Psychological Contract Development: An Integration of Existing Knowledge to Form a Temporal Model

Kelly Windle1, Kathryn von Treuer2

ABSTRACT

The theory of psychological contracts has received substantial attention over the past two decades as a popular framework to examine contemporary employment relationships. Most previous research has examined breaches and violations of the psychological contract, as well as their effect on employee organization outcomes. Few studies have employed longitudinal, prospective research designs to investigate the psychological contract. As a result, the content and formation of psychological contracts are incompletely understood. It is argued that employment relationships may be better managed with greater understanding of the formation and changes in the psychological contract. This paper examines the existing psychological contract literature to identify five key factors that are proposed to contribute to the formation of psychological contracts. This paper extends the current research by integrating these factors for the first time into a temporal model of psychological contract development.

Key words: Psychological Contract; Psychological Contract Type; Employment Relationships; Temporal Change; Social Accounts; Met Expectations; Socialisations

Introduction

Managing employee relationships is a fundamental challenge for managers and human resource specialists. The potential cost from staff turnover and withdrawal behaviours may undermine organisational viability. The psychological contract comprises the perceived mutual obligations that exist between an individual employee and his or her employer (Conway & Briner, 2005), and it is a popular framework for understanding contemporary work relationships (Del Campo, 2007; Latornell, 2007).

Previous Research

Despite the popularity of the psychological contract, the existing literature. A specific limitation is that much of the previous literature has examined contract breaches rather than contract development and maturation. Few studies on psychological contract research have used longitudinal research designs (e.g., Bunderson, 2001; Conway & Coyle-Shapiro, 2006; Coyle-Shapiro & Kessler, 2002; Pavlou & Gefen, 2005; Payne, Culbertson, Boswell, & Barger, 2008; Robinson & Morrison, 2000), although this design type is becoming more frequent (e.g., Boswell, Shipp, Payne, & Culbertson, 2009; Chambel & Oliveira-Cruz, 2010; Kim & Choi, 2010; Montes & Zweig, 2009; Restubog, Bordia, Tang, & Krebs, 2010). Most research has used retrospective rather than prospective data (e.g., Bellou, 2007; Conway & Briner, 2002), and relatively few studies have directly examined the factors that affect or predict changes in psychological contract formation and development (recent exceptions include Svensson & Wolven, 2010). This has resulted in limited understanding, specifically of contract development and maturation over time, prompting researchers to call for research on psychological contract development (e.g., Turnley, Bolino, Lester, & Bloodgood, 2003; Conway & Briner, 2005).

This paper develops a specific model of psychological contract formation. To achieve this, we examine several components individually before presenting an integrated model that places these pieces of the model together.

1 School of Psychology, Deakin University, Australia, E-mail: kelly.windle@bluescopesteel.com
2 Associate Professor Kathryn von Treuer, School of Psychology, Deakin University, 221 Burwood Hwy, Burwood, VIC, 3125, E-mail: kathryn.vontreuer@deakin.edu.au
Role of Time

The psychological contract is a dynamic rather than static phenomenon that changes and matures with time. Therefore, in any model of psychological contract formation, it is imperative to include a temporal component in order to capture and enrich one’s understanding of this phenomenon. Consistent with this viewpoint is the argument that while cross-sectional studies are a valid ‘snap shot’, they have an inherent limitation regarding the information or insights they can provide.

Rousseau (2001) conceived and produced a framework of transactional, relational and other psychological contracts, while Svensson and Wolven (2010) attempted to elucidate the nature of psychological contracts. While Rousseau conceived contract types as being at either end of a tangible/intangible continuum, this notion was challenged by Svensson and Wolven (2010), who argued that if they were at either end of a continuum, the psychological contract must be conceptualised as a uni-dimensional construct. Instead, they argued for a multidimensional construct. However, they all agreed that the individual employee's perceptions are important. Rousseau (2001) further proposed that psychological contracts are a manifestation of cognitive schemata. Svensson and Wolven (2010) concurred, stating that a cognitive schema is ‘a model evoked in a given situation to help an individual cope with and understand what they experience. The schema is revised as time goes by and new information and feedback from the environment regarding a phenomenon is gathered’ (pp. 188–189). Consequently, it would be possible to examine the putative cognitive models using tools specifically developed for model assessment more generally. Svensson and Wolven (2010) also considered the types of factors that might be involved in the formation of the psychological contract. They acknowledged the importance of a temporal component (time frame), the dynamism of the process (static/dynamic) and details of performance. The model proposed in this paper will incorporate a temporal component to represent and reflect this aspect of psychological contract formation.

