organisation wants and can offer. Negotiate with organisational representatives.</p>	<p>Herriot, 1988, 1989a and b; Rousseau and Parks, 1992; and Wanous, 1992.</p>

The creation of new employment relationships necessitates the negotiation of new contracts (see Table 2). An important precursor of negotiation is preparation, which means for a new job getting to know as much about it as possible. To prepare themselves the individual needs to adopt an information gathering mode, to discover what the employer wants and can offer; and what in return they can offer and want themselves. The employer has to continue the policy advocated in the Pre-creation stage of providing as much information as potential applicants want. To aid this type of process Wanous (1992) argues for the use of Realistic Job Previews (RJPs), Realistic Recruitment (RR) and Realistic Orientation Programmes for new Employees' Stress (ROPES). Wanous' critical failure in his matching model is the lack of any negotiating procedure at the different stages to negotiate the matches and how they are put into effect, and what that means. Since the Employment Contracts Act 1991 this is clearly also a weakness of many smaller New Zealand employers, whose employment contracting policies can only be described at best as consultations rather than real negotiations. In most cases smaller employers just present their employees with their proposed contract (McAndrew and Ballard, 1995). Without real negotiations and a sense of agency on the part of employees there is only a constrained sense of exchange which is unlikely to reduce a sense of suspicion and mistrust.

### 2a. Realistic Job Previews (RJPs)

A suitable realistic job preview could be a simple job description of the type advocated by Cavanagh and Rogers (1968). They suggest that a job description needs to answer the following three questions, neither too briefly nor too fully:

- What does the worker have to do in this job?
- How, where, with what and with whom does he/she do it; and how is she/he rewarded?
- What are the "requirements" (e.g. a degree/diploma, driving license, lack of criminal convictions etc.) of the job?

Too brief and the description will not convey the critical information for establishing clear expectations; too long and it will be impossible to sort out what is critical from what is trivial. Two other factors should be made quite clear to help the degrees of realism. The job description must indicate the difficulties of the job (responsibilities, need for disciplining colleagues, having to make decisions etc.) and the distastes of the job (dirty work, cleaning the toilets, pesticide applications, long periods of boring repetitive activity etc.). This information has to be conveyed to the candidates either through an advertisement for the job (which should not neglect the difficulties and distastes), or through a copy of the job description or an explanatory note provided to every candidate. Including difficulties and distastes in the advertisement is quite a profitable manoeuvre too as it encourages unlikely candidates to remove themselves from the list of potential candidates with no further expense for the employer.

Such self de-selection reduces the employer's problems eliminating unsuitable candidates. Jobs of limited duration but considerable importance to the employer, for example work with perishable crops, can also benefit from RJPs, because employers cannot accommodate to high levels of staff turnover in the "season". When adverse employment conditions are encountered workers' realistic expectations can ensure a crop is not jeopardised by a shortage of suitable workers because the workers already knew to expect the conditions and entered the job with their eyes open..

### *2b. Realistic Recruitment (RR)*

Realistic recruitment is a related strategy. It does not reduce the ability to recruit new employees but aims to deflate recruits' expectations, which are typically inflated, and increase their job satisfaction and organisational commitment. It also aims to lower voluntary staff turnover and to increase the job survival rate for newcomers. As a strategy it also encourages self selection explicitly and encourages the use of realistic previews from credible sources. Wanous also advocates maintaining consistency between the medium and the message, communicating feelings as well as information, and providing content which reflects the climate in the prospective employer's firm (Wanous 1992: 82-87).

If an interview is the critical part of the selection process, not only should it be structured and constructed to maximise reliability and validity, while avoiding any form of bias, but it should be consistent with the previous realistic job preview and realistic recruitment processes. The interview is the ideal opportunity for the candidate to gain a real impression of the workplace, the nature of the work and potential colleagues. It is also an ideal opportunity for a serious social negotiation over what the candidate is looking for and what the employer is offering and expecting. For effective communication the situation needs to be as unthreatening as possible, and an occasion for a genuine exchange of information to facilitate the

negotiation. There should therefore be plenty of opportunity to ask questions and see around, if the interview is occurring at the proposed place of work. If it is not, there should be some very good reason why not which is clearly explained to the candidate.

