A REVIEW AND CRITIQUE OF PSYCHOLOGICAL CONTRACT THEORY AND THE IMPLICATIONS FOR HRD

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Abstract
The purpose of this study is to examine and explore the development of the psychological contract theory. The study will examine its components the employment relationship and the Social exchange theory. The meaning and function of the psychological contract, factors that have contributed to emergence and formation will be discussed. The author will address historical changes affecting psychological contract if any. Building upon the historical foundations and background, the paper will review and critique psychological contract theory and explore possible implications for the field of HRD.

INTRODUCTION
We are at a time that organizations desperately need the commitment of their employees to help them compete and survive. People are asking themselves questions that they have not asked before: Why am I in my job? For how long will I be here? (Kisler, 1994). There is no doubt that work is central in the lives of employees and some employees feel a sense of ownership and some do not (Parks and Schmedemann 1994), work provides an identity and contributes to psychological well-being of employees. However, there are some job expectations that go a long with these jobs. These expectations from both sides (organization and employee) form the contract package. Gordon and Lee, (1990); Glendon & Lev, (1979); and Shapiro & Tune, (1974) agree that most job contracts depend on expectation of and dependence on job security. This is true, as the human capital theory would suggest that the longer an employee stays with a specific employer, the fewer are his options in the job market. This situation has however changed in the way employees think in regard to their expectations both expressed and inexpressible. The “old” psychological contracts based on the exchange of security for compliance have been shattered. The new contract is now being established (Spindler, 1994).

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The employee starts with the expectation that he or she will be fairly compensated. This is employment relationship as seen from the employee’s perspective (Spindler, 1994). The organization look at it from the point of view of the benefits the organization will get from the skills. These are the situations that help create and manage the relationship between employees and their organizations and the creation and maintenance of the psychological contracts between organizations and their members (Hirsch, 1987).

For organizations to change, people must change. For leaders to help people change, they do not need to understand change, they need to understand people (Morrison 1994). Psychological contract theory is key to an organization’s relations with employees as a link to business strategy and HRD practices. This paper will attempt to examine the predicament underlying these relations and consequences that are likely to a rise as a result of this conflict between employee expectation and organization practice. The question this study intends to answer is: What are the implications of psychological contract to employees and organizations when (1) fairly enforced, and (2) violated?

CONCEPTUAL ISSUES

Most people are familiar with the word “contract” which is a word commonly used between labor unions and organizations employing union members (Schermerhorn, Hunt & Osborn, 1988). But there is another less formal, contract, the “psychological contract” that underlies the relationship between every employee and his or her work organization (Rubin, Kolb, McIntyre & Farris, 1969; Schein, 1980). Psychological contracts differ from other types of contracts in that they may contain thousands of items not necessarily known to the parties but both parties may have different expectations. Some expectations are only inferred, some are formally discussed and they keep changing as individual and organization expectations change.

A psychological contract can be defined as the individual’s belief regarding the terms and conditions of an exchange agreement between that person and another party (Rousseau, 1989). Sims (1994) has defined psychological contract as the set of expectations held by an individual employee that specify what the individual and organization expect to give to and receive from each other in the course of their work relationships.

Other definitions have been given by authors such as Spindler, (1994) who has defined psychological contract simply as the bundle of unexpressed expectations that exist at the interfaces between humans. As such, every relationship has one or more psychological contracts. In a psychological contract the rights and expectations of the parties have not been articulated much less agreed to.
In Rousseau’s (1989) definition, organization representation or agents give promises to perspective employees or employees themselves, promise of future exchange if they take the job or perform better to some standards which in turn create the psychological contract. Further, the very nature of relationship with the organization is shaped by personnel actions such as recruiting, appraising performance, training, and benefits administration (Rousseau & Geller 1994).

From a Japanese perspective, psychological contract is defined as set of beliefs and perceptions that individuals hold regarding the terms and conditions of a reciprocal exchange agreement (Morishima, 1996). He further suggests that in employment relationships, employees’ psychological contracts specify the contributions that they owe to their employees and the inducements and rewards that they believe are owed to them in return.