Formation and Maturation of the Psychological Contract

Role of Individual Differences

Limited research has been conducted regarding the formation and early development of the psychological contract, including the period of initial employment (Conway & Briner, 2005; Rousseau & Tijoriwala, 1998). Cross, Barry and Garavan (2008) concluded that recruitment processes critically inform the resulting psychological contract type. Thomas and Anderson (1998) studied new army recruits during their first few months in the organisation and found that, in response to early socialisation, newcomer promises and expectations shifted to reflect the normative psychological contracts of existing employees. During times of mergers, Linde and Schalk (2008) found that the formation of new psychological contracts is informed more by previous employment relationship experiences than by the merger experience itself or by individual differences. Conversely, Nikolaou, Tomprou and Vakola (2007) found that individual differences in the form of personality measures significantly contribute to the formation of psychological contract content expectations. Orvis, Dudley and Cortina (2008) similarly found that conscientiousness contributes to the formation of psychological contracts by informing the strength and type of response the employee displays in breach experiences and their subsequent contract modifications. One factor that clearly identifies the progress of psychological contract formation is individual differences. Consequently, any model of psychological contract formation must now include a temporal (time) component, and it must also account for individual differences.

Stages of Psychological Contract Formation

Psychological contract content is the result of a promissory exchange between the employee and employer. By definition, it involves socialisation between the two parties in order for the exchange to occur. Stage models of socialisation processes have not been popular in the organisational socialisation literature in recent decades due to their overly prescriptive nature and limited empirical support (Ashforth, Sluss, & Harrison, 2007). Notwithstanding, stage models remain useful as frameworks for discussing the challenges that new employees face—in this case, with the formation of their psychological contract. Therefore, this paper examines the temporal development of the psychological contract across three stages of organisational socialisation: anticipatory, early and latter. We argue that different factors come into play at different stages of the psychological contract formation, which will vary the fabric of, and the employees’ reaction to, their psychological contract. Therefore, the temporal model should incorporate a staged model.
The anticipatory socialisation stage refers to the time prior to organisational entry, which includes, but is not restricted to, recruitment, during which future employees begin developing employment expectations (Feldman, 1981). These preliminary expectations become the anticipatory psychological contract (De Vos, De Stobbeleir, & Meganck, 2009). Early socialisation is the term given to the time that a new employee spends confronting the realities of the organisation—often referred to as an ‘encounter’ stage—and then resolving discrepancies between expectations (i.e., their anticipatory psychological contract) and organisational realities, often known as the ‘adjustment’ stage (Ashforth et al., 2007). Following this encounter and the adjustment of expectations to reality, employees will typically begin to display more stabilised behaviours and attitudes, which indicate that they have become full organisational members (Ashforth et al., 2007). At this point, they enter the latter stage of socialisation, which involves more of a focus on maintenance than creation, especially with respect to employee knowledge, attitudes and behaviours, and thus, we hypothesise, also regarding psychological contract expectations.

Following formal entry into the organisation, there are no set timeframes for becoming ‘socialised’ (Ashforth et al., 2007). However, the majority of the socialisation research indicates that most new employees adjust quickly to their new job and organisational environment during the first several months, and by the end of this period, they will have developed a normatively comparative level of understanding regarding their expected behaviours, attitudes and organisational knowledge (Boswell et al., 2009). Given this, we will consider early socialisation to encompass the first six months post-entry, and latter socialisation to encompass all time thereafter spent within the same work role and organisation. Each stage of the psychological contract formation will now be considered in more detail.

**Anticipatory Socialisation Stage of Psychological Contract Development**

During the anticipatory socialisation stage of employment, professional norms regarding the employee’s work role and societal beliefs regarding the organisation are believed to combine to form a loose foundation for the future psychological contract (Rousseau, 2001). At this stage of development, active promise exchange commences (Rousseau, 2001; Sutton & Griffin, 2004). During the anticipatory socialisation stage, employees form their ‘pre-entry’ expectations; that is, the promissory obligations they form based on mutual exchange prior to commencing work.