Prospective employers adopting a realistic recruitment stance also have to be careful to maintain consistency between the different levels of the organisation. While this may not be too much of a problem in a business where the owner does all the hiring and firing, as soon as others are involved, such as a government employment agency, there is always the risk of misunderstandings about undertakings given to the candidate. Misunderstandings can easily lead to subsequent violations of the psychological contracts established, with the serious consequences that flow from that - reduced job satisfaction, lost trust, reduced intentions to stay with their current employer and higher actual turnover. Robinson and Rousseau report a particularly strong relationship between violations and lost trust. That is of particular concern as trust is crucial to many organization's effectiveness (Robinson and Rousseau 1994: 255-258)

#### *Realistic Orientation Programmes for new Employee Stress (ROPES)*

Time and money have been expended on selecting the most suitable candidate willing to accept the job. The employer then wants to keep them, but this is the most critical period when the realities of most carefully explained job situations confront the successful candidate. Discrepancies between expectation and reality are inevitable. Many freshly selected new recruits leave at this point which is typically one of high voluntary labour turnover.

To counter this Wanous suggests a Realistic Orientation Programme for new Employee Stress (ROPES). Such programmes should be part of an overall induction programme. They typically provide further realistic information, more aimed at causes of new employee stress; supportive co-workers and supervisors; with reassurances that the new entrant would not have been selected if it was thought that they would not make the grade. How other newcomers have coped with the stresses might be included and discussed with the new employee. Wanous also suggests targeting specific stressors at this point (Wanous 1992: 182-185).

The role of supervisor is critical to the success of an induction programme. They need to be supportive, non-threatening, good communicators and listeners, and to be competent rather than experts so that they are not too much of a threat to the new employee. They also need to be adequately confident so that they in turn are not threatened by the super success of a new employee, or alternatively by their failure. To cope with initial boredom in mundane jobs they need to set work with as much variety as possible, for example using job rotation where feasible.

Other than the actual agreement of a new employment relationship, the induction period is probably the most critical because it is when the initial psychological contract is confirmed or disconfirmed. If the latter, the employee may leave almost immediately, but if they do not have another alternative they may stay on and become

what Schein referred to as "organizational deadwood". If they started with a relational psychological contract it may degenerate into a merely transactional or calculative one where there is a straight exchange of pay for work done. Alternatively it may degenerate further into what Handy calls a coercive psychological contract, in which an employee is generally held against their will. This is not a productive situation for an employer or employee to get into, but could happen when a party is held strictly to explicit contractual terms and is given no opportunity to leave (Handy 1985: 42-46).

### *Maintenance*

**Table 3: Actions to achieve effective psychological contracts and thus employment relationships - Maintenance**

Process Stage	Organizational focus	Individual focus	Research basis
Maintenance	Maintaining open communication with employees about future changes, organizational environment etc. Being careful to avoid managerial actions which can lead to adverse changes in employees perceptions of the organization as a trustworthy and "good" employer; and any form of contract violation. Providing regular feedback as part of on-going performance appraisals, leading to regular renegotiation of employment contracts.	Monitor changes in the organisations and their own needs and wants. Then decide whether these merit renegotiation of the contracts, and if so, renegotiate.	Herriot 1992a; Robinson, Kraatz and Parks, 1994; Herriot, 1994; Guzzo <i>et al.</i> , 1994.

If psychological contracts are continuously changing as both Herriot (1992a) and Guzzo *et al.* (1994) suggest there is going to be a need to keep them up to date (see Table 3). Changes may be brought about by changes in the economic or social environment, or by biological changes (e.g. ageing), or by managerial changes. The latter may be deliberate or inadvertent, but not regularly re-negotiating the contract.

Many of the State Sector reforms in New Zealand have caused peoples' contracts to change and they feel very upset because they have never had a chance to renegotiate the terms on which they were originally employed. Where such changes are the fault of management they may be construed as violations of the psychological contract with all the damage that that implies. Where they result from external changes beyond management's control the changes will still occur but not be construed as violations. Government initiated changes in New Zealand universities could be argued to fall into the latter case, but where the university has embraced the reforms rather than tempered the effects on their staff profound disillusionment has occurred (Tipples and Krivokapic-Skoko 1996). What could be done in such a case?

In fact the solution may already be in place. The university in question has a staff development and appraisal scheme in place which requires at least annual meetings between staff and their immediate line managers to agree on the objectives and development to be achieved over the succeeding twelve months. Many organisations have similar systems. The annual discussions could be handled in a very positive and developmental way, focusing on how to achieve the next year's goals rather than being a penal accounting of why the last year's might not have been achieved. That positive discussion should deliberately consider how the mutual expectations and perceptions of obligations have changed over the past year, and are changing. Also, the annual review and re-negotiation should consider how the relationship is likely to evolve in the future, both for the employer and the employee - a form of career planning.

These regular re-negotiations will be aided by regular open communication, with careful attention being paid to avoid managerial actions which can lead to adverse perceptions of the organization as a trustworthy and "good" employer. Too many managerial contract makers can lead to the individual employee becoming quite confused as to the signals that the employer is giving (Rousseau 1995).