It should be noted that psychological contracts are defined by their perceptual and individual nature making them distinct from both formal written contracts and implied contracts (Robinson & Wolfe-Morrison, 1995). Furthermore, “they concern both concrete (pay, working conditions) and abstract (security, challenge) elements of the give and take between employer and employee” (Guzzo & Nooman, 1994).

The concept of psychological contract is not new. However, it is unfortunate that the concept was used as just a technique to try and coerce people to be what their managers and leaders wanted them to be. It is important that leaders and managers understand people that they deal with. To be able to bring about meaningful change in organizations people must change first. This is essential in the background and development of psychological contract.

The relationship that is being changed can be understood most clearly when it is placed in the historical perspectives. It was created originally by the post world war II boom that boosted the economy of the United States (Ehrlich, 1994). The demands of domestic consumers combined with those of foreign countries rebuilding from the devastation of the war ushered in a period of unprecedented expansion. In support of the above is Wilhelm (1994) who has stated that decades following World War II, the United States had the strongest economy in the world. Constant economic expansion created jobs and raised American living standards. The general workforce expected better working conditions and better retirement lives.

In this beneficial environment implicit contracts evolved between companies and workers (Wilhelm, 1994). Simply stated, both understood that workers who did their jobs well could count on employment until retirement. Wages increased, promotion to those that deserved, better benefits package was realized and life for the working population was good. All this has changed the American workers especially in the 1980’s and 90’s. Increasing global competition, pressure
on profits and marginal business and declining educational preparedness of workers are only some of the factors that have combined to alter the face of America’s economic landscape (Wilhelm, 1994).

Over a period of time of struggle American employees found themselves in better and stable employment situations with better pay and benefits plans. Gradually the concept developed that employers “took care” of their employees and employers were proud of their ability to do so. From the 1940’s through the 1980’s employers expanded employee benefits in a steady and predictable fashion (Lucero & Allen, 1994). As long as the economy was growing, and no serious problems or shortcomings were foreseen in the near future, unions were not resisted and generally additional benefits were provided as employee needs developed and changed. Employers typically assumed that a comprehensive employee benefits package, could be an important part of their efforts to attract, maintain and motivate an effective workforce (Milkovich & Neuman, 1990).

Over approximately 40-year period, benefits became an important part of psychological contract defining the relationship between employees and their employers. Now more than ever, “development” is synonymous with “promotion” in the minds of employees. Employers are stressing to employees that mastering the skills for their current job is the most important aspect of their job (we shall discuss this later in training and development). The responsibility to maximize the benefits of these actions must be shared jointly by employers and their employees (Ehrlich, 1994). This is part of the psychological contract- an employment relationship.

The author will at this point address the nature of psychological contract theory and employer-employee interpretations of HR practices and how these interpretations relate to the status of the psychological contract and important outcomes such as employee commitment are addressed. But it is necessary to start with employment relationship- a relationship that is embedded in the social exchange theory (Blau, 1964; Homans, 1961).

The process of social association can be conceptualized as an “exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons” (Homans, 1961). The basic principles underlying the conceptions of exchange maybe briefly summarized as “an individual who supplies rewarding services to another and obligates him” (Blau, 1964). To discharge this obligation Blau suggests that the second must furnish benefits to the first in turn. If both individuals value what they receive from the other, both are prone to supply more of their own services to provide incentives for the other to increase the supply and to avoid becoming indebted to him/her.

Impressionistic observation suggests that people usually discharge their social obligations, even though there is no binding contract that can be reinforced,
in contrast to the contractual obligations in economic exchange which can be enforced through legal sanctions (Blau, 1964). Social contracts and exchanges are important to man who is by nature a social man. A major source of worker dissatisfaction is the disruption of social relations, the inability to talk comfortably at his own initiative...and the inability to base social contracts in terms of his own deeds (Schein, 1965).