The characteristics of these pre-entry expectations are also informed by the individual’s unique situation, needs and wants (Rousseau, 2001). The individual’s situation and requirements will be determined by a myriad of individual difference factors that are shown to influence the psychological contract, including demographic variables such as gender and generation (Blomme, van Rheede, & Tromp, 2010; De Hauw & De Vos, 2010; Hess & Jepsen, 2008), personality (Tallman & Bruning, 2008), previous work experiences (Linde & Schalk, 2008), career ambition and strategy (De Vos, De Stobbeleir, & Meganck, 2009) and professional ideologies (Bunderson, 2001; O’Donohue & Nelson, 2007), and contextual differences such as individualised employment conditions (Hornung, Rousseau, & Glaser, 2000), organisational structure (Bellou, 2007) and perceptions of labour markets (Ng & Feldman, 2008; Wöcke & Sutherland, 2008). These individual differences can determine not only the content of the anticipatory psychological contract, but also the importance or saliency of each promissory obligation to the individual post-entry to the organisation (De Vos et al., 2009). This variance in obligation importance contributes to the complex link demonstrated between organisational variables and individual reactions (Lemire & Rouillard, 2005).

*Proposition 1.* Commencing from pre-employment, individual difference factors will determine the underlying characteristics of both the content and saliency of psychological contract expectations.

**Early Socialisation Stage of Psychological Contract Development**

The psychological contract content, while based upon the individual differences driving pre-entry expectations, including professional norms, societal beliefs and situational factors, is a built-in response to everything that the employee witnesses and experiences during early socialisation processes. Thomas and Anderson (1998) demonstrated that new recruits’ expectations shift after entry into the organisation towards the existing normative contracts within the organisation. Other researchers (e.g., De Vos, Buyens, & Schalk, 2003) have also presented similar evidence; that is, while individual and situational differences inform the loose foundations of a psychological contract, the embryonic psychological contract remains quite fluid until employees enter the organisational environment.

Organisational socialisation is the process whereby employees acquire the knowledge, behaviours and attitudes required to function as an organisational member (Levy, 2005). Sources of information include
both formal and informal communications from the organisation and other employees, and this will prompt continued perceptions of promissory exchanges (Rousseau, 2001).

The early socialisation process occurs formally through training and orientation programs, and informally through observations and interactions with other organisational employees (Hodgkinson & Ford, 2007). During organisational socialisation, newcomers actively seek to make sense of promises based on their interpretations of their experiences during socialisation (De Vos, Buyens, & Schalk, 2003). The social cues perceived by new employees are used to confirm, clarify and amend the content of the psychological contract. By assimilating socialisation experiences into the psychological contract, new employees ensure that the created psychological contract is the one that is best suited for realistic application to their new work environment (Hilltrop, 1995).

The social cues that employees seek and receive will also be determined by their selection of social referents to which they make social comparisons, and by the social influences they consequently experience. Social influence refers to the amount of weight an individual places upon information from a social referent (Ho, 2005). Social influence in organisations occurs through two mechanisms: cohesive others, or referents the employee socialises with by desire; and structurally equivalent others, or referents in the same or similar role to the individual (Ho, 2005). The choice of referent is dependent upon whether the promissory obligation is organisation-wide or job-specific in context, with employees relying on information from cohesive referents for the former and information from structurally equivalent referents for the latter (Ho & Levesque, 2005).

Individuals who perceive that they share a common psychological contract—known as a normative contract—are likely to experience contract changes or breaches as a result of other members' experiences with the organisation rather than just their own (Rousseau, 1995). This argument is supported by social comparison theory (O'Neill & Mone, 2005), which holds that individuals make sense of their own identity and place within their environment based on comparisons to other social referent groups. This theory supports findings that perceptions of breaches are mediated by social comparisons (Cantisano, Dominguez, & Garcia, 2007). It also supports the significance of normative psychological contracts as an important influence on the individual psychological contract.

**Proposition 2a.** Positive socialisation processes, social cues and normative psychological contracts will directly positively influence the formation of psychological contract content.

While organisational socialisation is a continuous process throughout the employment lifecycle, it is during the early socialisation phase of employment that employees most actively seek to use socialisation experiences as information sources to shape their psychological contract expectations (Rousseau, 2001). Early socialisation is a critical time in the formation of psychological contracts, as all early socialisation experiences will serve to confirm, reject or adapt pre-entry expectations to reflect the new reality of the employee's environment.