*Conclusion of job*

**Table 4: Actions to achieve effective psychological contracts and thus employment relationships - Conclusion of Job**

Process Stage	Organizational focus	Individual focus	Research basis
Conclusion of job	Being seen to be fair and just in terminations, both in terms of following "due process" and giving just compensation, but also in terms of giving early and full information, and support. The longer the service the greater the needs in these areas. Unfair procedures and compensation send deleterious messages to survivors of terminations, especially downsizing, which may increase survivors' turnover.	Renegotiate satisfactory new contracts, or exit for other employment or retirement	Rousseau and Anton, 1988 and 1991; Rousseau, 1989; Rousseau and Parks, 1992.

The ending of the employment relationship need not be a painful time if it comes about as retirement following the effluxion of time (see Table 4). The parties can also agree to part amicably when their respective interests no longer coincide. However, two situations can give cause for concern where the conclusion or termination is neither amicable nor chosen. The first is a dismissal for an "unjustifiable reason" or "without due process". Both cases are likely to send bad messages to other employees and prospective employees.

The worst situation which can be envisaged is the type of structural change which has been described as "right sizing" or "downsizing" in recent times. Usually it involves

redundancies, perhaps with little notice. Such practices can be quite destructive of psychological contracts, whether of those affected directly who will almost certainly feel that they have been violated, or of those who are left who will suffer from "survivor sickness" and often leave at the first opportunity so that they are not next to be "downsized". Rousseau suggests changes so that HR policies which might be interpreted as contractual violations can be carried out more successfully:

- Recognition should be given to the relationship with employees.
- Member beliefs in any reciprocal obligations, promises or expectations for the future should be assessed.
- The employer should advise employees of the value placed on maintaining the relationship with employees, and should relay negative information to staff at the earliest opportunity. Holding back negative information can damage future relationships with survivors and prospective future employees (Rousseau 1989: 137-138).

Breaking this relationship might require adequate compensation, probably financial, as compensation for violating the relationship, and to show that the employer is concerned about its broken promises. The message to those observing would be that circumstances have necessitated a policy change which does not include the employee, but that that is recognized and their former contribution is recognized and duly compensated. Obviously generous compensation and assistance for retraining or getting a new position would send better messages than the bare minimum. A key concern for any managers faced with this situation is to analyse the situation systematically and consider what the implications may be for the organisation in terms of short and long term costs, and the effects on surviving employees and prospective ones.

## **NEW STYLE EMPLOYMENT RELATIONS: CASES**

People oriented new employment relationships are achieving successes, exemplified here by two cases. One is small by world standards but medium sized by New Zealand standards - Macpac Wilderness Equipment Ltd. of Christchurch; and the other is renowned for its radical changes in what had been a large family concern in a conservative society - Semco in Brazil (Semler 1993). Both have occurred when private owners, not driven by the forces of finance capital, have chosen to aim for both economic and social goals in their businesses.

Macpac Wilderness Equipment Ltd. provides an example of a progressive employer attempting to implement workplace reform in New Zealand. This case study illustrates the difficulty of achieving and maintaining contractual matches in a high trust company operating in a highly competitive international economic context (Perry, Davidson and Hill, 1995). Maintaining a participative and consultative work environment where employees are valued for themselves and equal partners in negotiations has its associated costs in terms of management's and employees' time.

Perry *et al.* highlight the tensions of grappling with these conflicting but, in the company's terms, worthwhile goals. The long term economic success of this style of management in a highly competitive market is not certain but early indications are promising.

Semco's non-traditional approach to employment relations encountered stiff opposition not only from traditional managers but also from suspicious trade unions. Hierarchical and status differences between workers were minimized. Barriers between offices and sections were torn down and all forms of bureaucracy and managerialism diminished wherever possible. Staff were empowered by being given the freedom to decide their times of work and then their own levels of rewards. Information was made freely available, with staff even being taught to read balance sheets, and every opportunity taken to improve the quality of internal company communications.

This trust was met by a mature response and staff committees now make all major decisions at Semco. There is a true partnership with workers/associates based on trust, mutuality of interests and self determination. Semco has already demonstrated the success of its radical policies by surviving the most acute slump in Brazil's recent history in 1989-1991 (Semler 1993: 192-212), with the help and initiatives of its employees. Some of these changes put staff out of work as employees but gave them the opportunity to take voluntary severance or to become owner operators of satellite companies supplying many of Semco's needs.