Blau (1964) has proposed a variety of conditions that affect processes of social exchange: the stage in development and the character of the relationship between exchange partners, the nature of the benefits that enter into the transactions and the costs incurred in providing them, and the social contact in which the exchanges take place. Since social exchange requires trusting others to reciprocate the initial problem is to prove oneself trustworthy. As individuals (Blau continues) continue discharging their obligations, they prove ones self-trustworthy. This is possible to between individual and employer as the other party in this exchange. Both partners gain advantages from a stable exchange partnership, but the greater commitment of one constitutes a particular advantage for the other.

Employment relationship depends to a large extent on social exchange theory. The contract for employment means a lot for people seeking jobs now than ever before. There are many challenges that face organizations and employees alike in working relations. Both the employee and the worker must behave in a particular way to compete and succeed. Sims (1994) has suggested that employees of every race, sex and age are insisting on policies that respond to their changing expectations yet still satisfy their professional ambitions. This is more of exchange relations between employees and organizations.

All these expectations take place within a social context, social conditions of exchange and interrelations between exchange processes(employee-organization) and social structure (Blau, 1964):

(i) Even if we abstract the exchange transactions in a single pair, they are influenced by the “role-set” of each partner, that is, by the role relations either has by virtue of occupying the social status relevant to the exchange, since these role relations govern the alternative opportunities of the two.

(ii) The entire exchange transactions in a group determine a prevailing rate of exchange and this group standard puts pressure on any partnership whose transactions deviate from it to come into live.

(iii) Potential coalitions among the weaker members tend to restrain its stronger members from fully exploiting their advantageous position in exchange transactions.

(iv) The exchange processes typically give rise in a group subsequently modify these processes, since established power enables an individual to compel others to provide services without offering.
(v) The social situation exerts a subtle but important influence by making the transactions in a given exchange relation part of other exchanges that occur in the background and that may, never the less be the more salient ones. Work (employment) is an activity that produces a value for other people. It is what people do in exchange for things they value but cannot provide for themselves (Schermernon, Hunt & Osborn, 1988). There is some kind of obligation between the parties involved in the exchange. Giving a present or doing a favor demonstrates trust in another; the other's reciprocation validates this trust as justified. In every exchange transaction each participant hopes to gain much at little cost, yet to profit at all both must come to some agreement (Blau 1964). This is reflected in the psychological contract. The relationship between employees and their organizations has often been described as an exchange relationship (Mowday, Porter & Steers, 1982) and psychological contract is an exchange concept providing a broad explanatory framework for understanding employee organization linkages (Argyris, 1960; Schwin, 1980).

A social exchange perspective on contracts suggests (Rousseau and Parks 1992): (i) contracts create organizational hierarchies and roles (ii) contracts give rise to power asymmetries (iii) contracts are influenced by differences in power, creating unequal bargaining, and (iv) each contract is part of a larger set of exchange relationships.

The subjectivity of contracts is an ancient issue (Rousseau, 1989). Rousseau gave the example of the owner of a vineyard in one biblical parable that discovered that expectations vary and can change as a result of events occurring after the initial agreement (The parable is in Mathew 20:1-18). From this parable, the workers feel they have been unfairly/inequitably treated; from the farm owner's viewpoint, "a deal is a deal".

We are all familiar with the work "contracts" as it reflects on relations between labor unions and organizations employing their members. Such a contract is written and formal. Contract negotiations may cover such items as pay, work hours, vacations and seniority rights among others (Schermernhan, Hand & Osborn 1988), see figure 1.

According to Rousseau and Parks (1992) contracts are fundamental to the behaviors of individuals and the actions of organizations. They imply cooperation and consensus but offers engender dispute and disagreement. They are used to characterize self-serving economic activities as well as sentient, communal relations. The most general description of a contract is the belief in obligations between two or more parties.

Psychological contracts are less formal contracts that relate every employee to his or her work organization. It is the set of expectations held by the individual
and specifying what the individual and the organization expect to give and receive from one another in the course of their working relationship (Schermerhorn, Hunt, & Osborn, 1988). Psychological contracts in employment are the beliefs of systems of individual workers and employers regarding their mutual obligations (Rousseau & Schalk, 2000). These obligations Rousseau and Schalk continue to say grow from the promises made as employment arrangements are started and sustained from the hiring process through day-to-day interactions, see figure 2.