**Proposition 2b.** The relative influence of socialisation processes on psychological contract formation is strongest during early socialisation.

In conjunction with the validation of their psychological contract through social experiences, employees may use a confirmatory bias in their information-seeking process, whereby they seek met contract expectations and interpret them as confirmation of their anticipatory psychological contract (Nickerson, 1998). Met expectations have consistently been linked to employee job satisfaction and intention to remain (e.g., Conway & Briner, 2002; Dabos & Rousseau, 2004; Lambert, Edwards, & Cable, 2003), organisational commitment, turnover and job performance (Sturges, Conway, Guest, & Liefooghe, 2005). Conversely, there is some evidence disputing the relationship between met expectations and affective commitment (Conway & Briner, 2002), and between met expectations and job satisfaction (Sels, Janssens, & Van den Brande, 2004). Job satisfaction has been demonstrated to be more strongly related to delivered inducements than to promised inducements (Lambert et al., 2003); this would concord with the employee's need to validate his or her psychological contract.

**Proposition 3a.** Met expectations will directly inform the development of psychological contracts.

Over time, employees move into the latter phases of contract formation, reflecting a shift from contract creation to contract maintenance. As a result, there is a reduced need to gather information to confirm and validate their psychological contract. Therefore, we argue that the influence of met expectations should also lessen over time.
Psychological Contract Development: An Integration of Existing Knowledge to Form a Temporal Model

Kelly Windle/Kathryn von Treuer

Proposition 3b. The relative influence of met expectations on the development of psychological contracts will lessen over time.

Latter Socialisation Stage of Psychological Contract Development

In the later phase of psychological contract formation, a promise exchange is proposed to occur more intermittently for two reasons. Firstly, the organisation reduces its socialisation efforts after initial orientation procedures are completed (Rousseau, 2001). Secondly, employees reduce their information-seeking behaviour once they have collected enough information to begin consolidating their understanding of their new environment (Robinson, 1996) and their psychological contract (Rousseau, 2001). During this phase of latter experiences, gradual reinterpretations of organisational events result in adjustment to the existing psychological contract (Saunders & Thornhill, 2006)—the characteristics of which are by now firmly established. Potentially, organisational events such as breaches occur daily (Conway & Briner, 2002), and each occurrence of psychological contract breach prompts a re-evaluation of the psychological contract (Pate, 2006). The evaluation and revision phase of contract formation is therefore not a final stage, but a continual reiterative process. Thus, in this phase of development, we consider that factors that are proposed to affect the development of psychological contracts during later experiences do so via the process of evaluation and revision.

Two types of organisational events guide psychological contract development: breaches and social accounts. The nature, antecedents and consequences of breaches have received the most empirical attention from psychological contract researchers (Conway & Briner, 2005). We discuss these first, followed by a presentation of what little is known of the effects of social accounts on psychological contract development.

Breaches

The negative effects of psychological contract breaches or violations have been found to predict negative organisational outcomes such as reduced organisational trust (Rigotti, 2009; Robinson, 1996), lowered work performance (Turnley & Feldman, 1999; Suazo, 2009), greater intention to leave the organisation (Blomme, van Rheede, & Tromp, 2010; Raja, Johns, & Ntalians, 2004), reduced commitment and loyalty (Coyle-Shapiro & Kessler, 2000; Zhao, Wayne, Glibkowski, & Bravo, 2007), reduced innovative work behaviours (Newton & Nowak, 2010; Ng, Geldman, & Lam, 2010), lower engagement in citizenship-type behaviours (Coyle-Shapiro & Kessler, 2002; Uen, Chien, & Yen, 2009), lower levels of perceived organisational support (Kiewitz, Restubog, Zagenczyk, & Hochwarter, 2009) and an unsatisfactory organisational climate (Conway & Briner, 2005).