These staff satellite companies were established with generous Semco support often leasing Semco's specialist equipment for manufacturing. These satellites too were based on democracy, transparency and trust. No restrictions were placed on the owners as to who they did business with, nor on their supplying Semco indefinitely. The flexibility of having to buy only what is needed when it is needed has been of great financial benefit to Semco. Semler (1993) observes: "People who have a stake in their company are bound to be more involved in their work (p. 205), and "We offer employees a chance to be true partners in our business, to be autonomous and responsible" (p. 229). Again the costs of worker democracy and self determination are considerable but vastly outweighed by the benefits. "Nothing is harder than democracy" according to Semler (p. 213), but it has been sufficient to free him from the normal duties of a chief executive; to plan, think, and spend time with his family; also to travel all over the world.

Semco associates have realised too the cost of continually seeking after growth and have made the decision to stop growing and focus on the quality of their lives. Now Semler spends a considerable amount of time spreading the word about the benefits of empowering staff, trusting them and giving them the opportunity for self determination. Such freedoms, information and clear communications are the materials of which good psychological contracts are made, although Semler does not mention the term.

## CONCLUSIONS

Establishing good employment relations hinges on good communications, clear thinking and mutual understanding of expectations/perceptions of obligations. While small employers may not see the relevance of SHRM to their immediate problems a much simpler approach based on Contracting offers a practical, inexpensive strategy to provide assistance with their staffing concerns. When employees and employers can meet each others' expectations/perceptions of obligations there is only the potential for successful employment relationships. If they are not constantly maintained and regularly renegotiated mutual expectations/perceptions of obligations may cease to match and contract degeneration may begin, perhaps leading to the termination of the relationship. Therefore a conscious policy of the negotiation and regular re-negotiation of both legal and psychological contracts of employees is recommended - a policy of on-going conscious Contracting.

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### Endnotes

<sup>1</sup> Professor Allen Schick, University of Maryland, as reported in *The Christchurch Press* (3 December 1996) in an article "The future for state sector reform" by Tony Simpson, President of the New Zealand Public Service Association.

<sup>2</sup> In 1994 89 percent of business activity units in New Zealand engaged less than 10 full time equivalent persons engaged in them. Full time equivalent persons size groups were defined as being equal to the sum of the full-time employees and working proprietors plus half the part-time employees and working proprietors (*Business Activity Statistics 1994*, Department of Statistics, Wellington).

<sup>3</sup> The term psychological contract was first used explicitly by Argyris in *Understanding Organizational Behavior* (1960: 96). It then formed an important part of three influential organisational texts, including Edgar Schein's *Organisational Psychology* (1965); Charles Handy's *Understanding Organisations*, (1975); and Schein's *Career dynamics: matching individual and organizational needs* (1978). Argyris implies that a psychological contract is always operating beyond a formal contract of employment. He defines it as a set of mutually agreed expectations. Levinson, in *Men Management and Mental Health* (1963), referred to *psychological contracts* as a: "...series of mutual expectations of which the parties to the relationship may not themselves be even dimly aware but which nonetheless govern their relationship to each other (*op. cit.* 1963: 21);

Implicit in Levinson is that much of the psychological contract is unconscious or out of conscious awareness. The "contract" was affirmed, altered or denied through a process of reciprocation, an indispensable part of any exchange relationship (Blau 1964; Fox 1974). Schein elaborated the definition by suggesting that the: "...expectations not only cover how much work is to be performed for how much pay, but also involves the whole pattern of rights, privileges and obligations between worker and organization... Expectations such as these are not written into any formal agreement between employee and organization, yet they operate powerfully as determinants of behavior" (*op. cit.* 1965: 11).

<sup>4</sup> In the period January 1986 to December 1991 there were only 12 (1) citations in *Business Abstracts* over 5 years. From January 1992 to December 1993 there were 8 (0) citations over two years and from January 1994 to May 1995 there were 21 (5) citations over only 15 months. These searches revealed that eight of the articles cited were in a special number of *Human Resource Management* (v. 33, no. 3, 1994) and three in a "Trends in Organizational Behavior" Supplement to the *Journal of*

*Organizational Behavior* (v. 1, 1994). The numbers in brackets indicate the numbers of papers based on empirical research.

<sup>5</sup> An example of this phenomenon is a paper by Waterman *et al.* [1994] 'Towards a Career Resilient Workforce' in which they write of old and new covenants between employers and employees when I believe they are really referring to old and new psychological contracts. It is ironic that the preceding article on corporate communications was by Chris Argyris, who first developed the concept of the psychological contract over and above the employment contract.

<sup>6</sup> In countries in which common law persists the employment relationship is embodied in the legal contract of employment, which has been conceptualised as three sets of terms:

- Express terms, that are agreed between employer and employee, whether by word of mouth or in writing;
- Incorporated terms, which are drawn from relevant legislation, derived agreements, and formalised work rules; and
- Implied terms, which are the residual common law rules where the matter is not covered by one of the other terms. (Szakats 1988)