Rousseau and Schalk, (2002) propose two primary requirements for the creation of a psychological contract (1) some degree of personal freedom. Psychological contract are voluntary commitments that individuals make with others. The creation and the ability of a firm to benefit from the fulfillment of psychological contract depends on the existence of some degree of individual choice and (2) there is social stability to some degree. Before they can create agreements regarding the future, both the employer and the worker must have confidence in one another’s intension and ability to keep commitments.

For Sims, (1994) the delicate balance of the psychological contracts depends to a large measure on two conditions: (i) the degree to which employees expectations of what an organization (s) will provide and what is owed in return match the organization’s of what it will give and get; and (ii) there is agreement on what is actually to be exchanged between the employee and the organization. Examples include money in exchange for time at work; social need satisfaction and security in exchange for work and loyalty; opportunities for self enhancement and challenging work in exchange for high productivity, quality work, and creative effort in the service of organizational goals; or various combinations of these and other possible variables (Schein, 1980; Schermerhon, Hunt & Osborn, 1988).

Rousseau & Schalk (2000) states that given its foundation at the height of liberal thinking regarding free choice, the United States is a likely location for the concept of a psychological contract to emerge. Many core assumptions of psychological contract theory are at home in American culture and law:

(1) Individuals are autonomous entities who exercise free choice.
(2) Only a willing individual can enter into a binding agreement.
(3) Mutuality in understanding is possible between parties in an exchange agreement
(4) Promise keeping can take a variety of forms, which depend on situational factors such as controllability.
(5) Parties to a contract are relatively equal, making possible the negotiation of terms in each owns interest.

These assumptions can be generalized to other societies, however with caution. Americans tend to tolerate uncertainty and appear willing to accept promise
keeping that is often less than the specific terms agreed to as long as a good faith effort was made and a good relationship exists between the parties (Rousseau and Schalk, 2000).

Some of the characteristics of psychological contract adopted in this study are stated by Morishima (1996).

1. Commitment and loyalty to organizations are emphasized.
2. Socializing with colleagues is often considered to be a required part of “work”.
3. The most common types of employment contracts are those that do not specify contract length.
4. Contract specifics are rarely spelt out, but assumed to be understood.
5. Contracts are rarely written down; verbally exchanged promises usually suffice.
6. Contracts are simply general agreements to work in good faith and fair dealing; specific obligations are to be filled on an ongoing basis.
7. Contracts are never taken to be fixed, but subject to continual renegotiation and reinterpretation by parties.

Morishima (1996) further suggests that as many researchers have noted, these characteristics have given rise to the now famous Japanese work style in which employees are highly committed to their work organization, flexible to accept any changes and continuously striving for improvement.

FORMS OF PSYCHOLOGICAL CONTRACTS

As stated earlier in this study, when an individual perceives that contributions he or she makes obligate the organization to reciprocity (or vice-versa), a psychological contract emerges (Rousseau, 1989). See figure 3.

Because psychological contracts represent how people interpret promises and commitments, both parties in the same employment relationship (employer and employee) can have different points of view regarding specific terms, however in organizations where specific HR practices have been in place along time, agreement regarding contract term is more likely (Rousseau & Wade-Benzoni 1994).

Contracts according to MacNeil (1985) are said to be either transactional or relational. To reinforce this statement, Rousseau (1989) states that two major contracts have been common in the workplace and anchor two ends of what has been described as a contractual continuum transactional and relational contracts. While some contracts may be either transactional or relational, we believe that psychological contracts have both transactional and relational qualities (Guzzo & Noonan, 1994). See figure 4.
Transactional Contracts

Transactional contracts are those with well described terms of exchange and usually the terms of exchange are monetary specific and of limited duration (Guzzo & Nooman 1994). They are characterized as a fair day’s pay – focusing on short-term exchanges (Rousseau & Wade-Benzoni 1994).

Temporary employment, commission sales and independent contracting are all examples of transactional contracts (Rousseau & Parks, 1992). Transactional contracts exemplify pooled interdependence (Thompson 1967) with parties contributing independently and are coordinated through rules, paralleling the specificity. Highly specialized, rule bound contracts suit temporary employment and other distant relationships but may be incongruent with “close” relationships (Parks & Conlon, 1991) such as those involving long-tenured veterans.