Breaches involve a subjective, cognitive evaluation of obligations. Psychological contract breaches occur when the perceived obligations that exist between employees and employers are perceived to have not been met. Breaches, or unmet expectations, trigger evaluation and revision, and sometimes rejection, of the psychological contract (Conway & Briner, 2005). Violations are an extension of breaches, occurring when employees experience strong emotional reactions in response to their cognitive evaluation of a breach obligation (Robinson & Rousseau, 1994). The emotional reaction to the breach is determined by the importance placed upon the breached obligation. In turn, this importance is informed by the type and features of the contract held (Conway & Briner, 2002). The stronger the emotional reaction the employee experiences in response to the breach, the more likely that the employee’s behavioural and attitudinal reactions to the unmet expectation will be negative (Bordia, Restubog, & Tang, 2008). Breacheshave a negative effect on both employee behaviours in response to the breach and the degree of perceived contract mutuality (e.g., Conway & Briner, 2002). An underlying principle of the psychological contract is the norm of reciprocity within the exchange process (Rousseau, 1995). In keeping with this principle, it has been found that employees will adjust their behaviours in response to both over- and under-fulfilment of obligations by the organisation in such a manner that perceived balance and equality is restored to the exchange relationship (Newton & Nowak, 2010; Robinson & Morrison, 2000; Shore & Barksdale, 1998).

Proposition 4a. Unmet expectations will have a direct, negative effect on the psychological contract.

One of the main outcomes of repeated breaches is the erosion of trust in the exchange relationship (Grimmer & Oddy, 2007; Johnson & O’Leary-Kelly, 2003). Over time, this erosion of trust sees employees modify their contract by reducing their own obligations in response to the organisation’s actions, thereby restoring reciprocity to the exchange (Coyle-Shapiro & Conway, 2005). Gradually, employees come to perceive that they owe the organisation less and that the organisation owes them more (Robinson, Kraatz, & Rousseau, 1994). This results in increasingly lower levels of perceived mutuality, which raises the likelihood
of the employee experiencing breaches and subsequent violations. Additionally, Rigotti (2009) found evidence for a threshold model of psychological contract breaches, indicating that employees only tolerate continuous perceptions of breaches to a certain point, whereupon rapid and large changes in the attitudes and outcomes of breaches often begin to appear. As the frequency of unmet expectations accumulates over time, the effect of unmet expectations (breaches) on psychological contract development increases.

**Proposition 4b.** The relative influence of unmet expectations on the development of psychological contracts will strengthen over time.

### Social Accounts

A variety of factors have been found to mediate the influence of breaches on both employees' reactions to breaches and the psychological contract change in response to breaches. These include individual differences such as personality (Raja et al., 2004), age (Bal, de Lange, Jansen, & Van der Velde, 2008) and culture (King & Bu, 2005), as well as organisational social factors such as perceived organisational support (Dulac, Coyle-Shapiro, Henderson, & Wayne, 2008; Guerrero & Herrbach, 2008) and leader–member exchange processes (Chen, Tsui, & Zhong, 2008; Henderson, Wayne, Shore, Bommer, & Tetrick, 2008). An additional factor that has been more recently posited to mediate the influence of breaches on psychological contract formation and development is the construct of social accounts (Turnley et al., 2003), which are the explanations for negative job-related decisions provided to employees by the organisation (Lester, Kickul, & Bergmann, 2007). In addition to mediating breaches, social accounts have emerged as a direct developmental influence on psychological contracts (Lester et al., 2007).

There are three types of social accounts: reframing outcomes, exonerating motives and mitigating responsibility (Sitkin & Bies, 1993). Organisations reframe outcomes when they put a positive spin on the outcomes of a negative action and encourage the employee to view the action more favourably. When organisations appeal to universal values or goals in an attempt to legitimise their actions, they are said to be exonerating motives. Mitigating responsibility refers to when organisations place responsibility or blame for an unfavourable action on a source outside the organisation’s control (Sitkin & Bies, 1993).

The type of social account is not as relevant as credibility in influencing the psychological contract (Lester et al., 2007). Trust has repeatedly been shown to be present in all types of psychological contracts and their obligations (Atkinson, 2007; Bal, Chiaburu, & Jansen, 2010; O'Donohue & Nelson, 2007; Robinson, 1996). Employees experience strong feelings of violation when they believe that organisations have deliberately reneged on an obligation, thus betraying employees' trust (Robinson & Morrison, 2000). Organisational breaches with an inadequate explanation or account also erodes employees’ trust. Consequently, changes occur to the psychological contract and content, thereby decreasing positive employee behaviours such as commitment, civic virtue, turnover, organisational commitment behaviours and job performance (Coyle-Shapiro & Conway, 2005; Guzzo, Noonan, & Elron, 1994; Restubog, Bordia, & Tang, 2006).

Moreover, social accounts have been shown to have a bilateral relationship with the salience of factors over time (Lester et al., 2007). The adequacy of social accounts has been found to influence employees' decisions to retain or change psychological contracts in the face of organisational actions and events, with adequacy positively related to the maintenance of the psychological contract (Lester et al., 2007). Indeed, it has been posited that adequate social accounts play a vital role in bringing consistency to an individual's psychological contract (Lester et al., 2007). Together, the credibility and consistency of the information provided by an organisation to its employees determines the structure of future psychological contracts, as well as employees’ tolerance of future unmet expectations (Rousseau, 2001).

**Proposition 5a.** Positive social accounts given by organisations to employees in response to organisational events will positively influence the structure of psychological contracts.

Most organisational actions leading to perceived breaches involve an organisational justice issue (Pate, 2006). Employees utilise social comparisons to make sense of, and develop, their psychological contracts (Thomas & Anderson, 1998). By comparing themselves and their situations to others in the organisation, employees will note discrepancies in distributive, procedural and interactional justice. The role of perceived justice in shaping psychological contracts is particularly strong during times of organisational change. Korsgaard, Sapienza and Schweiger (2002) found that when employees perceived the change planning process to be procedurally just, they were more likely to display organisational citizenship behaviours and less likely to adjust their perceptions of their own obligations or intention to remain. Conversely, they found that unjust planning processes adversely affected employees’ perceptions of their own obligations and intention to remain. As perceptions of organisational justice and trust diminish, employees may become
subject to strong emotional reactions (Deery, Iverson, & Walsh, 2006; Grimmer & Oddy, 2007). In such situations, the importance of social accounts may increase over time in accordance with the number of events requiring and receiving adequate explanations from the organisation.

*Proposition 5b.* The relative influence of social accounts on psychological contract development will increase over time.

**Obligation Characteristics and Currency**

This section will introduce and examine obligation characteristics and currency. Within employees’ mental models (i.e., within their psychological contract), both they and their employers have obligations to each other. What characterises or defines these obligations? The specific format or content of these obligations is known as obligation characteristics. Each individual psychological contract has its own unique set of obligation characteristics.

However, more broadly, obligation characteristics can be grouped in order to identify different currencies exchanged between employees and employers. In traditional psychological contract literature, currency has been assumed to be either economic or socio-emotional. The majority of the literature still recognises only these two currency forms. However, Thompson and Bunderson (2003) extended the application of psychological contract theory by including a third type of currency exchange: ideology. They proposed that employees do not see the organisation’s obligations to them as personal obligations; they can also include the organisation’s obligations to a cause or community to which the employee is aligned.

Qualitative research by O’Donohue and colleagues (O’Donohue et al., 2007; O’Donohue & Nelson, 2007; O’Donohue, Sheehan, Hecker, & Holland, 2007) has demonstrated support for the presence of an ideological contract among professionals in the healthcare industry. While limited to professionals, they suggested that, as recent employment market changes prompt a move from job security to career flexibility, non-professional employees will increasingly seek alignment with organisations that are supportive of their various ideological concerns. Similarly, O’Donohue and Nelson (2009) presented arguments for the role of ethical values within a psychological contract, suggesting that employees increasingly want their organisation to explicitly display ethical and social values that are congruent with their own. The presence or absence of desired ethical behaviour within an organisation influences the creation of specific obligations within the psychological contract.

The content of an employee’s psychological contract may consist of multiple currencies that contribute to an overarching psychological contract. Researchers have suggested that behavioural responses to contract breaches differ according to currency type. Herriot, Manning and Kidd’s (1997) study of new army recruits found that while employees and employers can hold the same content categories within their contract, they report different relative frequencies of content expectations. This demonstrates the danger of overlooking differences in content balance, even when presented with matching content between employee and employer expectations. Given this proposed tendency for employees to vary the saliency afforded to contract expectations (Tyagi & Agrawal, 2010), it is important for managers to achieve perceived contract mutuality regarding both content and content saliency (Shore & Barksdale, 1998). This conclusion holds implications for organisations attempting to manage the psychological contract by raising awareness of the importance of establishing mutuality in both contract content and saliency at the formation stage of development. Unfortunately, there are few tools currently available to assist organisations to achieve this mutuality.