When an organization finds predicting difficult, it will seek flexibility in its future actions by making fewer commitments to employees and by pursuing shorter-term relations with them (Rousseau & Wade-Benzoni 1994). These authors continue to say that the more competitive the organization’s environment, the greater the emphasis it will place on performance and criterion specificity.

To express these facts further, Guzzo & Nooman (1994) use the examples of an independent contract worker. The employment agreement is almost entirely explicit, spelled out precisely in the contract. The employer-employee relationship is limited to the exchange of labor for pay; few intangibles are involved in the exchange and the relationship is almost purely transactional in nature. A similar psychological contract might be experienced by a temporary employee who is paid by a commission and receives no extended benefits. This is transactional psychological contract. The contractual continuum appears to have a psychological reality.

Relational Contracts

Relational contract terms have been found in virtually every study of psychological contract conducted in the United States, in the form of promises regarding loyalty, commitment, and concern for workers security and well being (Robinson, Kraatz, & Rousseau, 1994; Rousseau, 1990; Shore & Barksdale, 1998). Despite high turn over and unemployment, the US labor market has provided stable, near lifetime employment to nearly a third of the labor force. Carnoy et al. (1997) suggested that workers attachment to an employer should be judged by the length of time spent working with the firm, regardless of the legal status.

Guzzo & Nooman, (1994) state that relational contracts are less defined and their terms are more abstract; they may not be easily monetizable; and they broadly concern the relationship between the individual and the organization. While it is true that receiving a wage is a matter of transactional contract; being treated with respect by an employer is a matter of a relational contract.
At the end of the continuum is a relational contract, which focuses on open-ended relationships involving considerable investments by both employees (company-specific skills, long-term career development) and employers (extensive training) (Rousseau & Wade-Benzon, 1994). Such investments according to these authors involve a high degree of mutual interdependence making exit difficult. Relational contracts characterize agreements based upon exchanges of both socio-emotional (loyalty, support) and monetizable elements (pay for services), duration, which is open ended and often long-term, and a high degree of flexibility (Rousseau & Parks, 1992).

When an organization’s strategy is predicated (Roseau & Wade-Benzoni 1994) on its ability to anticipate environmental changes, organizations will adopt longer term relations with employees whose skills the organization develop through internal labor markets and whose ability to learn promote a competitive advantage.

There is a transactional relational balance within the psychological contract which depends on the HR benefits and practices the organization provides an employee (Guzzo & Noaman, 1994) practices that go beyond the employees’ basic needs that reach into multiple aspects of the employer’s work and non-work life, and that are not spelled out in the employment agreement contribute to the relational portion of the psychological contract.

**IMPLICATIONS FOR INDIVIDUALS AND ORGANIZATIONS.**

Research streams relevant to contracts in organizational settings have typically focused on one level (either organizational or individual) in isolation of the other (Rousseau & Parks, 1992). It is therefore important to explore the impact on both parties in this study. Sociologists typically treat contracts as organization creating. Stinchcombe, (1986 b) suggest that “every contract is an organization in miniature, a normatively controlled exchange relations. . . and every organization is a system of contracts”. Linked to a broader theory of social exchange (Blau, 1964; Homans 1961) sociological treatments of contract emphasize that exchange creates status and power differences, one dimension of which is the organizational hierarchy.

A psychological contract develops when employees believe that their employment contributions oblige the employer to reciprocate in some way (Luzero & Allen, 1994). Rousseau (1989) contends that a psychological contract exists when the individuals believes “a promise of future returns has been made, a consideration or contribution has been offered (and accepted) and an obligation to provide future benefits exists”.

Psychological contracts makes the employee believe that the organization has agreed to certain actions such as providing job security and promotional opportunities, pay in exchange for hard work and loyalty by the employee (Shore & Tetrick 1994). The authors describe psychological contract as a promissory
contract which consists of a promise, payment and acceptance. Both parties (employee and organization) choose to engage in this agreement, they are responsible for carrying out the contract and either party may choose to violate or break the agreement.