**Psychological Contract Evaluation**

The degree of psychological contract fulfilment exists along a continuum. At one end, a fulfilled psychological contract can lead to positive organisational outcomes. Although this is the most common level of fulfilment, it is paradoxically the type of contract fulfilment that is the least studied. A lesser infringement of the psychological contract is known as a breach, whereas a more serious infringement, as assessed by the subjective values of the employee, is known as a violation. As the degree of fulfilment decreases, so does the potential to increase negative employee emotions and so precipitate negative organisational outcomes. It is noteworthy that this phenomenon is not a linear one. Typically, as a breach occurs, the employee will interpret the environment and events and adjust his or her psychological contract accordingly, while overall maintaining a positive, or at least neutral, assessment of his or her psychological contract fulfilment. However, if a violation occurs, this assessment is pushed beyond an acceptable limit, and much like an elastic band breaking if stretched beyond its limit, a radical change will be evidenced in the
employee’s behaviour. This constitutes essentially a change from positive to negative valence towards the employer. Note that there also exists the potential to have a neutral ‘wait and see’ type of valence. Essentially, there are two processes within the psychological contract: the development of the contract, and ongoing assessment as to whether the returns from the employer fit within the boundaries of the expectations of the psychological contract held by the employee. Within the literature, these two components are often bundled together, but there is added value in disentangling them. The literature often focuses on the more spectacular consequences of contract violation, which is a less common phenomenon than contract assessment, contract fulfilment and contract formation, which should be considered universal.

This section will develop a theme of ongoing psychological contract assessment and call upon well-established theory in a new application to further understand psychological contract evaluation. To begin with, it is posited that the psychological contract is a mental model that represents the real world, and that this model is testable. The individual employee’s ongoing assessment of the psychological contract is in fact ongoing testing of his or her own mental model. As such, methods used to assess ongoing model evaluation may be useful in interpreting this mental function. It is also noteworthy that the psychological contract is a model—not a theory. Although quite similar, a model is more fluid—less rigid—than a theory. The model is tolerant of examples of counterproofs, which is a major advantage that will presently be explored further. In contrast, theories are intolerant; for example, the theory that all swans are white is immediately disproved by one black swan, no matter for how long or how many white swans have previously been observed. However, with a model, one expects there to be some misfit between observations and the model. For example, a model aeroplane may look like an aeroplane and even fly, but it is smaller than a real aeroplane. This piece of misfit is tolerated, and in fact expected, by using a model.

Hesse (1966) outlined the use of analogies in science and within models. Models have three analogies: positive, neutral and negative. Positive analogies are the parts of the model that have previously been observed and tested; therefore, they are known to concur with the real world. In the aeroplane example, a positive analogy might be that the plane looks like, and is painted in, the same manner as the original real-world counterpart. Negative analogies are the parts of the model that have previously been observed and tested; therefore, they are known not to concur with the real world. In the aeroplane example, a negative analogy might be that the model aeroplane is much smaller than the original real-world counterpart. So far, the model is unremarkable. However, the real strength of the model is the neutral analogy. This is the part of the model that is not yet tested; therefore, there is uncertainty about whether the model will accurately represent the real world. In the aeroplane example, let us assume that we do not know whether the model will fly. ‘Ability to fly’ is then in the neutral analogy. We test the model and the plane will either fly or not; consequently, this feature of the model will be assigned either to the positive or negative analogy. The model is only useful insofar as it represents the real world. If too many negative analogies are identified, the model in toto may be rejected. It is also possible that, depending upon the actual purpose of the model, a single positive analogy may be enough to retain a model with many negative analogies, or that one important but negative analogy is enough to reject the model.

In terms of the psychological contract, this material may now be used to explain the process of ongoing psychological contract evaluation. The psychological contract may be considered a mental model. This material explains the mental process, while the basis for evaluating material from different sources and how they are assessed is explained by social cues and social accounts.