Sutton & Kahn (1986) proposed that understanding of predictability, and control are key factors in preventing stress. This means better working relations between the parties involved-the employee and the employer. There is evidence that co-workers play important information role in the socialization process (Fisher, 1990; Miller & Javelins, 1991) about psychological contract, which will touch and reflect on “fairness” of supervisor and “trust worthiness” of organization.

Spindler (1994) suggests that the old psychological contracts based on the exchange of security for compliance have been shattered. The new one is of course where the employee starts with the expectations that he/she will be fairly compensated. If corporations also want to have committed, energized work force, then they need a workforce comprised of individuals who were working for that employer because they want to. . . not because they have no other option. Spindler further suggests that the organization must create the environment that will create a work force committed to its goals. This is what employees secretly expect from the organization.

For an organization to be competitive, there is a shift of the work force and their psychological contracts that needs attention. Today’s work force (Lucero, 1994) is more heterogeneous and reflects a much wider range of needs. A “typical employee with typical needs no longer exists, more elaborate (and more costly) benefits packages are required so that the wide range of worker expectations can be satisfied. These benefits are part of psychological contracts.

The company which first manages to meet the unconscious expectations of its work force and to live up to its side of the psychological contract will align the motions and attitudes of its work force to its business objectives and will unleash an unprecedented surge of goodwill and productivity. Such an employer will quickly beat its competitors.

VIOLATION OF THE PSYCHOLOGICAL CONTRACT

Shore & Tetrack (1994) state that psychological contract once developed should be relatively stable. However, this does not imply that they cannot be changed. Rather, the psychological contract is based on an interactive process by which the employee takes steps to fulfill the obligations within the terms of the contract. Morishima (1996) suggest that it is a likely major threat when psychological contracts are broken at a deeper level where principles of employment are eliminated. Breaking a contract means not honoring its terms.
Rousseau (1989) states that violating a psychological contract is failure of organizations or other parties to respond to an employee’s contribution in ways the individual believes they’re obligated to do so. The author continues to say that failure to meet the terms of the psychological contract produces more than just unmet expectations and signals damage to the relationship between the organization and the individual.

Sometimes, employees contribute to organizational actions, which lead to a contract violation. However, as suggested by Murphy and Cleveland (1991) people tend to discount their own poor performance by making allowances for situational influences. Thus, even a poorly performing or disruptive employee may not view himself or herself as having a responsibility in organizational violations or contracts. The degree to which employees focus on discrepancies will depend on (1) the type of violation, (2) the size of discrepancy, and (3) the degree of assessed organizational responsibility for the unmet obligations. There are several potential types of organizational violations (Bies, 1987; Greenberg, 1990, Sweeney & McFarlin, 1993).

(i) Distribution injustice, which is transactional. They can be dissatisfied with reductions in benefits or with having to pay some or all of the costs associated with benefits, which historically had been provided by the employer.

(ii) Procedural injustice of policies and procedures are perceived as unfair or leading to unfair outcomes. The participation in decision-making is an important factor influencing perceptions of procedural fairness and enhancing the individual’s acceptance of the resultant outcome (Folger & Greenberg, 1985); however, employees are frequently left out of important decisions regarding benefits as well as related procedures and administration. Being left out can lead to adverse consequences for the employee and the perception that benefits have been reduced.

(iii) Interactive injustice where employees are relying on mutual trust (Robinson et al, 1994).

Based on Robinson (1993) there are five potential employee responses to violation. (1) voice, (2) silence, (3) retreat, (4) destruction, and (5) exit. Voice is consistent with an action orientation involving attempts to maintain or reinstate the psychological contract. In contrast, silence, retreat, destruction and exit are more consistent with the state orientation in which the employee attempts to survive contract violation by lowering perceived obligations of the employer, of himself or herself to the employer, or withdrawing from the employment relationship.

In distributive and interactional injustice, the employee reaction will be voice while the organizational reaction will be contract maintenance or refusal to maintain contract. In procedural injustice, the employee reaction would be silence,
retreat, destruction and exit and the organization would revise the contract or refuse to revise the contract.