When employees enter an organisation, they have a newly established psychological contract. This will be based in part upon previous experiences and expectations (i.e., upon individual differences), as well as both formal and informal information received from and about the organisation. The psychological contract will have positive, negative and neutral analogies. Positive analogies are the parts of the experience that match or confirm employees’ expectations as informed by the psychological contract. For example, employees might be offered one day off each month or a company car. These confirmations serve to reaffirm the legitimacy of the psychological contract. Negative analogies are the parts of the experience that do not match or conform to employees’ expectations as informed by the psychological contract. For example, employees may be promised a raise, promotion or their own office after a period, which then remains unfulfilled. The effect of negative analogies serves to undermine the legitimacy of the psychological contract. The neutral analogy is the part of the contract about which employees are unsure. As time proceeds, employees will experience cases of confirmation, breaches and perhaps violations of the psychological contract. As this process continues, the effect will be to increase the pool of items within the positive and negative analogies and, as their psychological contract matures, deplete the quantity of items that resides
within the neutral analogy pool. Consequently, ongoing evaluations will produce ongoing modifications to
the assessment of the status of psychological contract fulfilment and associated valence towards the
employers.

A Proposed Model of Psychological Contract Formation
We propose the following testable model of psychological contract formation and development (see Figure
1). This model has been created by incorporating the findings and theories of previous research, as well
as our resulting propositions as outlined above. The model depicts the relative influence that each
developmental factor is proposed to have across three general phases of formation: anticipatory
socialisation (pre-employment and recruitment), early socialisation (first six months of employment) and
latter socialisation experiences of evaluation and revision.

![Figure 1. Proposed model illustrating the relative effect of factors on the development of the psychological
contract over time.](image)

During pre-employment and recruitment, individual differences are expected to contribute to the formation
of the basic features and characteristics of the future psychological contract. Once the employee enters the
organisation, these individual differences predict information-seeking behaviours and perceptions. During
early socialisation, employees seek to make sense of, and clarify, their psychological contract. To do this,
they rely on social cues from social referents and perceived normative contracts. At this time, employees
also receive confirmation of their psychological contract from experiencing met expectations. As employees
are assimilated into organisations, their psychological contracts become more concrete, although always
remaining dynamic. Consequently, their need for information regarding their contracts is reduced, as is the
influence of social cues and met expectations. Instead, the effect of unmet expectations mediated by the
adequacy of social accounts influences the formation and continued development of the psychological
contract. Individual difference factors continue to play a role in guiding employees’ reactions to
organisational events and resulting changes they may make to psychological contracts across the entire
employment lifecycle.

Future Research
Most previous research on psychological contracts has examined breaches rather than the more global
phenomena of psychological contract content and formation (Conway & Briner, 2005). Reasons for this bias
have been attributed to breach research lending itself to quantitative, cross-sectional research designs
(Rousseau & Tijoriwala, 1998). Advancing applied and theoretical knowledge of psychological contracts
may be enhanced when the focus is on understanding the formation and development of psychological
contracts. This focus may provide greater clarity of the construct for academics, and it may provide
practitioners with insights into how to manage psychological contracts at work, from the recruitment stage
of the employer–employee relationship to the entire employment lifecycle. It is hoped that the model
proposed in this paper will serve as a framework to assist researchers and practitioners to better
understand and test psychological contract formation theory.
The six factors of the model (individual differences, social cues, employer social accounts, met expectations, unmet expectations and time) have not previously appeared together in empirical research. A testable model that integrates all contributing factors to contract formation will add value to the psychological contract literature. Of particular value in the model is the recognition of two important dimensions of socialisation that influence psychological contracts: socialisation with people (social cues) within the organisation, and socialisation with the organisation itself through social accounts. These two factors are newly proposed in the psychological contract literature: both they and their relative contributions to contract development require further empirical exploration and integration into the literature.

Additionally, the interactions between the factors are yet to be tested empirically, and such a model allows for the consideration of interaction effects. However, the model does not yet present a clear pathway to operationalise or measure each of the factors or their interactions, and it will not be able to do so until the literature definitively clarifies and establishes corresponding psychometrically sound and accepted common measures of the factors. This is a severe limitation in psychological contract formation research, and we suggest that it must be addressed soon if the psychological contract is to deliver full value as a practical framework for managing employment relationships.

The practical applications of understanding psychological contract formation come in the form of perceived mutuality. If perceived mutuality of both contract content and saliency can be established and maintained early in the exchange relationship, this increases the chance of a positive employment relationship experience for both parties. By applying detailed knowledge of contract formation and development to the workplace, organisations and employees can strive for a mutually successful and satisfying exchange relationship.

References