The limited research on violations of psychological contracts is consistent with this interpretation in that violations have been found to be negatively related to trust, organizational citizenship behavior, employees relational obligations and employees withdraw behavior (Robinson et al, 1994; Robinson & Morrison, 1993).

When a party in a relationship believes that the other has violated an agreement (implied or explicit) the “victim“ experiences anger, resentment, a sense of injustice and wrongful harm (Rousseau 1989). An increasing sense of entitlement (Leonardo, 1983) coupled with greater resilience or relationships (Williamson, 1979) can make psychological contracts more prevalent. Thus, contract violations can be perceived as creating liability for damages. In this sense, perceived contract violation differs from perceived inequity and pay, promotions, or other inducements addressed by equity theory in that psychological contracts more often involved possibilities of legal recourse (Rousseau 1987).

**IMPLICATIONS FOR HRD**

Once you have rationally defined the organizational mission, have designed the job which must be fulfilled to achieve it, and have recruited and selected the appropriate people to do the jobs, there still remains the problem of properly training these people (Shchein, 1965). Training has become all the more important as jobs have become more complex and specialized, as organizations have become highly differentiated. Training is a psychological need that must be fulfilled.

Schein (1980) has noted that a policy of recruitment, selection, training, socialization and allocation designed to get the best performance out of people does not automatically ensure that the individual needs and expectations these people bring to the organization will in fact be met. The authors suggest that employees may become alienated, insecure and bitter if the organization fails to fulfill minimum needs for security, maintenance of self-esteem, and opportunities to grow and develop.

The major link between Business Organization strategy and Human Resources practice is seen in two perspectives (Rousseau & Wade-Benzoni 1994):

1. Selection practice and performance reviews systems impact organizational outcomes
2. Hiring experienced or unskilled employees affects both product cost and quality.

Therefore, training, now popularly called human resource development (HRD), is one area in which HRM departments are helping organizations maintain competitiveness and prepare for the future (Goldstein & Gillian, 1990). Other authors who agree on the importance of T&D as a very strong component in
psychological contract are Bellizini and Pointkowski (1990) and Lee (1991). They agree that many organizations are providing quality management training and customer service training in an attempt to keep up with rising consumer expectations and of course psychological contracts. However, according to Sims (1994) it is important psychological contracts should specify that each expects to give and receive from the other in the training relationship. The employee has some expectations and the organization likewise. The HRM Personnel must equally spend more time discussing with trainees and their supervisors the objectives of training programs, training needs, and strategies aimed at developing employees' skills and attitudes.

**Fig. 1:** Individual – Organization exchange relationship basis for psychological contract.

![Diagram of the exchange relationship between Individual and Organizational contributions and inducements](Diagram.png)

**Source:** (From Schermerhorn, Hunt and Osborn 1988)
Fig. 2: Framework of Society, Firm and Individual Effect on Psychological Contracts

Sources: Rousseau & Shalk (2000)

Fig. 3: Development of an Individual's Psychological Contract.

Interactions → Reciprocal Expectations → Consistent Patterns of Inducements and contributions over time → Trust; Experienced Relationship → Psychological Contract (Belief in our obligations of reciprocity)

Example:

Offer of Acceptance Of employment → Belief that hard work results in continued employment → Retention of satisfactory employees over time, Hard work By employee → Trust and confidence in the organization and its management → Belief in an employer's obligation to continue employment into the Future

Sources: Rousseau (1989)
Fig. 4: A Continuum of Contract Terms

Transactionl Contract ---------------- Relational Contract

Economic ---------------- Focus ---------------- Economic-emotional

Partial ---------------- Inclusion ---------------- Whole person

Close-ended, specific ---------------- Time Frame ---------------- Open-minded, indefinite

Written ---------------- Formalization ---------------- Written, unwritten

Static ---------------- Stability ---------------- Dynamic

Narrow ---------------- Scope ---------------- Pervasive

Public, Observable ---------------- Tangibility ---------------- Subjective, understood


REFERENCES


